

# Annual Report 2004



A Dependable Reinsurance and Risk Management Provider



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## Historical Review

In 1968 Central Reinsurance Corporation ( Central Re ) was established by the Ministry of Finance (MOF), with the mission to help the domestic insurance industry develop soundly by means of: (1) Providing a reinsurance facility to spread their risks; (2) Enhancing the local gross retention through a pooling scheme; and (3) Carrying out regulatory works entrusted by the MOF, such as the scrutiny of new insurance products; participating in the insurance companies' annual inspection teams; as well as other duties. At the beginning, Central Re's capital stock was only NT\$15 million, and it was the sole reinsurance company in Taiwan.

In 1972 the "Central Reinsurance Corporation Act" was signed into law and implemented. Under this Act, Central Re can write all classes of reinsurance business including life and non-life, and has the priority to accept all reinsurance business exceeding the retention of local insurance companies, and at the same time, retrocede its surplus business back to them. Throughout the past many years, Central Re has faithfully carried out its tasks according to the spirit of the Act. Central Re has accompanied and witnessed the hard struggle and development process of Taiwan's insurance industry, and is very proud of its success in serving society with proper risk protection.

In order to cope with the growing needs of capacity enlargement along with business growth, the capital stock of Central Re has increased in stages, and it rose to NT\$3 billion by March 1999, at which time 87.04% of the shares were held by the MOF.

Central Re was a state-owned company for more than 3 decades. Along with the government's policy of liberalization and privatization of its stateowned enterprises, Central Re began its process of privatization in 2000. On July 6, 2000, Central Re successfully completed its initial public offering by releasing 15.77% of the MOF's shareholding to the public, and then became a listed company. On July 11, 2002, the MOF further reduced its shareholding to 48.12%, and Central Re officially became a private company.

Central Re in August 2003, on behalf of the Taiwan Residential Earthquake Insurance Pool, sponsored Formosa Re Ltd. to issue the first catastrophe bond for Taiwanese earthquake risk, making it the 2nd securitization of catastrophe risk in Asia. The 3-year, US\$100 million indemnity transaction covers potential losses caused by earthquake to Taiwan residential housing. Central Re was assigned by the MOF to manage this transaction.

## Historical Review

On June 23, 2004 the "Central Reinsurance Corporation Act" expired. Central Re has since been independent of state influence, and is becoming more active in the international market and more aggressive in creating its product value and service.

Being a private and listed company, Central Re is able to raise capital freely according to management's needs and judgment. Therefore, it issued 60 million new shares of common stock in August 2003 and again in November 2004. As a result, from November 4, 2004 Central Re's paid-up capital increased to NT\$4.2 billion (calculated at par value NT\$10 per share). The MOF's shareholding was further decreased to 28%, since it did not participate in the new share issue. Meanwhile, the Evergreen Group's shareholding increased to 41% and became the largest shareholder. The Evergreen Group's continued increase of its shareholding in Central Re shows its recognition of Central Re's past performance as well as its commitment to Central Re's future development.

The Evergreen Group was founded in 1968 as a shipping company. At that time it owned a 20-year-old general cargo ship called "Central Trust". Over the past years, it has matured and expanded its business operations to cover all areas of sea, air and land transport. It owns Taiwan's first independent commercial aviation company and the nation's first chain of brand-name hotels. While it has expanded globally and diversified, the Evergreen Group has remained loyal to its founding principle: "Customers have the right to dependable cargo transport, as well as safe, comfortable journeys."

### Financial Strength Ratings

In October 2004, Standard & Poor's renewed Central Re's BBB+ rating, and revised the outlook to stable from negative. The revision reflects S & P's recognition of the prudence of the company's management approach under its new management team and the team's increased productivity.

In April 2005, A.M. Best reaffirmed Central Re's financial strength rating of A-. The outlook remains stable. A.M. Best commented that the rating reflects Central Re's consistent operating performance, prudent investment strategy, excellent presence in domestic markets and the capital injection commitment by its shareholders.

## Key Figures

Year	2004		2003		Change %
	NT\$ million	US\$ million	NT\$ million	US\$ million	
Gross Premiums Written	16,861	531	17,191	506	(1.92)
Net Premiums Written	11,468	361	11,580	341	(0.97)
Net Premiums Earned	11,574	364	11,370	335	1.79
Losses Incurred-Net	7,366	232	7,187	212	2.49
Commissions-Net	3,446	108	3,521	104	(2.13)
Operating Expenses	339	11	333	10	1.80
Underwriting Profit	424	13	328	10	29.27
Investment Income	419	13	453	13	(7.51)
Increase in Equalisation Reserve	298	9	323	9	(7.74)
Other	(11)		(8)		37.50
Net Income Before Tax	534	17	450	13	18.67
Total Assets	20,137	634	18,653	549	7.96
Technical Reserves					
- Unearned Premiums	5,447	171	5,553	163	(1.91)
- O/S Loss & IBNR	5,371	169	4,803	141	11.83
Equalisation Reserve	2,518	79	2,220	65	13.42
Investment Assets	18,598	585	16,764	493	10.94
Stockholders' Equity	5,288	166	4,493	132	17.69

Remarks: Exchange Rate Per US Dollar

December 31,2003                      NT\$ 33.98

December 31,2004                      NT\$ 31.77

## Chairman's Statement



Cheng-Tui Yang  
Chairman

**W**ith economic recovery in the USA, Japan and the EU in 2004, combined with the strong demand for raw resources fueled by Mainland China, Taiwan's economic growth rate surged to 5.71% that year, representing the highest growth rate since 2001. In the financial markets, although the Central Bank of China (Taiwan) switched its low interest rate policy adopted since the end of 2000 to a neutral monetary policy stance in the third quarter of 2004, and with the predicted appreciation pressure on the New Taiwan dollar (NT\$), the oversupply of NT\$ funds continued to exist. Therefore the interest level of the NT\$ was unable to rise concurrently with US dollar interest rates. In addition, it fell below the range contemplated by the Central Bank's monetary policy. This has made it difficult for insurance companies' to reap effective increases in their investment returns. In order to overcome this predicament, the Insurance Supervisory Authority lifted some restrictions on the amount available for overseas investments, consequently allowing insurance companies to invest in high-yield overseas financial products.

Looking at the overall Taiwan insurance industry, the rising National Income and the heating up of domestic and overseas investment activities are naturally beneficial factors for development of the insurance sector. In 2004, the premium income for Taiwan's insurance industry continued to grow, rising by 14.2%. By business segment, life insurance grew by 15.5%, and non-life insurance slowed down to 5.5%; the latter's 11.7% growth in 2002 and 7.9% in 2003 reflect this sector's leveling-off.

With the softening of insurance premiums in the domestic direct non-life insurance market, Central Re's gross premiums written for 2004 totaled NT\$16,861 million; down 1.9% from the NT\$17,191 million registered in 2003. The primary source of premium income is still the local market, representing 98.2% of the total, with the remainder from overseas business amounting to only NT\$297 million. If we analyze the non-life and life insurance sectors, income from non-life reinsurance premiums amounts to NT\$12,768 million, or 75.7%. The remainder is income from life business amounting to 24.3%. If we look at gross premiums written by business lines, premium income from Voluntary Auto insurance is the largest at NT\$3,977 million, amounting to 23.6%; next is Compulsory Auto Liability insurance at NT\$2,647, amounting to 15.7%; and among life business, life insurance is the largest at NT\$1,710 million, amounting to 10.1% of total reinsurance premiums.

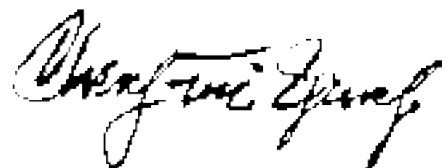
Looking at operational results, our retention rate in 2004 was 68.0%, a slight increase of 0.7 percentage points over 2003. The net retained premium

## Chairman's Statement

income was NT\$11,468 million, a slight decrease of 1.0% compared to 2003's NT\$11,580 million. Nevertheless, our underwriting profit improved due to our prudent underwriting policy. Our pre-tax profits reached NT\$534 million, an increase of NT\$84 million over 2003, with a growth rate of 18.7%. Turning to financial matters, at the end of 2004 the combined operating reserves reached NT\$13,335 million, an increase of NT\$759 million over 2003. Plus, in 2004 we issued 60 million new shares of common stock at NT\$12 per share, increasing shareholders equity by NT\$720 million. Our solvency ratio, measured by operating reserves plus stockholders equity over net retained premium income, improved from 147.4% to 162.4%. This development demonstrates that our efforts in building up our reserves and increasing capital have born fruit.

Central Re was established in 1968, and was officially privatized on July 11, 2002. Currently, the Evergreen Group is Central Re's largest shareholder. Along with the reduction of its semi-governmental role, Central Re has rapidly created a bright new image. The strengthened management team has developed Central Re's new vision and goals, together with a set of strategies to carry them out. Their efforts and ambition have gained respect and confidence from colleagues as well as outside observers. In October 2004, Standard & Poor's rating for Central Re was renewed at BBB+, and the outlook shifted from "negative" to "stable". In April 2005, A.M. Best's credit analysis reaffirmed Central Re's A- rating. Meanwhile, the local Taiwan Ratings upgraded our rating from TwAA- to TwAA, reflecting that both domestic and renowned international ratings companies are all reacting positively to the results of our privatized management and future development. It should be noted that Central Re's Board of Directors has already approved an additional new capital issuance in 2005, which will result in our paid-up capital reaching NT\$5,000 million. This issuance will be of major benefit to further improving our solvency margin as well as expanding our underwriting capacity.

Finally, it is with heartfelt gratitude that we express our thanks to the shareholders and our clients, both here and around the world, for their continued support and affirmation. This support and affirmation is the driving force behind our growth. The entire staff of Central Re is dedicated to creating the best business results for enhancing our stockholders' value, and providing our clients with high quality service and safe, dependable reinsurance protection. Through this we can reward the long-term encouragement and generosity of our shareholders and clients.



## President's Statement



Solomon C.F. Chiu  
President

In order to enhance the business efficiency of state-owned enterprises, and meet the challenges of the trend of liberalization and internationalization in the financial industry - privatization of state-owned enterprises is the steadfast policy of the Taiwan (ROC) government. Therefore, after 34 years under the control of the Ministry of Finance, the government's holdings in Central Re were reduced to 48.12% in July 2002. This paved the way for privatization, and in August 2003, the Evergreen Group became Central Re's largest shareholder. With privatization, Central Re was relieved of the rigid restrictions of a state-owned enterprise, including structure, budget and human resources. But at the same time, we had to deal with the demanding challenges faced during this transformation. During this period, we have actively advanced various reform measures. We also deeply believe these reforms will form the foundation for our future and long-term development, and moreover, create a better and more prosperous tomorrow for Central Re.

