CENTRAL REINSURANCE CORPORATION

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2011 AND 2010

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Report of Independent Accountants

PWCR11000387

To Central Reinsurance Corporation

We have audited the accompanying balance sheets of Central Reinsurance Corporation as of December 31, 2011 and 2010, and the related statements of income, of changes in stockholders' equity and of cash flows for the years then ended. These financial statements are the responsibility of the Company'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 the Examination 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 Central Reinsurance Corporation as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with the "Rules for the Preparation of Financial Reports by Insurance Institutions" (effective from January 1, 2011), or "Rules Governing the Preparation of Financial Statements by Securities Issuers" and the accounting practices generally accepted in the insurance industry (for 2010) and generally accepted accounting principles in the Republic of China.

As described in Note 3, Central Reinsurance Corporation has adopted R.O.C. SFAS No. 40, "Insurance Contracts", R.O.C. SFAS No. 41, "Operating Segments", and the newly revised R.O.C. SFAS No. 34, "Financial Instruments: Recognition and Measurement" starting from January 1, 2011.

PricewaterhouseCoopers, Taiwan

March 28, 2012
Taipei, Taiwan

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

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CENTRAL REINSURANCE CORPORATION
BALANCE SHEETS
DECEMBER 31,
(Expressed in Thousands of New Taiwan Dollars)

	2011 Amount	%	2010 Amount	%
ASSETS				
Cash and cash equivalents (Note 4 (1))	$ 16,112,004	53	$ 15,755,264	53
Accounts Receivable				
Notes receivable	2,782	-	3,194	-
Due from reinsurers and ceding companies (Notes 4 (2) and 5)	1,937,844	6	606,701	2
Other receivables	476,475	2	432,002	1
	2,417,101	8	1,041,897	3
Investments				
Financial assets at fair value through profit or loss (Note 4 (3))	1,281,006	4	827,072	3
Available-for-sale financial assets (Note 4 (4))	5,847,545	19	6,319,330	21
Derivative financial assets for hedging (Note 4 (5))	294	-	-	-
Investments in bonds without active markets (Note 4 (6))	1,227,455	4	2,007,820	7
Investments in real estate properties (Note 4 (8))	461,744	2	582,156	2
	8,818,044	29	9,736,378	33
Reinsurance Reserve Assets				
Ceded unearned premium reserve (Note 4 (7))	562,656	2	622,557	2
Ceded claims reserve (Notes 4 (7) and (11))	973,185	3	894,424	3
Ceded premium deficiency reserve (Note 4 (7))	6,685	-	-	-
	1,542,526	5	1,516,981	5
Fixed Assets (Note 4 (8))				
Land	23,536	-	23,536	-
Buildings and equipment	68,957	-	67,224	-
Computer equipment	14,210	-	13,902	-
Transportation equipment	5,321	-	5,321	-
Miscellaneous equipment	3,179	-	3,549	-
Revaluation increment	165,277	1	110,299	1
Less: Accumulated depreciation	(70,930)	-	(68,440)	-
	209,550	1	155,391	1
Intangible Asset				
Computer software costs	3,243	-	11,062	-
Other Assets				
Prepayments	2,450	-	2,332	-
Refundable deposits (Note 4 (4))	987,608	3	995,302	3
Funds held by other insurance companies	139,954	-	142,601	1
Deferred income tax assets (Note 4 (16))	232,265	1	223,943	1
Temporary payments and suspense accounts	14,078	-	7,650	-
	1,376,355	4	1,371,828	5
TOTAL ASSETS	$ 30,478,823	100	$ 29,588,801	100