Over recent years, Central Re has continued to implement several reform measures, such as structural reorganization - the Risk Management Department has been established to set up a comprehensive risk management system. With systematic risk identification, assessment and improvement recommendations, not only do these enhance Central Re's process in underwriting facultative business, but this also provides assistance to our treaty clients in risk evaluation. With regard to our Finance Division, we pursue investment efficacy, at the same time we have also established strict investment risk management operating guidelines. In order to expand overseas business, we recruited personnel from international reinsurance companies. Their abundant experiences not only help business acquisitions, but also support the nurturing of new staff. Meanwhile, upgrading operational efficiency, implementing corporate strategies and other measures listed above are all the basis of long-term re-engineering. We deeply believe that when facing the fierce competition of the reinsurance market, these reforms will allow Central Re to actively tackle these challenges with outstanding results.

For domestic business, we realize that with the liberalization of Taiwan's financial and insurance sectors, as well as the trend of internationalization, there is growing momentum for consolidation from holding companies in the banking, insurance, securities and other diversified financial industries. After domestic insurance companies are absorbed by holding companies, their financial strength grows, which will potentially increase their retention, and reduce their reinsurance needs. It could also potentially affect their reinsurance structuring philosophy and habits due to the

## President's Statement

change in management. Plus, we also face the government's encouragement for more foreign insurers, reinsurers as well as brokers to set up an office or branch in the Taiwan market. As a result, the domestic reinsurance market competition is growing more and more intense. Facing this competitive environment, it is necessary for us to seek new business outside Taiwan and develop internationally. In addition, we have taken all steps to protect our domestic advantages, by understanding our clients' demands, rendering innovative products and value added services. Moreover, we are adopting flexible business strategies to aggressively garner mainstream business, and to adjust our business portfolio's structure to meet new challenges. On the financial side, we will expand investment channels and enhance the return on investment. Relying on our solid business results, we will work to gain shareholders trust, and support the company's continued capital expansion, and enrich the capital structure. At the same time, we will build various technical reserves to enhance our underwriting capacity and solvency margin.

Looking at the future for the reinsurance market, reinsurance premiums have begun to grow soft following the peak after the 9-11 terrorist attacks. Only Central Re is adhering to its sacred mission, of creating a market paradigm, generating customer value and earning corporate profit, and working to tackle all challenges that confront us, Central Re is building a bright future of an extremely strong, professional reinsurance company.

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the bottom.

## Board of Directors and Supervisors

### Board of Directors

Chairman	<b>Cheng-Tui Yang</b> Chairman Central Reinsurance Corporation
Executive Director	<b>Gary K.L. Tseng</b> Director General, Bureau of Monetary Affairs Financial Supervisory Commission
Executive Director	<b>Solomon C. F. Chiu</b> President Central Reinsurance Corporation
Director	<b>Frank Wang</b> Chairman Insurance Society of the Republic of China
Director	<b>Sunny Lin</b> Chairman The Life Insurance Association of the Republic of China
Director	<b>Shuh-Yuan Liao</b> Professor, Master's Program in Insurance Management Tamkang University
Director	<b>Chin-Shan Huang</b> Chairman Evergreen International Corporation
Director	<b>Rong-Jong Owng</b> Executive Vice President Evergreen Marine Corporation (Taiwan) Ltd.
Director	<b>Yieng-Chen Han</b> Director General, Department of Personnel Ministry of Finance

### Supervisors

Supervisor	<b>Lee-Ching Ko</b> Supervisor Evergreen Marine Corporation (Taiwan) Ltd.
Supervisor	<b>Kuang-Hui Wu</b> Deputy Senior Vice President, Finance Division Eva Airways Corporation
Supervisor	<b>Chih-Chin Ho</b> Professor and Chairman, Department of Economics National Taiwan University

## Management Chart

Top Management	Division	Department
President	Human Resources Division	
	Property & Casualty Division	Fire Department Motor Department Marine & Aviation Department Engineering Department Casualty Department Earthquake Department International Department
	Life & Health Division	Life & Health Department PA & Actuary Department
	Finance Division	Investment Department Accounting Department Finance Department
	Planning Division	Risk Management Department Information Technology Department Planning & Statistics Department
		General Affairs Department

\*With effect from December 24, 2004

# An Overview of Domestic Insurance Industry 2004

## Market Players

In 2004, there were 57 players, with 17 local insurers and 9 foreign insurers in the non-life insurance market; 21 local insurers and 8 foreign insurers in the life insurance market; 1 local reinsurer and 1 foreign reinsurer in the reinsurance market.

Market Players as of 31 December 2004

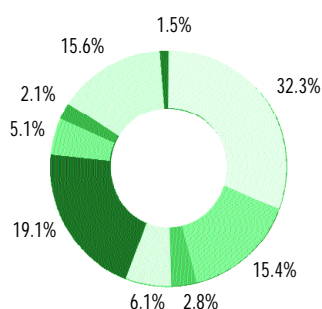
	Local	Foreign	Total
Non-Life Insurers	17	9	26
Life Insurers	21	8	29
Reinsurers	1	1	2

Source: Taiwan Insurance Institute

## Domestic Non-Life Insurance

In 2004, the total premium income of the domestic non-life insurance market reached a new historic high of NT\$115.5 billion, with a growth rate of 5.5% compared to that of NT\$109.5 billion in the year 2003. This was attributable to the stable economic growth worldwide and the increase in Taiwan's domestic demand.

Breakdown by Lines in%



Voluntary Auto	32.3%
Compulsory Auto Liability	15.4%
Aviation	2.8%
Engineering	6.1%
Fire	19.1%
Marine Cargo	5.1%
Marine Hull & Fishing Vessel	2.1%
Miscellaneous Casualty	15.6%
Earthquake	1.5%

Due to the unceasing developments of new products and potential clients, Automobile insurance and Miscellaneous Casualty insurance achieved continuous growth in premium income, amounting to NT\$55 billion and NT\$19.7 billion respectively in 2004.

As a result of price competition in Fire business and premium discounts in Aviation business due to the good results in recent years, the premium income of these two lines of insurances decreased from NT\$24.2 billion in 2003 to NT\$22.1 billion in 2004, and from NT\$3.8 billion in 2003 to NT\$3.2 billion in 2004, respectively.

Following the stable growth of the global economy as well as Taiwan's booming international trade, the premium income of Marine Cargo grew by 0.6 billion to NT\$5.9 billion from NT\$5.3 billion in 2003.

With regard to the results of Engineering insurance in 2004, the premium income increased from NT\$6.9 billion in 2003 to NT\$7.1 billion in 2004. It was good to see the premium income exceeding NT\$7 billion. The achievement was greatly connected to the infrastructure projects launched by the government.

## An Overview of Domestic Insurance Industry 2004

Market Figures for the Past 3 Years			In NT\$ million
Year	2004	2003	2002
Direct Premiums Written(A)	115,468	109,469	101,434
Reinsurance Premiums Assumed (B)	9,380	8,880	8,424
Total Premium Income (C)=(A)+(B)	124,848	118,349	109,858
Reinsurance Premiums Ceded (D)	59,907	62,215	59,810
Premiums Retained (E)=(C)-(D)	64,941	56,134	50,048
Retention (E)/(C) in%	52.02%	47.43%	45.56%

Source: Taiwan Insurance Institute

# An Overview of Domestic Insurance Industry 2004

## Domestic Life Insurance

The gross premiums written by all life insurance companies reached NT\$1,308.5 billion in 2004, an increase of 15.5%, compared to the NT\$1,132.6 billion written in 2003.

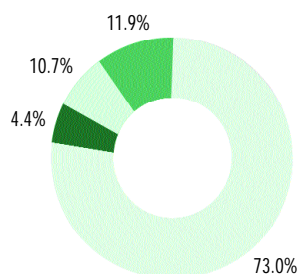
In 2004, NT\$446.2 billion, representing 34.1% of total premiums was derived from new business, a 29.6% increase over the NT\$344.4 billion in 2003; meanwhile NT\$ 862.3 billion, or 65.9% of total premiums was derived from in-forced business, a 9.4% increase over the NT\$788.3 billion in 2003.

Due to the continuing low level of interest rates in 2004, all life insurance companies were forced to adopt the lower assumed interest rate for their policy reserves in respect of new product pricing. Compared to last year, life insurance premiums for new business increased dramatically. In 2004, a large percentage of the new business premium was generated by Unit-linked new business. However, traditional life insurance business decreased, which was a most remarkable change. In order to attract consumers, some companies shifted their focus to investment-type products or 6-year single premium policies, and achieved substantial progress.

Market Figures for the Past 3 Years				In NT\$ billion
Year	2004	2003	2002	2004/2003 Change %
Insured Amount of New Business	32,863	37,908	40,157	(13.31)
Insured Amount of Business in Force	79,660	85,110	83,837	(6.40)
Premium Income	1,308	1,133	889	15.45
Benefit Payments to Policyholders	481	390	289	23.33

Source: The Life Insurance Association of the Republic of China

Breakdown by Lines in%



Life	73.0%
Personal Accident	4.4%
Health	10.7%
Annuity	11.9%

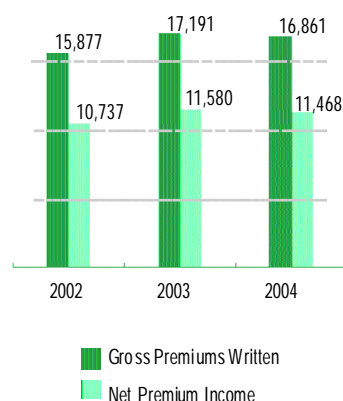
Spread of Life Insurance				In NT\$ billion
Year	2004	2003	2002	2004/2003 Change %
No. of Policies Per 1,000 Persons	1,663	1,588	1,437	4.72
Ratio of Life Ins. In-force to National Income (%)	310	294	271	-

Source: The Life Insurance Association of the Republic of China

## Underwriting Operations

### Premiums Written

In NT\$ million



### Gross Premiums Written

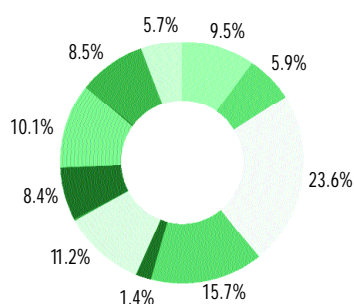
In 2004, gross premiums written decreased by 1.9% to NT\$16,861 million, compared to NT\$17,191 million in 2003. Net premium income also decreased by 1.0% to NT\$11,468 million, compared to NT\$11,580 million in 2003, with the retention ratio of 68.0%.

To make a breakdown by source, the reinsurance premium income from domestic inward non-life business and life business amounted to NT\$ 12,486 million and NT\$4,078 million, accounting for 74.0% and 24.2%, respectively. The domestic reinsurance premium income totaled NT\$ 16,564 million, occupying 98.2% of the total and the overseas reinsurance premium income totaled NT\$297 million, occupying a small share of 1.8%.

#### Breakdown by Source in 2004

Source	In NT\$ million	
	Gross Premiums Written	% of Total
Domestic Inward Non-Life R/I Business	12,486	74.0%
Domestic Inward Life R/I Business	4,078	24.2%
Subtotal	16,564	98.2%
Overseas Inward Non-Life R/I Business	282	1.7%
Overseas Inward Life Business	15	0.1%
Subtotal	297	1.8%
Total	16,861	100.0%

#### Breakdown by Lines in%



Fire	9.5%
Marine & Aviation	5.9%
Voluntary Auto	23.6%
Compulsory Auto Liability	15.7%
Engineering	1.4%
Miscellaneous Casualty	11.2%
Earthquake	8.4%
Life	10.1%
PA	8.5%
Health	5.7%

### Breakdown by Business Lines

As a leading local reinsurer, our business derives mainly from the domestic market, which occupied 98.2% of the total in 2004. Most of our business portfolio, both life and non-life reinsurance, are relatively short tail.

To make a further breakdown by business lines, we see the concentration of our non-life portfolio reflects the profile of the non-life direct market in Taiwan.

The largest line, Automobile reinsurance, including Voluntary Automobile and Compulsory Automobile Liability, occupied 23.6% and 15.7% of the total respectively. The other major lines, including Miscellaneous Casualty reinsurance, Life reinsurance, Fire reinsurance, and PA reinsurance, occupied 11.2%, 10.1%, 9.5% and 8.5% of the total respectively. The remaining share of 21.4% was split into Earthquake reinsurance 8.4%, Marine & Aviation reinsurance 5.9%, Health reinsurance 5.7% and Engineering reinsurance 1.4%.

## Underwriting Operations

### Domestic Inward Non-Life Reinsurance Business

The domestic inward non-life reinsurance premium income reached NT\$12,486 million in 2004, increasing by 2.7% from the preceding year's NT\$12,153 million. This segment accounted for 74.0% of the total reinsurance premiums written. The experience of the domestic property and casualty reinsurance business was satisfactory due to the absence of any major catastrophe loss.

Lines	In NT\$ million		
	2004	2003	Change %
Fire	1,407	1,593	(11.7)
Marine & Aviation	968	1,047	(7.5)
Voluntary Auto	3,972	3,925	1.2
Compulsory Auto Liability	2,647	2,577	2.7
Engineering	224	246	(8.9)
Miscellaneous Casualty	1,849	1,763	4.9
Earthquake	1,418	1,003	41.4
Total	12,486	12,153	2.7

#### Fire

Fire represented NT\$1,407 million in reinsurance premium income in 2004, down by 11.7% from the previous year's NT\$1,593 million. The decrease was mainly due to the continued reduction in the premium rate.

#### Marine & Aviation

Marine & Aviation reinsurance premium income decreased to NT\$968 million for the year 2004, compared to NT\$1,047 million in 2003, a NT\$79 million decrease or 7.5% decline. The reinsurance premium reduction was mostly attributed to the loss of China Airlines / Mandarin Airlines account.

#### Automobile

The reinsurance premium income generated by Voluntary Automobile business in 2004 was NT\$3,972 million, increasing slightly by 1.2%, compared to NT\$3,925 million in 2003. The growth of Voluntary Automobile reinsurance premium in 2004 was mainly due to the premium growth of the market and an increase in the number of new cars sold.

Compulsory Automobile Liability reinsurance premium income increased by 2.7% to NT\$2,647 million, compared to the previous year's NT\$2,577 million.

## Underwriting Operations

### **Engineering**

The reinsurance premium income of Engineering business reached NT\$224 million, decreasing by 8.9% from last year's 246 million, due to the fact that the Taiwan Power Company account was terminated.

### **Miscellaneous Casualty**

Miscellaneous Casualty business scored a total reinsurance premium income of NT\$1,849 million in 2004, up 4.9%, compared to the previous year's NT\$1,763 million. The main driving force behind this growth is the continuous introduction of new products in this sector.

### **Earthquake**

The reinsurance premium income of Residential Earthquake achieved NT\$1,418 million, a NT\$415 million increase or 41.4% growth in premium income; and the take-up ratio reached 15.0% in 2004 compared to 10.8% in 2003.

## Underwriting Operations

### Overseas Non - Life Reinsurance Business

Initially, 2004 appeared leading to another stage of overall rate reductions, however a series of natural disasters later in the year served to counteract this trend. The United States and Caribbean were impacted by four major hurricanes, Japan suffered a number of typhoons, and finally, the devastating South Asian tsunamis occurred. Notwithstanding the tragic loss of human life, the general impact to the reinsurance market was moderate with the insurance companies bearing the major brunt of the insured losses.

While the foregoing losses produced no significant impact on global pricing, regional pricing was effected with loss-impacted programs experiencing rate increases. Other regions, though, exhibited rate reductions, some upwards of 15%, however most other regions demonstrated reductions of 10% or less.

Central Re has upgraded the resources dedicated to the underwriting of the inwards non-life account. Accordingly, the portfolio is being re-underwritten with unattractive business being nonrenewed. For 2004, the level of premium was reduced by 30.4% to NT282 million. The breakdown of premium income by type is 82.6% proportional and 17.4% non-proportional.

The premium split by line of business is indicated below:

Lines	2004	2003	In NT\$ milliom
			Change %
Fire	187	342	(45.3)
Marine Hull	13	22	(40.9)
Marine Cargo	10	11	(9.1)
Auto	5	7	(28.6)
Aviation	17	11	54.5
Engineering	17	11	54.5
Other Property	33	1	-
Total	282	405	(30.4)

Central Re's intent in developing its overseas portfolio is to focus its efforts on those markets offering the most attractive opportunities where it is best positioned to secure the business. As a result, Asia is Central Re's primary focus with attention being directed to selected markets outside of the region in order to achieve the necessary portfolio diversification. The breakdown of premium income by territory is as follows: Asia 68%, Worldwide 20%, North America 4% and Africa 8%.

## Underwriting Operations

### Domestic and Overseas Life Reinsurance Business

Since interest rates were still low in 2004, all ceding companies applied comparably lower interest rates to calculate their policy reserves. Consequently, the reinsurance amounts at risk under the YRT system were lowered. This change has more or less been affecting our new life insurance inward business volume. In addition, the PA market has become more competitive than before, due to the involvement of non-life insurance companies. Naturally, the PA inward business in 2004 was affected by this change.

In 2004, life reinsurance premium income decreased by 11.6% to NT\$4,093 million, compared to NT\$4,632 million in 2003. The decrement was largely attributable to Personal Accident insurance and Life insurance with negative growth rates of 22.8% and 5.6%, respectively. Moreover, the reinsurance premium income of Health insurance slightly decreased by 1.7%.

Overseas life business occupied a very small share of our total life business. Its reinsurance premium income in 2004 was only NT\$15 million, derived from 3 life treaties.

Lines	In NT\$ million		
	2004	2003	Change %
Life	1,710	1,812	(5.6)
Personal Accident	1,426	1,846	(22.8)
Health	957	974	(1.7)
Total	4,093	4,632	(11.6)

The performance of life business by lines is described as follows:

#### Life

Life reinsurance premium income amounted to NT\$1,710 million in 2004, a 5.6% decrease, compared to NT\$1,812 million of the previous year. This drop was due to a couple of ceding insurance companies raising their retention and/or some companies promoting unit-link products which provide low insurance protection. However, the experience was better than that of the previous year with a loss ratio of 35.67% comparing to 44.16% in 2003.

## Underwriting Operations

### **Personal Accident**

The reinsurance premium income of Personal Accident in 2004 amounted to NT\$1,426 million, a decrease of NT\$420 million, or a drop of 22.8% from the previous year. This change resulted from some ceding companies raising their retention, certain ceding insurance companies restructuring their reinsurance treaty and recaptured quota share business, and non-life insurance companies entering this line of business. The 2004 loss ratio was 39.51% representing an increase of 3.62% from the previous year.

### **Health**

The reinsurance premium income of Health insurance amounted to NT\$957 million in 2004, a decrease of NT\$17 million, or a drop of 1.7% from the year before. The negative growth rate was mainly due to certain ceding companies recapturing their quota share business. The in-forced business remained stable. The 2004 loss ratio was 38.15% representing a slight increase of 0.94 percentage points from the previous year.

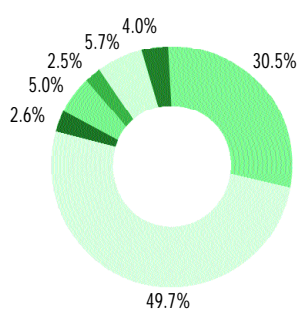
## Investment Operations

In the year 2004, the worldwide economic cycle experienced an upturn and Taiwan's GDP growth reached 5.71%. We estimated the interest rate would go up from the lowest level of 2003. However, the momentum of the economy tended to slow down in the second half of the year. Aiming for steady growth of the economy and stability of exchange rates, the Central Bank of China (Taiwan) adopted an accommodating stance of monetary policy to raise interest rates gradually. Therefore, the interest rate moved upwards at a slower than expected pace. To reduce the interest risk, we shortened the duration in our domestic fixed income portfolio and increased the weighting of short-term notes. The liquid assets invested in commercial papers and certificates of deposit grew to about 30% of our whole investment portfolio. In order to improve our return performance, we also progressively expanded the percentage of investment in foreign fixed income, while maintaining careful control of implied exposure to credit and currency risk.

The equity market in 2004 was very volatile due to the political agitation surrounding the presidential election dispute in March, followed by a succession of macro-control policies taken by Mainland China in May. The TAIEX hit the year's high of 7135 in March 2004, and then plummeted to the year's low of 5255 in August. Upon the removal of the limited investability factor (LIF) for Taiwan by MSCI effective November 30, foreign funds began to flow into Taiwan in the fourth quarter and the TAIEX recovered to 6139 points at the year's end. During the first quarter of 2004, we successfully caught the market trend and took some profit, but the performance of some of our external investment managers fell below expectations, so the total return didn't meet our financial goal.