	2011 Amount	%	2010 Amount	%
LIABILITIES AND STOCKHOLDERS' EQUITY				
Accounts Payable				
Due to reinsurers and ceding companies	$ 317,745	1	$ 646,652	2
Other payables (Note 5)	288,187	1	169,127	1
	605,932	2	815,779	3
Financial Liabilities				
Financial liabilities at fair value through profit or loss (Note 4 (9))	-	-	44,250	-
Derivative financial liabilities for hedging (Note 4 (10))	-	-	31,674	-
Liability Reserves (Note 4 (7))				
Unearned premium reserve	5,284,977	17	5,421,369	18
Claims reserve	10,895,033	36	8,171,230	28
Equalisation reserve	6,279,665	21	6,730,674	23
Premium deficiency reserve	174,848	-	148,205	-
Liability adequacy reserve	4,438	-	23,401	-
	22,638,961	74	20,494,879	69
Other Liabilities				
Collections in advance	465	-	367	-
Deposits-in	5,243	-	4,751	-
Reserve for land revaluation increment tax (Note 4 (8))	41,555	-	72,223	1
Accrued pension liability (Note 4 (12))	8,288	-	7,743	-
Temporary receipts and suspense accounts	59,905	1	71,522	-
	115,456	1	156,606	1
TOTAL LIABILITIES	23,360,349	77	21,543,188	73
Stockholders' Equity				
Capital				
Common stock (Note 4 (13))	5,512,500	18	5,512,500	19
Capital reserve				
Additional paid-in capital (Note 4 (14))	300,000	1	300,000	1
Retained earnings (Note 4 (15))				
Legal reserve	960,360	3	819,387	3
Special reserve	378,897	1	250,406	1
Undistributed earnings (Notes 4 (15) and (16))	681,972	2	1,344,767	4
Other adjustments to stockholders' equity				
Revaluation increment on properties (Note 4 (8))	126,557	1	153,417	-
Unrealized gains or losses on financial instruments (Note 4 (4))	(841,812)	(3)	(334,864)	(1)
TOTAL STOCKHOLDERS' EQUITY	7,118,474	23	8,045,613	27
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 30,478,823	100	$ 29,588,801	100

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 28, 2012.

CENTRAL REINSURANCE CORPORATION
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31,
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

	2011		2010	
	Amount	%	Amount	%
Operating revenues				
Gross premiums written (Note 5)	$ 13,791,861	104	$ 13,258,945	98
Less: Reinsurance premiums ceded (Note 5)	(928,948)	(7)	(966,694)	(7)
Net change in unearned premium reserve (Note 4 (7))	(16,537)	-	188,954	1
Retention earned premiums	12,846,376	97	12,481,205	92
Reinsurance commission revenue (Note 5)	266,452	2	369,278	3
Overriding commission revenue (Note 5)	18,495	-	20,544	-
Net gain from investment				
Interest income	242,184	2	233,791	2
Loss on valuation of financial assets	(89,234)	(1)	(118,310)	(1)
Foreign exchange loss	(35,766)	-	(185,033)	(1)
Disposal and investment (loss) gain	(322,214)	(2)	674,838	5
Income from real estate investments-net	270,156	2	15,881	-
Total net gain from investment	65,126	1	621,167	5
Other operating revenues	8,536	-	2,491	-
Total operating revenues	13,204,985	100	13,494,685	100
Operating costs				
Reinsurance claims paid (Note 5)	(8,547,889)	(65)	(7,897,910)	(59)
Less: Reinsurance claims recovery (Note 5)	569,409	5	628,504	5
Retention reinsurance claims paid	(7,978,480)	(60)	(7,269,406)	(54)
Net change in liability reserves				
Net change in claims reserve (Note 4 (7))	(1,407,816)	(11)	(539,454)	(4)
Net change in equalisation reserve (Note 4 (7))	499,399	4	(441,265)	(3)
Net change in premium deficiency reserve (Note 4 (7))	(995)	-	(159,576)	(1)
Total net change in liability reserves	(909,412)	(7)	(1,140,295)	(8)
Reinsurance commission expenses (Note 5)	(3,840,877)	(29)	(3,913,542)	(29)
Other operating costs	(3)	-	(4,869)	-
Total operating costs	(12,728,772)	(96)	(12,328,112)	(91)

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CENTRAL REINSURANCE CORPORATION
STATEMENTS OF INCOME (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31,
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