Looking ahead for the remainder of 2005, the economy is mixed. In order to meet our financial goal cautiously, we are going to countermand the reliance on external investment managers, recruit more professionals to strengthen our research team, as well as enhance risk management in our stock operation.

Investment Portfolio in%



Deposits & Commercial papers	30.5%
Bonds	49.7%
Equities	2.6%
Mutual Funds	5.0%
Real Estates	2.5%
Foreign Investment	5.7%
Preferred Stock	4.0%

### Investment performance

The investment assets as of December 31, 2004 amounted to NT\$18,598 million, an increase of 10.94%, compared to NT\$16,764 million in 2003. Investment income decreased by 7.51% to NT\$419 million, compared to NT\$453 million in 2003. The return on investment was 2.37%, a decrease of 0.52 percentage points, compared to 2.89% of the previous year.

Year	In NT\$ million		
	2004	2003	Change %
Investment Assets	18,598	16,764	10.94
Investment Income	419	453	(7.51)
Return on Investment in % *	2.37	2.89	(0.52)

\* Return on Investment in % = Investment Income / [ (The beginning balance of the Investment Assets + The ending balance of the Investment Assets) / 2 ]

## Operating Performance

### Underwriting Results

The year 2004 will be remembered as the best performance in domestic non-life insurance market in recent years. The underwriting profit reached NT\$424 million, another recent record high. The loss ratio slightly increased 0.43 percentage points to 63.64% in 2004.

	In NT\$ million		
Year	2004	2003	change %
Net Reinsurance Premiums	11,468	11,580	(0.97)
Net Premiums Earned	11,574	11,370	1.79
Losses Incurred – Net	7,366	7,187	2.49
Loss Ratio ( % )	63.64	63.21	0.43
Commissions – Net	3,446	3,521	(2.13)
Operating Expenses	339	333	1.80
Expense Ratio ( % )	33.00	33.28	(0.28)
Combined Ratio ( % )	96.64	96.49	0.15
Underwriting Profit	424	328	29.27

### Operating Results

The operating results of our corporation are very stable. In 2004, the return on assets was 2.75%, and the return on equity was 10.92%.

	In NT\$ million		
Year	2004	2003	Change %
Income Before Income Tax	534	450	18.67
Total Assets	20,137	18,653	7.96
Stockholders' Equity	5,288	4,493	17.69
Return on Equity	10.92	10.93	(0.01)
Return on Assets	2.75	2.59	0.16

# Financial Statements

Independent Auditors' Report

Balance Sheets

Statements of Income

Statements of Changes in Stockholders' Equity

Statements of Cash Flows

Notes to Financial Statements

Central Reinsurance Corporation  
**Financial Statements for the Years Ended**  
**December 31, 2003 and 2002**  
**Together with Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
Central Reinsurance Corporation

We have audited the accompanying balance sheets of Central Reinsurance Corporation as of December 31, 2004 and 2003, and the related statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years ended December 31, 2004 and 2003 in conformity with practices generally accepted in the insurance industry, the regulations governing the preparation of financial statements of public companies, other government regulations, and accounting principles generally accepted in the Republic of China.

March 4, 2005

### 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 jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.*

*For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.*

# CENTRAL REINSURANCE CORPORATION

## BALANCE SHEETS

DECEMBER 31, 2004 and 2003

(In Thousand New Taiwan Dollars, Except Par Value)

ASSETS	2004		2003	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 2 and 3)	\$ 5,661,916	28	\$ 3,864,420	21
Short-term investments (Notes 2 and 4)	5,870,506	29	9,918,434	53
Accounts receivable, net (Notes 2 and 5)	991,947	5	1,157,853	6
Prepaid expenses and other current assets (Notes 2, 12 and 17)	23,244	-	23,936	-
Total current assets	<u>12,547,613</u>	<u>62</u>	<u>14,964,643</u>	<u>80</u>
<b>LONG-TERM INVESTMENTS</b>				
Long-term equity investments accounted for by cost method (Notes 2 and 6)	731,923	4	782,551	4
Long-term bond investments (Notes 2 and 7)	5,173,446	26	1,153,271	6
Real estate investments, net (Notes 2 and 8)	<u>469,238</u>	<u>2</u>	<u>470,528</u>	<u>3</u>
Total long-term investments	<u>6,374,607</u>	<u>32</u>	<u>2,406,350</u>	<u>13</u>
<b>PROPERTY AND EQUIPMENT (Notes 2 and 9)</b>				
Cost				
Land	30,625	-	30,625	-
Buildings	58,328	1	58,328	1
Machinery and equipment	19,710	-	20,128	-
Transportation equipment	8,027	-	6,288	-
Other equipment	<u>9,629</u>	<u>-</u>	<u>9,317</u>	<u>-</u>
Total cost	126,319	1	124,686	1
Revaluation increment	<u>277,642</u>	<u>1</u>	<u>277,642</u>	<u>1</u>
Total cost and revaluation increment	403,961	2	402,328	2
Accumulated depreciation	<u>(56,343)</u>	<u>-</u>	<u>(47,714)</u>	<u>-</u>
Subtotal	347,618	2	354,614	2
Construction in progress	<u>555</u>	<u>-</u>	<u>475</u>	<u>-</u>
Net property and equipment	<u>348,173</u>	<u>2</u>	<u>355,089</u>	<u>2</u>
<b>OTHER ASSETS</b>				
Reserve funds held by ceding companies	154,420	1	314,379	2
Deposits (Note 15)	701,176	3	574,629	3
Miscellaneous (Notes 2, 10 and 12)	<u>11,114</u>	<u>-</u>	<u>37,738</u>	<u>-</u>
Total other assets	<u>866,710</u>	<u>4</u>	<u>926,746</u>	<u>5</u>
<b>TOTAL</b>	<u>\$ 20,137,103</u>	<u>100</u>	<u>\$ 18,652,828</u>	<u>100</u>

Chairman: Cheng-Tui Yang

LIABILITIES AND STOCKHOLDERS' EQUITY	2004		2003	
	Amount	%	Amount	%
<b>CURRENT LIABILITIES</b>				
Accrued expenses	\$ 70,168	-	\$ 78,858	-
Accounts with reinsurers	913,779	5	1,037,653	6
Other current liabilities	<u>366,790</u>	<u>2</u>	<u>261,605</u>	<u>1</u>
Total current liabilities	<u>1,350,737</u>	<u>7</u>	<u>1,378,116</u>	<u>7</u>
<b>LONG-TERM LIABILITIES</b>				
Reserve for land revaluation increment tax (Notes 2 and 9)	150,869	1	150,869	1
Accrued pension liabilities (Notes 2 and 10)	<u>-</u>	<u>-</u>	<u>6,143</u>	<u>-</u>
Total long-term liabilities	<u>150,869</u>	<u>1</u>	<u>157,012</u>	<u>1</u>
<b>OTHER LIABILITIES</b>				
Operating reserves (Note 2)				
Reserve for unearned premiums	5,446,541	27	5,553,421	30
Equalisation reserve	2,518,086	12	2,220,048	12
Reserve for outstanding claims	<u>5,370,680</u>	<u>27</u>	<u>4,802,566</u>	<u>26</u>
Total operating reserves	13,335,307	66	12,576,035	68
Miscellaneous (Notes 2 and 12)	<u>12,572</u>	<u>-</u>	<u>48,673</u>	<u>-</u>
Total other liabilities	<u>13,347,879</u>	<u>66</u>	<u>12,624,708</u>	<u>68</u>
Total liabilities	<u>14,849,485</u>	<u>74</u>	<u>14,159,836</u>	<u>76</u>
<b>STOCKHOLDERS' EQUITY</b>				
Capital stock - \$10 par value				
Authorized 500,000 thousand shares and issued 420,000 and 360,000 thousand shares in 2004 and 2003, respectively	4,200,000	21	3,600,000	19
Capital surplus	309,608	1	189,608	1
Retained earnings:				
Appropriated as legal reserve	277,688	1	241,801	1
Appropriated as special reserve	171	-	131	-
Unappropriated earnings	500,298	3	461,623	3
Other equity adjustments				
Cumulative translation adjustments	<u>(147)</u>	<u>-</u>	<u>(171)</u>	<u>-</u>
Total stockholders' equity	<u>5,287,618</u>	<u>26</u>	<u>4,492,992</u>	<u>24</u>
<b>TOTAL</b>	<u>\$ 20,137,103</u>	<u>100</u>	<u>\$ 18,652,828</u>	<u>100</u>

President: Solomon C. F. Chiu

The accompanying notes are integral parts of the financial statements.

## CENTRAL REINSURANCE CORPORATION

### STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003 (In Thousand New Taiwan Dollars, Except Per Share Amounts)

	2004		2003	
	Amount	%	Amount	%
<b>OPERATING REVENUES</b>				
Gross premiums written (Note 2)	\$ 16,861,352	141	\$ 17,190,600	141
Retroceded premiums (Note 2)	5,393,792	45	5,610,138	46
Net premiums written	11,467,560	96	11,580,462	95
Interest income	407,271	3	361,580	3
Overriding commissions	117,531	1	114,062	1
Income from short-term investments, net (Note 2)	-	-	69,246	1
Income from real estate investments, net (Notes 2 and 11)	14,720	-	17,391	-
Income from long-term investments, net	8,760	-	4,503	-
Other	68	-	23	-
Total operating revenues	12,015,910	100	12,147,267	100
<b>OPERATING COSTS</b>				
Reinsurance commissions	4,967,628	42	5,055,105	42
Reinsurance commissions received on retrocession	1,403,848	12	1,419,717	12
Net reinsurance commissions	3,563,780	30	3,635,388	30
Claims paid - gross	8,618,027	72	8,845,790	73
Claims paid - retro	1,820,445	15	2,330,693	20
Net claims paid	6,797,582	57	6,515,097	53
Loss on short-term Investment, net (Note 2)	11,569	-	-	-
Change in operating reserves (Note 2)				
Change in unearned premiums	(106,880)	(1)	210,548	2
Change in outstanding claims	568,114	5	672,050	5
Change in equalisation reserve	298,128	2	322,770	3
	759,362	6	1,205,368	10
Other	17,185	-	8,961	-
Total operating costs	11,149,478	93	11,364,814	93
GROSS PROFIT	866,432	7	782,453	7
OPERATING EXPENSES (Note 11)	338,838	3	332,956	3
OPERATING INCOME	527,594	4	449,497	4
NONOPERATING INCOME AND GAIN	6,254	-	1,691	-
NONOPERATING EXPENSE AND LOSS	222	-	997	-
INCOME BEFORE INCOME TAX	533,626	4	450,191	4
INCOME TAX (Notes 2 and 12)	135,024	1	91,320	1
NET INCOME	\$ 398,602	3	\$ 358,871	3

(Continued)

	<u>2004</u>		<u>2003</u>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>
EARNINGS PER SHARE (Note 14)				
Basic earnings per share	<u>\$ 1.44</u>	<u>\$ 1.08</u>	<u>\$ 1.39</u>	<u>\$ 1.11</u>

Chairman: \_\_\_\_\_ President: \_\_\_\_\_  
Cheng-Tui Yang Solomon C. F. Chiu

The accompanying notes are integral parts of the financial statements. (Concluded)

**CENTRAL REINSURANCE CORPORATION**

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003  
(In Thousand New Taiwan Dollars, Except Per Share Amounts)**

	<u>Capital Stock</u>		<u>Capital Surplus (Notes 2 and 9)</u>			<u>Retained Earnings (Note 13)</u>				<u>Cumulative Translation Adjustments (Note 2)</u>	<u>Total Stockholders' Equity</u>
			<u>Shares</u>	<u>Amount</u>	<u>Paid-in Capital in Excess of Par</u>	<u>Revaluation Increment on Property and Equipment</u>	<u>Total</u>	<u>Legal Reserve</u>	<u>Special Reserve</u>		
BALANCE, JANUARY 1, 2003	300,000,000	\$ 3,000,000	\$ -	\$ 129,608	\$ 129,608	\$ 209,160	\$ 62,870	\$ 342,654	\$ 614,684	\$ (132)	\$ 3,744,160
Appropriations of earnings:											
Legal reserve	-	-	-	-	-	32,641	-	(32,641)	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	-	-
Cash dividends - \$0.9 per share	-	-	-	-	-	-	-	(270,000)	(270,000)	-	(270,000)
Balance after appropriations	300,000,000	3,000,000	-	129,608	129,608	241,801	62,870	40,013	344,684	(132)	3,474,160
Transfer of special reserve to unappropriated earnings	-	-	-	-	-	-	(62,739)	62,739	-	-	-
Issuance of capital stock on August 7, 2003 - \$11 per share	60,000,000	600,000	60,000	-	60,000	-	-	-	-	-	660,000
Net income for year 2003	-	-	-	-	-	-	-	358,871	358,871	-	358,871
Translation adjustments	-	-	-	-	-	-	-	-	-	(39)	(39)
BALANCE, DECEMBER 31, 2003	360,000,000	3,600,000	60,000	129,608	189,608	241,801	131	461,623	703,555	(171)	4,492,992
Appropriations of earnings:											
Legal reserve	-	-	-	-	-	35,887	-	(35,887)	-	-	-
Special reserve	-	-	-	-	-	-	40	(40)	-	-	-
Cash dividends - \$0.9 per share	-	-	-	-	-	-	-	(324,000)	(324,000)	-	(324,000)
Balance after appropriations	360,000,000	3,600,000	60,000	129,608	189,608	277,688	171	101,696	379,555	(171)	4,168,992
Issuance of capital stock on November 4, 2004 - \$12 per share	60,000,000	600,000	120,000	-	120,000	-	-	-	-	-	720,000
Net income for year 2004	-	-	-	-	-	-	-	398,602	398,602	-	398,602
Translation adjustments	-	-	-	-	-	-	-	-	-	24	24
BALANCE, DECEMBER 31, 2004	<u>420,000,000</u>	<u>\$ 4,200,000</u>	<u>\$ 180,000</u>	<u>\$ 129,608</u>	<u>\$ 309,608</u>	<u>\$ 277,688</u>	<u>\$ 171</u>	<u>\$ 500,298</u>	<u>\$ 778,157</u>	<u>\$ (147)</u>	<u>\$ 5,287,618</u>

Chairman: \_\_\_\_\_  
Cheng-Tui Yang

President: \_\_\_\_\_  
Solomon C. F. Chiu

The accompanying notes are integral parts of the financial statements.

# CENTRAL REINSURANCE CORPORATION

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003

(In Thousand New Taiwan Dollars)

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 398,602	\$ 358,871
Adjustments to reconcile net income to net cash provided by operating activities:		
Increase in operating reserves	759,362	1,205,368
Depreciation and amortization	12,123	10,329
Provision for doubtful accounts	-	5,368
Deferred income taxes	1,211	(3,312)
Gain on sale of long-term investments	(1,197)	(8,562)
Amortization of long-term bond investments' (discount) premium	6,343	(2,370)
Gain on sale of property and equipment	(140)	-
Loss on disposal of property and equipment	3	900
Changes in operating assets and liabilities:		
Short-term investments	117,697	(3,457,474)
Accounts receivable	158,361	(276,965)
Prepaid expenses and other current assets	2,596	288,959
Overdue receivables	7,545	6,434
Accrued expenses	(8,780)	11,858
Other current liabilities	(18,689)	513,793
Accrued pension liabilities	(12,460)	5,701
Net cash provided by (used in) operating activities	<u>1,422,577</u>	<u>(1,341,102)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in long-term investments	(971,937)	(2,021,221)
Sale of long-term investments	927,215	344,852
Acquisitions of property and equipment	(3,404)	(26,213)
Sale of property and equipment	183	-
Decrease in refundable deposits and reserve funds held by ceding companies	159,959	15,413
Increase in refundable deposits	(126,547)	(67,937)
Increase in other assets	(4,998)	(5,801)
Net cash used in investing activities	<u>(19,529)</u>	<u>(1,760,907)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of capital stock	720,000	660,000
Cash dividends paid	(324,000)	(270,000)
Decrease in guarantee deposits received and deposits from reserve funds held for reinsurers	(1,576)	(11,315)
Net cash provided by financing activities	<u>394,424</u>	<u>378,685</u>
<b>TRANSLATION ADJUSTMENTS</b>	<u>24</u>	<u>(39)</u>

(Continued)

	<b>2004</b>	<b>2003</b>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 1,797,496	\$ (2,723,363)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,864,420</u>	<u>6,587,783</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,661,916</u>	<u>\$ 3,864,420</u>
SUPPLEMENTARY INFORMATION		
Interest paid (interest of reinsurance reserve funds released)	<u>\$ 256</u>	<u>\$ 612</u>
Income tax paid	<u>\$ 125,149</u>	<u>\$ 16,217</u>
NON-CASH INVESTING ACTIVITIES		
Transfer of short-term investments to long-term investments	<u>\$ 3,930,231</u>	<u>\$ -</u>

Chairman: \_\_\_\_\_  
Cheng-Tui Yang

President: \_\_\_\_\_  
Solomon C. F. Chiu

The accompanying notes are integral parts of the financial statements.

(Concluded)

# CENTRAL REINSURANCE CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003 (In Thousands New Taiwan Dollars, Unless Otherwise Stated)

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### 1. GENERAL

The Corporation was incorporated on October 31, 1968, and it provides a broad range of property, and life inward and outward reinsurance services. The Corporation's shares of stock have been traded in the Taiwan Stock Exchange since July 6, 2000.

The Corporation was a state-owned enterprise. On July 9, 2002, the MOF, the major shareholder of the Corporation released 69,388 thousand shares for public sale and the sale was completed at the same date. Thus, the ownership of the MOF decreased to 48.12%. According to Article 11 of "Enforcement Rules of Statue of Privatization of Government-Owned Enterprises" the Corporation became a privately owned corporation on July 11, 2002, effectively.

As of December 31, 2004 and 2003, the Corporation had 127 and 138 employees.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Financial Statements**

The financial statements are prepared in accordance with the insurance regulations accounting practices accepted in the insurance industry, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China (ROC). Furthermore, under these guidelines and principles, the Company has to estimate the allowance for doubtful receivables, property depreciation, income tax, prepaid pension cost and operating reserves. Since operating circumstances are inherently uncertain, estimates may differ from actual results. Significant accounting policies are summarized below.

#### **Current and Non-current Assets and Liabilities**

Current assets are those expected to be converted to cash, sold or consumed within one year. Current liabilities are obligations due within one year from the balance sheet date. All other assets and liabilities are classified as non-current.

#### **Cash Equivalents**

Short-term bills with original maturities of less than three months are classified as cash equivalents.

#### **Short-term Investments**

Short-term investments are stated at the lower of cost (bond costs represent original cost after adjustment of premium or discount) or market method. When the aggregate market value is lower than the total carrying value, an allowance for decline in market value is recognized. Any recovery of the market value to the extent of the original cost is recognized as income.

Cost of bonds sold is determined using the specific identification method while cost of all other types of short-term investments is determined using the moving-average method.

When short-term investments in listed stocks are transferred to long-term investments, the new cost is carried at market price and a loss is recognized if the market price of the short-term investments is below the book value of such investments.

### **Allowance for Doubtful Accounts**

Allowance for doubtful accounts is provided at the ending balances of the accrued claims recoverable from reinsurers, accounts with reinsurers and other accounts receivable (which includes accrued reinsurance commissions and overriding commissions) that are not overdue. The amounts saved arising from reduced business tax rate are recorded, in compliance with regulations, as part of allowance for doubtful accounts.

From July 1, 1999 to 30 June 2003, the amounts saved arising from reduced business tax rate are recorded as part of allowance for doubtful accounts. The entire amount of overdue receivable from reinsurers is covered by an allowance.

Under the regulation as prescribed by the MOF on April 30, 2003, once the ratio of the overdue loan and overdue receivables of the insurance enterprise was lower than 1% and last for 3 months, the amounts saved arising from reduced business tax rate, which can be retroceded from the 2nd month of the preceding 3 months, are exempted to write off the overdue credit or withdraw allowance for doubtful accounts.

As the corporation does not engage the business of loan and the overdue ratio was zero from April to June 2003, hence the amounts saved arising from reduced business tax rate are exempted to withdraw as part of allowance for doubtful accounts effective from July 1, 2003. The Corporation's overdue accounts involved are all of the overdue accounts with reinsurers and was withdrawn an adequate allowance for doubtful accounts.

### **Long-term Equity Investments**

Long-term investments for which the Corporation exercises no significant influence on the investees are accounted for by cost method. The investment in listed stock is stated at the lower of cost or market value. An allowance for decline in value is provided when the carrying value of the investment (with quoted market price) exceeds the market value. Such provision for decline in value is shown as part of stockholders' equity, when the decline in value is considered temporary. The allowance for decline in value and the account shown in the stockholder's equity is adjusted for any recovery in the market value. The carrying value of investments in unlisted stocks are reduced to reflect an other than temporary decline in value with the reduction charged to current income.

Costs of shares of stock sold are determined using the moving-average method.

When long-term investments in listed stocks are transferred to short-term investments, the new cost is carried at market price and a loss is recognized if the market price of the long-term investments is below the book value of such investments.