	2011		2010	
	Amount	%	Amount	%
Operating expenses (Notes 4 (12) (15) (17) and 5)				
Selling expenses	($ 255,664)	(2)	($ 279,895)	(2)
Administration expenses	(92,556)	(1)	(108,582)	(1)
Training expenses	(1,093)	-	(1,161)	-
	(349,313)	(3)	(389,638)	(3)
Net operating income	126,900	1	776,935	6
Non-operating income and gains				
Other income	10,192	-	43,461	-
Income from continuing operations before tax	137,092	1	820,396	6
Income tax expense (Note 4 (16))	(16,675)	-	(115,527)	(1)
Income from continuing operations after tax	120,417	1	704,869	5
Cumulative effect of changes in accounting principles (Net amount, less income tax expense of $7,681) (Note 3)	37,502	-	-	-
Net income	$ 157,919	1	$ 704,869	5

	Before Tax	After Tax	Before Tax	After Tax
Earnings per share (in NT$)				
Earnings per share from continuing operations	$ 0.25	$ 0.22	$ 1.49	$ 1.28
Cumulative effect of changes in accounting principles	-	0.07	-	-
Net income	$ 0.25	$ 0.29	$ 1.49	$ 1.28

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 28, 2012.

CENTRAL REINSURANCE CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Expressed in Thousands of New Taiwan Dollars)

	Capital	Capital Reserve	Retained Earnings			Other Adjustments to Stockholders' Equity		
	Common Stock	Additional Paid-in Capital	Legal Reserve	Special Reserve	Undistributed Earnings	Revaluation Increment on Properties	Unrealized Gains or Losses on Financial Instruments	Total
Balance at January 1, 2010	$ 5,512,500	$ 300,000	$ 620,822	$ 922,921	$ 992,823	$ 153,417	($ 403,823)	$ 8,098,660
Distributions of 2009 earnings:								
Legal reserve	-	-	198,565	-	(198,565)	-	-	-
Special reserve	-	-	-	250,406	(250,406)	-	-	-
Reversal of special reserve	-	-	-	(922,921)	922,921	-	-	-
Cash dividends	-	-	-	-	(826,875)	-	-	(826,875)
Net income for 2010	-	-	-	-	704,869	-	-	704,869
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	-	68,959	68,959
Balance at December 31, 2010	5,512,500	300,000	819,387	250,406	1,344,767	153,417	(334,864)	8,045,613
Distributions of 2010 earnings:								
Legal reserve	-	-	140,973	-	(140,973)	-	-	-
Special reserve	-	-	-	181,447	(181,447)	-	-	-
Reversal of special reserve	-	-	-	(250,406)	250,406	-	-	-
Cash dividends	-	-	-	-	(551,250)	-	-	(551,250)
Net income for 2011	-	-	-	-	157,919	-	-	157,919
Change in revaluation increment on properties	-	-	-	-	-	(26,860)	-	(26,860)
Additional provision for equalisation reserve	-	-	-	197,450	(197,450)	-	-	-
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	-	(506,948)	(506,948)
Balance at December 31, 2011	$ 5,512,500	$ 300,000	$ 960,360	$ 378,897	$ 681,972	$ 126,557	($ 841,812)	$ 7,118,474

Note 1: Employees' bonus of $8,042 and directors' and supervisors' remuneration of $800 for 2009 have been deducted from the statement of income.
Note 2: Employees' bonus of $7,092 and directors' and supervisors' remuneration of $1,800 for 2010 have been deducted from the statement of income.

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 28, 2012.

CENTRAL REINSURANCE CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,
(Expressed in Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 157,919	$ 704,869
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,757	7,772
Amortization	8,007	8,058
Net change in liability reserves	2,118,537	951,341
Amortization of premium on investments in bonds	2,401	1,616
Gain on disposal of investment in real estate	(252,259)	-
Loss on valuation of financial assets and liabilities	89,234	118,310
Changes in assets and liabilities:		
Financial assets held for trading	(695,702)	1,239,513
Notes receivable	412	768
Other receivables	(44,473)	(84,765)
Prepayments	(118)	(230)
Due from reinsurers and ceding companies	(1,331,143)	(87,429)
Temporary payments and suspense accounts	(6,428)	15,046
Deferred income tax assets	(8,322)	2,751
Other assets	10,341	8,200
Other payables	119,060	(243,669)
Accrued pension liability	545	2,014
Due to reinsurers and ceding companies	(328,907)	(26,857)
Collections in advance	98	(148)
Temporary receipts and suspense accounts	(11,617)	52,846
Other liabilities	492	88
Net cash (used in) provided by operating activities	(164,166)	2,670,094