### **Long-term Bond Investments**

Long-term bond investments are stated at cost (bond costs represent original cost after adjustment of premium or discount). The premium or discount is amortized over the holding period.

## **Real Estate Investments**

Investments in real estate are stated at cost less accumulated depreciation.

Depreciation on buildings is computed using the straight-line method over estimated service lives ranging from 10 years to 60 years.

Upon disposal of real estate, cost and related accumulated depreciation are removed from the accounts and resulting gain or loss is credited or charged to income.

## **Property and Equipment**

Property and equipment are stated at cost (or cost plus revaluation increment) less accumulated depreciation. Reserve for land revaluation increment tax is presented as long-term liabilities. Major renewals and betterment are capitalized, while maintenance and repairs are charged to current year income.

Depreciation is computed using the straight-line method over these estimated service lives - buildings, 3 to 60 years; machinery and equipment 4 to 6 years; transportation equipment, 3 to 10 years; and other equipment, 3 to 10 years.

When items of property and equipment are retired or disposed of, their cost, cost plus revaluation increment and related accumulated depreciation are removed from the accounts, and resulting gain or loss is credited or charged to current income.

## **Reinsurance Revenues and Costs**

Reinsurance revenues (gross premiums written) and the related estimated costs (retroceded premiums) are recognized upon receipt of the billings from the reinsurers.

## **Operating Reserves**

- a. The reserves related to Compulsory Automobile and Motorcycle Liability Insurance are determined in accordance with “The Regulation of Various Insurance Reserves Conducting Compulsory Automobile and Motorcycle Insurance“ issued by the MOF, Article 144 and 148-3 of “Insurance Law” and the related sub-law.
- b. The equalisations reserve related to residence earthquake insurance is determined in accordance with Article 8 of “Regulations Governing Taiwan Residential Earthquake Insurance Pool and Risk Transfer Scheme“.
- c.
  - 1) The reserve for unearned premiums related to insurance policy (period exceeding one year), except for long-term fire insurance, engineering insurance and consumer’s credit insurance calculated based on criteria issued by the MOF, is calculated in accordance with “The Standard of Calculation of Various Reinsurance Reserves for the Professional Reinsurance Industry” issued by the MOF, Article 144 and 148-3 of “Insurance Law” and the related sub-law.
  - 2) The equalisation reserve is processed in accordance with “The Standard of Calculation of Various Reinsurance Reserves for the Professional Reinsurance Industry” issued by the MOF, Article 148-3 of Insurance Law and the related sub-law.
  - 3) The reserve for outstanding claims are calculated in accordance with “the Standard of Calculation of Various Reinsurance Reserves for the Professional Reinsurance Industry” issued by the MOF, Article 144 and 148-3 of Insurance Law and the related sub-law.

## **Pension Cost**

Pension cost is recognized on the basis of actuarial calculations of pension obligation.

## **Income Tax**

The Corporation adopted interperiod and intraperiod tax allocation. Deferred income taxes are recognized for tax effects of temporary differences, and unused tax credits. Valuation allowance is provided for deferred income tax assets that are not certain to be realized. Deferred tax assets and liabilities are classified as current or noncurrent accounts according to the classifications of their related assets and liabilities. Those which cannot be related to the assets or liabilities in the financial statement are classified as current or noncurrent based on the expected length of anticipated reversal.

Separate taxes on interest revenue on short-term bills are recorded as expense.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

Income taxes (10%) on undistributed earnings are recorded as expense in the year when the shareholders have approved the retention of the earnings.

## **Foreign-currency Transactions**

The foreign currency amounts of transactions that are denominated in foreign currencies during a quarter are converted into New Taiwan dollars at rates in the end of the preceding quarter. Gains or losses, resulting from the application of different foreign exchange rates when foreign-currency receivables and payables are settled, are credited or charged to income on the settlement date. Foreign currency monetary assets and liabilities are converted into New Taiwan dollars at exchange rates prevailing at the balance sheet date. All exchange differences arising from conversion are included in the current income.

## **Cumulative Translation Adjustments**

Long-term foreign investments accounted for by cost method, at year-end, the balances are restated at the prevailing exchange rates and the resulting differences are recorded as translation adjustments if the translated amount is lower than cost; if the translated amount is higher than cost, we reverse the translation adjustments to the extent of the original cost.

## **Forward Exchange Swap Transactions**

Forward exchange swap contracts for hedging purposes are recorded at the spot rate on the contract date. The foreign-currency amount of each contract multiplied by the difference between the spot rate and the contracted forward rate is amortised over the contract period. Any resulting gain or loss upon settlement is credited or charged to income in the period of settlement.

At year-end, the balances of forward exchange swap receivables or payables are translated based on prevailing exchange rates and the resulting gains or losses are credited or charged to income. For those attributable to foreign long-term investments are recorded as translation adjustments under stockholders' equity. The net forward exchange swap receivable or payable is presented either as an asset or a liability in the balance sheet.

### Reclassifications

Certain 2003 accounts have been reclassified to conform to the 2004 financial statement presentation.

### 3. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Cash		
Cash on hand	\$ 280	\$ 280
Demand deposits	73,389	38,277
Checking accounts	76,084	32,562
Time deposits	<u>3,429,844</u>	<u>2,411,396</u>
	<u>3,579,597</u>	<u>2,482,515</u>
Cash equivalents		
Commercial paper	780,156	429,473
Negotiable certificates of deposit	436,636	618,506
Treasury bills	<u>865,527</u>	<u>333,926</u>
	<u>2,082,319</u>	<u>1,381,905</u>
	<u>\$ 5,661,916</u>	<u>\$ 3,864,420</u>

Negotiable certificates of deposit, commercial paper and treasury bills as of December 31, 2004 were contracted to be resold for \$2,083,363 in January 2005.

Time deposits as of December 31, 2004 maturing after one year amount to \$329,000.

### 4. SHORT-TERM INVESTMENTS

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Bonds	\$ 4,446,944	\$ 8,445,612
Open-end mutual fund	932,060	850,859
Listed stocks	491,502	471,963
Negotiable certificates of deposit	<u>-</u>	<u>150,000</u>
	<u>\$ 5,870,506</u>	<u>\$ 9,918,434</u>

The market values of the investments were as follows:

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Bonds	\$ 4,487,146	\$ 8,500,109
Open-end mutual fund	935,927	854,623
Listed stocks	462,672	445,650
Negotiable certificates of deposit	<u>-</u>	<u>150,000</u>
	<u>\$ 5,885,745</u>	<u>\$ 9,950,382</u>

The above market values are based on the following: (a) bonds - reference prices published by the ROC Greta Securities market at the end of year; (b) open-end mutual funds, net asset values as of the end of year; (c) listed stocks - average closing prices for December; (d) negotiable certificates of deposit - cost.

Government bonds of \$640,000 and \$540,000 as of December 31, 2004 and 2003, respectively, are pledged and mainly deposited as operations guarantee with the Central Bank.

## 5. ACCOUNTS RECEIVABLE, NET

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Accounts with reinsurers	\$ 786,217	\$ 973,982
Accrued income	142,962	131,329
Other receivable	60,322	45,372
Income tax refund receivable	21,532	21,532
Accrued claims recoverable from reinsurers	<u>16,429</u>	<u>18,129</u>
	1,027,462	1,190,344
Less - allowance for doubtful accounts	<u>35,515</u>	<u>32,491</u>
	<u>\$ 991,947</u>	<u>\$ 1,157,853</u>

## 6. LONG-TERM EQUITY INVESTMENTS

	<b>December 31</b>			
	<b>2004</b>		<b>2003</b>	
	<b>Amount</b>	<b>% of Owner- ship</b>	<b>Amount</b>	<b>% of Owner- ship</b>
<u>Cost method</u>				
Common stock				
Unlisted stocks				
Asian Hull Syndicate, Ltd.	\$ 174	7.14	\$ 187	7.14
Preferred stock				
Taishin International Bank - II	74,430	1.86	74,430	1.86
Chang Hwa Bank	423,780	0.85	474,395	0.96
China Development Industrial Bank	183,539	0.16	183,539	0.16
Chinatrust Financial Holding Co., Ltd.	<u>50,000</u>	0.08	<u>50,000</u>	0.08
	<u>\$ 731,923</u>		<u>\$ 782,551</u>	

## 7. LONG-TERM BOND INVESTMENTS

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Aboard bond	\$ 1,064,709	\$ 1,123,696
Domestic bond	<u>4,108,737</u>	<u>29,575</u>
	<u>\$ 5,173,446</u>	<u>\$ 1,153,271</u>

## 8. REAL ESTATE INVESTMENTS, NET

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Cost		
Land	\$ 409,165	\$ 409,165
Buildings	<u>74,088</u>	<u>73,828</u>
	483,253	482,993
Revaluation increment		
Land	2,441	2,441
Buildings	<u>394</u>	<u>394</u>
	486,088	485,828
Less - accumulated depreciation	<u>16,850</u>	<u>15,300</u>
	<u>\$ 469,238</u>	<u>\$ 470,528</u>

## 9. PROPERTY AND EQUIPMENT

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Cost	\$ 126,319	\$ 124,686
Revaluation increment		
Land	269,624	269,624
Buildings	<u>8,018</u>	<u>8,018</u>
	403,961	402,328
Accumulated depreciation		
Buildings	30,576	24,483
Machinery and equipment	13,255	11,662
Transportation equipment	4,085	3,810
Other equipment	<u>8,427</u>	<u>7,759</u>
	56,343	47,714
	347,618	354,614
Construction in progress	<u>555</u>	<u>475</u>
	<u>\$ 348,173</u>	<u>\$ 355,089</u>

The land and buildings were revalued in 1976 and 1996. Such revaluation resulted in the recognition of: (a) additional carrying value of property and equipment amounting to \$280,477, (b) reserve for land revaluation increment tax of \$150,869 (which is payable upon disposal of land) and (c) capital surplus \$129,608.

## 10. PENSION AND TERMINATION BENEFITS

The privatization of the Corporation was completed on July 11, 2002. The original committee returned the Non-civil Service Eligible Employees Fund to all employees and the rest was closed by the Corporation. After privatization, employees pension fund is administered by the committee and the contribution is adjusted to 8% of wages.

Pension information is summarized as follows:

	<b><u>Years Ended December 31</u></b>	
	<b>2004</b>	<b>2003</b>
a. Net pension cost (profit)		
Service cost	\$ 14,359	\$ 13,181
Interest cost	717	192
Projected return on plan assets	(548)	(273)
Amortization of unrecognized net actuarial losses and unrecognized net transition obligation	130	130
Gain from curtailment	<u>(20,250)</u>	<u>-</u>
Net pension cost (profit)	<u>\$ (5,592)</u>	<u>\$ 13,230</u>

b. The reconciliation between the retirement fund and pension liabilities (prepaid pension cost) is summarized as follows:

	<b><u>December 31</u></b>	
	<b>2004</b>	<b>2003</b>
Benefit obligations		
Vested benefit obligation	\$ 2,267	\$ 3,003
Nonvested benefit obligation	<u>14,818</u>	<u>14,258</u>
Accumulated benefit obligation (ABO)	17,085	17,261
Additional benefits based on future salaries	<u>6,841</u>	<u>4,853</u>
Projected benefit obligation	23,926	22,114
Fair value of plan assets	<u>(18,442)</u>	<u>(12,388)</u>
Funded status	5,484	9,726
Unrecognized net transition obligation	(974)	(1,826)
Unrecognized prior service cost	-	-
Unrecognized net actuarial losses	(10,827)	(1,757)
Additional liability recognized representing the excess of the ABO over the fair value of the plan assets	<u>-</u>	<u>-</u>
Accrued pension liability (prepaid pension cost)	<u>\$ (6,317)</u>	<u>\$ 6,143</u>
c. Vested benefits	<u>\$ 2,267</u>	<u>\$ 3,003</u>

d. Actuarial assumptions of benefit obligations:

Discount rate	3.7%	3.8%
Rate of salary increase	3.0%	3.0%
Expected rate of return on plan assets	3.7%	3.8%

e. The changes in the pension fund and accrued pension cost are summarized as follows:

	<b><u>Years Ended December 31</u></b>	
	<b>2004</b>	<b>2003</b>
Changes in the pension fund:		
Balance, beginning of year	\$ 12,388	\$ 4,808
Contributions	6,349	7,529
Interest income	121	51
Benefits paid	<u>(598)</u>	<u>-</u>
Balance, end of year	<u>\$ 18,260</u>	<u>\$ 12,388</u>

- f. The “Labor Pension Act” (the “Act”), to be implemented on July 1, 2005, provides for a new defined contribution pension plan. Employees can choose to continue to be subject to the current pension regulation under the “Labor Standards Law” or to be subject to the pension regulation under the Act with their service years accumulated before the enforcement of this Act to be retained. Under the Act, an employer’s monthly rate of contribution to the pension fund should be at least 6% of the employees’ monthly salary.

## 11. LABOR COSTS, DEPRECIATION AND AMORTIZATION EXPENSES

	Years Ended December 31					
	2004			2003		
	Classified as Cost of Sales	Classified as Operating Expenses	Total	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost						
Salary	\$ -	\$ 147,623	\$ 147,623	\$ -	\$ 154,233	\$ 154,233
Labor and health insurance	-	7,133	7,133	-	7,341	7,341
Pension	-	-	-	-	13,230	13,230
Severance pay	-	14,718	14,718	-	-	-
Others	-	12,018	12,018	-	12,154	12,154
Subtotal	-	181,492	181,492	-	186,958	186,958
Depreciation	1,550	10,274	11,824	1,500	8,344	9,844
Amortization	-	299	299	-	485	485
	<u>\$ 1,550</u>	<u>\$ 192,065</u>	<u>\$ 193,615</u>	<u>\$ 1,500</u>	<u>\$ 195,787</u>	<u>\$ 197,287</u>

Note: The depreciation, which is classified as operating cost, is accounted for as deduction to the real estate investments.

## 12. INCOME TAX

- a. Income tax expense consisted of the following:

	Years Ended December 31	
	2004	2003
Income tax expense - current	\$ 128,816	\$ 85,812
Separately taxed on short-term bills	3,056	8,930
Adjustment of prior years’ tax	2,052	-
Income tax expense - deferred	1,211	(3,311)
Other	(111)	(111)
	<u>\$ 135,024</u>	<u>\$ 91,320</u>

- b. Reconciliation between income tax expense computed based on income before tax at statutory tax rate and total income tax expense is as follows:

	<b><u>Years Ended December 31</u></b>	
	<b>2004</b>	<b>2003</b>
Income tax expense computed based on income before income tax at statutory tax rate of 25%	\$ 133,396	\$ 112,538
Add (less) tax effects of:		
Temporary differences	(1,211)	3,311
Permanent differences	(2,735)	(29,796)
Tax credits	(1,061)	(241)
Income tax (10%) on unappropriated earnings	<u>427</u>	<u>-</u>
Income tax payable	<u>\$ 128,816</u>	<u>\$ 85,812</u>

- c. Deferred income tax assets (liabilities) as of December 31, 2004 and 2003 consisted of the following:

	<b><u>December 31</u></b>	
	<b>2004</b>	<b>2003</b>
Current deferred income tax assets		
Allowance for doubtful accounts	\$ 7,368	\$ 8,002
Unrealized exchange (gain) loss	<u>797</u>	<u>(1,741)</u>
	<u>\$ 8,165</u>	<u>\$ 6,261</u>
Non-current deferred income tax assets (liabilities)		
Accrued pension cost	<u>\$ (1,690)</u>	<u>\$ 1,425</u>

The related information under the Integrated Income Tax System is as follows:

	<b><u>December 31</u></b>	
	<b>2004</b>	<b>2003</b>
Balance of Imputation Credit Account (ICA)	<u>\$ 108,661</u>	<u>\$ 64,375</u>

The projected income tax credit ratio on the earnings as of December 31, 2004 and the actual tax credit ratio on the earnings as of December 31, 2003 were 33.48% and 26.47%. The tax credits allocable to stockholders are based on the balance of ICA on the dividend distribution date. As a result, the tax credit ratio as of the dividend distribution date may differ from the credit as of December 31, 2004.

The unappropriated earning as of December 31, 2004 and 2003, doesn't include earnings which were generated prior to July 1, 1998.

Income tax returns through 2001 have been examined and approved by the MOA and tax authorities.

### 13. STOCKHOLDERS' EQUITY

a. Capital surplus

Capital surplus consisted of the following:

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Revaluation increment	\$ 129,608	\$ 129,608
Premium of capital stock	<u>180,000</u>	<u>60,000</u>
	<u>\$ 309,608</u>	<u>\$ 189,608</u>

The Company Law provides that capital surplus can only be used to offset deficit or for transfer to capital from paid-in capital in excess of par. The capital surplus transferred may be issued as stock dividends. However, capital surplus may be transferred to capital from paid-in capital in excess of par only once a year and within a limited percentage.

- b. The Corporation's Articles of Incorporation requires the appropriation of legal reserve equivalent to 10% of annual net income less any deficit. In addition, a special reserve should be provided as described below. The disposition of the remainder, if any, is determined by the board of directors and submitted to stockholders for approval. An approved stock dividend declaration is subject to approval by the MOF. The appropriation of earnings shall be resolved by shareholders in the following year and given effect to the financial statements of that year.

As of October 20, 2004, amendment to the article of incorporation has been resolved by the stockholders. Capital surplus, after deducting any necessary taxation and offsetting prior year's deficit, shall be appropriated for legal and special reserve in accordance with the regulations. The remainder, based on the decision of board of directors, will be distributed upon the resolution of the stockholder's meeting. The distribution shall be appropriated as followed:

- 1) Dividend - cash dividend should be no less than 50% of the dividend distributed;
- 2) Remuneration to directors and supervisors: Less than 1%; and
- 3) Bonus to employees: Between 1%-5% and can either be cash or stock dividend upon resolution of the stockholders.

Under the Company Law, the legal reserve should be made until the reserve equals the aggregate par value of the Corporation's outstanding capital stock. This reserve may be used to offset a deficit. Also, when the reserve has reached 50% of the aggregate par value of the Corporation's outstanding capital stock, up to 50% thereof may be declared as dividends.

As prescribed by the regulations of the Securities and Futures Commission (known as Securities and Futures Bureau now), a special reserve equal to the net debit balance in the stockholders' equity shall be appropriated from the current year's earnings and unappropriated earnings generated in the prior years. The special reserve appropriation arising from the foregoing is not available for dividends.

Under the Integrated Income Tax System, ROC. Tax credits allocated to shareholders are based on the balance of Imputation Credit Account (ICA) on the dividend distribution date.

On May 26, 2004 and May 15, 2003, respectively, the Corporation's shareholders' meeting resolved year 2003's and 2002's appropriation of earnings.

The appropriation of the 2004 and 2003 earnings and dividend per share was as follows:

	<u>Appropriation of Earnings</u>		<u>Dividend Per Share (NT\$)</u>	
	<u>For Fiscal Year 2003</u>	<u>For Fiscal Year 2002</u>	<u>For Fiscal Year 2003</u>	<u>For Fiscal Year 2002</u>
Legal reserve	\$ 35,887	\$ 32,641		
Special reserve	40	-		
Cash dividends	324,000	270,000	\$ 0.9	\$ 0.9

As of March 4, 2005, the date of the accompanying auditors' report, the board of directors had not resolved the appropriation of the 2004 earnings. Information on the proposed and resolved earnings appropriation and the bonus to employees and remuneration to directors and supervisors can be accessed on line through the Market Observation Post System (M.O.P.S) web site of the Taiwan Stock Exchange.

#### 14. EARNINGS PER SHARE

	<u>Numerator (Amounts)</u>		<u>Denominator (Shares in Thousands)</u>	<u>EPS (in Dollars) After Tax</u>	
	<u>Pretax</u>	<u>After Tax</u>		<u>Pretax</u>	<u>Tax</u>
<u>2004</u>					
Basic EPS					
Net income of common stockholders	<u>\$ 533,626</u>	<u>\$ 398,602</u>	<u>369,534</u>	<u>\$ 1.44</u>	<u>\$ 1.08</u>
<u>2003</u>					
Basic EPS					
Net income of common stockholders	<u>\$ 450,191</u>	<u>\$ 358,871</u>	<u>324,164</u>	<u>\$ 1.39</u>	<u>\$ 1.11</u>

#### 15. PLEDGED ASSETS

The Corporation has provided the following assets as security on standby letter of credit issued by banks and as statutory deposits related to its insurance operations.

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Government bonds (Note 4)	<u>\$ 640,000</u>	<u>\$ 540,000</u>

#### 16. SUBSEQUENT EVENTS

On January 30, 2005, land tax was amended through legislation. Effective on February 1, 2005, land appreciation tax was decreased permanently. Provision provided on land appreciation tax under other liabilities was decreased by \$58,879 under the amended tax law and transferred to capital surplus account under stockholder's equity.

## 17. FINANCIAL INSTRUMENTS

The Corporation held the derivative financial instruments completely for purpose other than trading. The Corporation entered into FX swap contracts to hedge the effect of foreign currency fluctuations on net assets and liabilities.

### a. Derivative financial instruments

#### 1) Contract amount, credit risk and fair value

(In Thousand Dollars)

Financial Instruments	December 31, 2004				December 31, 2003			
	Contract Amount (Nominal Amount)	Credit Risk	Fair Value		Contract Amount (Nominal Amount)	Credit Risk	Fair Value	
FX swap contracts	US\$ 33,372	US\$ 659	NT\$ 20,932		US\$ 33,407	US\$ 34	NT\$ 674	

The Corporation is exposed to credit risk in the event of nonperformance of the counterparties to FX swap contracts on maturity. In order to manage this risk, the Corporation transacts only with financial institutions with good credit ratings. Thus, no material losses resulting from counterparty defaults are anticipated.

The fair value is the Corporation should pay or obtain on the balance sheet date.

#### 2) Market risk

The Corporation entered into FX swap contracts to hedge the effect of foreign currency fluctuation. Thus, gain or loss arising from exchange rate fluctuations will approximately be offset with those hedged items. The potential market risk is insignificant.

#### 3) Liquidation risk, cash flow risk and uncertainty of amount and term of future cash demand

Net interest, which is equal to the principal multiplied by the difference in interest rates and is received or paid upon each settlement date, is not material. No receipt or payment of principal is required on the expiry date. Thus, the cash demand related to the swap contracts is not significant.

#### 4) Purpose of derivative financial instruments and related strategies

The Corporation held the derivative financial instruments completely for purpose other than trading. The Corporation entered into FX swap contracts to hedge the effect of foreign currency fluctuations on long-term investments. The purpose of hedging strategies is to hedge market risk the Corporation is exposed. The Corporation has designated hedging instruments as highly negative correlations with the fair value of the hedged item and periodically evaluates the effectiveness of the instruments.

#### 5) Other information

The net FX swap receivables and payable are offset and the difference is presented either as a current asset or a current liability. As of December 31, 2004 and 2003, the net amount of \$14,528 and \$529 were shown as a current assets.

b. Fair value of non-derivative financial instruments

	<b>December 31</b>			
	<b>2004</b>		<b>2003</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
<b>Assets</b>				
Financial assets - with fair values approximating carrying amounts	\$ 6,808,283	\$ 6,808,283	\$ 5,336,652	\$ 5,336,652
Short-term investments, net	5,870,506	5,885,745	9,918,434	9,950,382
Long-term investments - (except real estate investment) (with market price)	5,905,369	5,914,938	1,935,822	1,939,446
Deposits	701,176	747,527	574,629	629,456
<b>Liabilities</b>				
Financial liabilities - with fair values approximating carrying amounts	994,830	994,830	1,128,969	1,128,969

The Corporation adopts the following methods and assumptions for the estimates of fair value of its financial instruments:

- 1) The carrying amount of cash and cash equivalents, receivables, pledged time deposits, payables and accounts with reinsurers approximates their fair value because of the short maturities of these instruments.
- 2) Short-term investments - please refer to Note 4.
- 3) Except investments in preferred stock (not including Taishin International Bank - II), long-term equity investments with no quoted market price are not disclosed. Fair value of long-term bond investments and refundable deposits are base on quoted market prices, or on carrying amounts if quoted market prices are not available.
- 4) Fair value of guarantee deposits paid and received and reserve funds held by ceding companies are estimated at their carrying amounts.

The fair value of certain financial instruments and all nonfinancial instruments are excluded from fair value shown above. Accordingly, the aggregate fair value presented does not represent the underlying fair value of the Corporation.

## 18. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFC for the Corporation and investees:

- a. Financing provided: None.
- b. Endorsement/guarantee provided: None.
- c. Securities held: Table I.
- d. Securities acquired and disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Table II.
- e. Acquisition of individual real estates at costs of at least NT\$100 million or 20% of the paid-in capital: None.

- f. Disposal of individual real estates at prices of at least NT\$100 million or 20% of the paid-in capital: None.
- g. Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.
- h. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.
- i. Names, locations, and related information of investees on which the Corporation exercises significant influence: None.
- j. Derivative financial instruments transactions: Note 17.
- k. Investment in Mainland China: None.

## **19. SEGMENT INFORMATION**

The Corporation is only engaged in reinsurance.

CENTRAL REINSURANCE CORPORATION

SECURITIES HELD

DECEMBER 31, 2004

(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

Held Company Name	Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2004				Note
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Central Reinsurance Corporation	Asian Hull Syndicate, Ltd.	-	Long-term equity investment	400	\$ 174	7.14%	\$ 1,361	Note 2
	Taishin International Bank - II (preferred stocks)	-	Long-term equity investment	7,443,000	74,430	1.86%	-	Note 3
	Chang Hwa Bank (preferred stocks)	-	Long-term equity investment	10,065,000	423,780	0.85%	444,259	
	China Development Industrial Bank (preferred stocks)	-	Long-term equity investment	10,221,000	183,539	0.16%	174,156	
	Chinatrust Financial Holding Co., Ltd. (preferred stocks)	-	Long-term equity investment	1,250,000	50,000	0.08%	54,701	
	CDC IXIS 10nc3m Callable USD Range Accrual Note (CDC001)	-	Long-term bond investment	-	63,405	-	-	Note 3
	Lloyd's TSB Bank 10nc3m Callable USD Range Accrual Note	-	Long-term bond investment	-	110,211	-	-	Note 3
	CDC IXIS 10nc3m Callable USD Range Accrual Note (CDC002)	-	Long-term bond investment	-	95,304	-	-	Note 3
	CMO GNR2003-89CD	-	Long-term bond investment	-	62,883	-	63,253	
	CMO GNR2003-85GD	-	Long-term bond investment	-	16,437	-	16,775	
	CMO FNR 2003-79WZ	-	Long-term bond investment	-	31,370	-	30,907	
	CMO GNR2003-62AD	-	Long-term bond investment	-	53,089	-	51,723	
	Taishin 5 Year Structure Note	-	Long-term bond investment	-	63,536	-	-	Note 3
	UBS 10nc3m Callable USD Range Accrual Note (UBS003)	-	Long-term bond investment	-	63,128	-	-	Note 3
	Credit Lyonnais - 02 10YNC3M	-	long-term bond investment	-	158,840	-	-	Note 3
	Freddie Mac 9YNC1Y Callable Agency Bond	-	long-term bond investment	-	93,466	-	-	Note 3
	15YNC3M CMS Spread Accrual Note - CBA	-	long-term bond investment	-	31,296	-	-	Note 3
	15YNC3M NonInversion CMS Accrual Notes - CBA	-	long-term bond investment	-	158,208	-	-	Note 3
	Robeco Diversified Income Bond Dec 04/14	-	long-term bond investment	-	63,536	-	-	Note 3
	Hua Nan Commercial Bank subordinate debenture 91-1	-	long-term bond investment	-	206,760	-	206,801	
	SinoPac Bank subordinate debenture 91-1	-	long-term bond investment	-	500,628	-	500,000	
	Taipei Fubon Bank subordinate debenture K, 2002	-	long-term bond investment	-	200,000	-	200,000	
	SinoPac Bank subordinate debenture B, 2003	-	long-term bond investment	-	100,000	-	100,003	
Chinatrust Commerical Bank subordinate debenture, 2003	-	long-term bond investment	-	300,000	-	300,000		

(Continued)

Held Company Name	Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2004				Note
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Chiao Tung Bank subordinate debenture B, 2003	-	long-term bond investment	-	\$ 200,000	-	\$ 200,009	
	First Bank subordinate debenture K, 2002	-	long-term bond investment	-	303,902	-	303,927	
	First Bank subordinate debenture B, 2002	-	long-term bond investment	-	200,000	-	200,000	
	First Bank subordinate debenture A, 2003	-	long-term bond investment	-	300,000	-	300,000	
	Cathay United Bank subordinate debenture, 2002	-	long-term bond investment	-	200,000	-	199,960	
	Hua Nan Bank subordinate debenture, 2002	-	long-term bond investment	-	300,000	-	299,951	
	Hua Nan Bank subordinate debenture, 2002	-	long-term bond investment	-	300,000	-	300,000	
	Taishin Bank subordinate debenture, 2002	-	long-term bond investment	-	50,000	-	51,612	
	Chiao Tung Bank subordinate debenture	-	long-term bond investment	-	200,000	-	200,000	
	Hua Nan Bank subordinate debenture, 2002	-	long-term bond investment	-	104,287	-	104,287	
	ICBC subordinate debenture, 2001	-	long-term bond investment	-	307,080	-	307,080	
	Hsinchu International Bank subordinate debenture, 2002	-	long-term bond investment	-	336,080	-	330,000	

Note 1: The information on short-term investments is not required to be disclosed.

Note 2: The market value or net assets value is based on the latest net asset value of auditors' report.

Note 3: Unlisted stock, no market value.

## CENTRAL REINSURANCE CORPORATION

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
 FOR THE YEARS ENDED DECEMBER 31, 2004  
 (Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Cumulated Translation Adjustments	Ending Balance			
					Units	Amount	Units	Amount	Units	Amount	Carrying Value		Amortization of Discount or Premium	Gain on Disposal	Units	Amount
Central Reinsurance Corporation	10YNC3M - Credit Lyonnais - 01	Long-term bond investment	Credit Lyonnais	-	-	\$ -	-	\$ 101,994	-	\$ -	\$(101,964)	\$ -	\$ -	\$ (30)	-	\$ -
	10YNC3M - Credit Lyonnais - 02	Long-term bond investment	Credit Lyonnais	-	-	-	-	165,490	-	-	-	-	-	(6,650)	-	158,840
	UBS 12NC Callable USD Range Accrual Note	Long-term bond investment	UBS	-	-	169,990	-	-	-	-	(169,990)	-	-	-	-	-
	Deutsche Bank 10NC Callable USD Range Accrual Note	Long-term bond investment	Deutsche Bank	-	-	169,570	-	-	-	-	(169,558)	37	-	(49)	-	-
	15YNC3M NonInversion CMS Accrual Notes - CBA	Long-term bond investment	CBA	-	-	-	-	169,260	-	-	-	4	-	(11,056)	-	158,208
	Taiwan Cooperative Bank subordinate debenture, 2000	Long-term bond investment	Taiwan Cooperative Bank	-	-	150,000	-	-	-	-	(150,000)	-	-	-	-	-
	Hsinchu International Bank subordinate debenture, 2002	Long-term bond investment	Hsinchu International Bank	-	-	-	-	336,270	-	-	-	(190)	-	-	-	336,080

Note: The information on short-term investments is not required to be disclosed.

Central Re 

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