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CENTRAL REINSURANCE CORPORATION
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31,
(Expressed in Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of designated financial assets at fair value through profit or loss	$ -	($ 11,000)
Disposal of designated financial assets at fair value through profit or loss	76,316	529,808
Acquisition of available-for-sale financial assets	(9,654,338)	(7,487,296)
Disposal of available-for-sale financial assets	9,606,096	6,779,340
Acquisition of investments in bonds without active markets	(506,035)	(572,710)
Investments in bonds without active markets yield to date	1,297,078	1,571,842
Acquisition of fixed assets	(4,713)	(4,753)
Acquisition of intangible assets	(188)	-
Acquisition of investments in real estate	(202)	(1,079)
Disposal of investments in real estate	258,142	-
Net cash provided by investing activities	1,072,156	804,152
CASH FLOWS FROM FINANCING ACTIVITY		
Payment of cash dividends	(551,250)	(826,875)
NET INCREASE IN CASH AND CASH EQUIVALENTS	356,740	2,647,371
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	15,755,264	13,107,893
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 16,112,004	$ 15,755,264
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ -	$ 66
Income tax paid	$ 19,513	$ 200,151

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 28, 2012.

CENTRAL REINSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Expressed in Thousands of New Taiwan Dollars, unless otherwise stated)

1. HISTORY AND ORGANIZATION

The Company was originally a state-owned enterprise, incorporated on October 31, 1968, and provides a broad range of property and life inward and outward reinsurance services. The Company's shares of stock have been traded on the Taiwan Stock Exchange since July 6, 2000. On July 9, 2002, the Ministry of Finance (MOF), the major shareholder of the Company, privatized the Company in accordance with rules of privatization of government-owned enterprises, effective on July 11, 2002.

As of December 31, 2011, the Company had 130 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared in accordance with the "Rules for the Preparation of Financial Reports by Insurance Institutions" (effective from January 1, 2011), or "Rules Governing the Preparation of Financial Statements by Securities Issuers" and the accounting practices generally accepted in the insurance industry (for 2010) and generally accepted accounting principles in the Republic of China. In accordance with the "Rules for the Preparation of Financial Reports by Insurance Institutions", assets and liabilities in the financial statements that are not classified as current or non-current accounts shall be classified based on their nature and comparative liquidity starting from January 1, 2011. The significant accounting policies are summarized as follows:

1) Transactions in foreign currency

A. Transactions denominated in foreign currencies are translated into New Taiwan Dollars at the spot exchange rates prevailing at the transaction date. Exchange gains or losses are recognized in profit or loss.

B. Monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses are recognized in profit or loss.

C. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. Conversely, when a gain or loss on a non-monetary item is recognized directly in equity, any exchange component of that gain or loss shall be recognized directly in equity.

2) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those assumptions and estimates.

3) Cash and cash equivalents

Cash equivalents are highly liquid, short-term investments which are:

A. Readily convertible to known amount of cash; and

B. Subject to insignificant risk of changes in value resulting from fluctuations in interest rates.

The statement of cash flows is prepared on the basis of cash and cash equivalents.

4) Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are subsequently measured at fair value and changes in fair value are recognized in profit and loss. Held for trading and designated by the Company as at fair value through profit or loss are classified as financial assets and financial liabilities at fair value through profit or loss.

5) 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 in any of the other four categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses, except for impairment loss and the unrealized exchange gain or loss of monetary financial assets, being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

6) Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold these assets to maturity. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortized cost. For investments carried at amortized cost, gains and losses due to fair value changes are recognized in income when the investments are derecognized or impaired, as well as through amortization. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

7) Derivative financial assets and liabilities for hedging

Derivative financial assets (liabilities) that have been designated in hedge accounting relationships and are effective hedging instruments shall be measured at fair value.

8) Financial assets carried at cost

Financial assets carried at cost are securities which are not listed on the Taiwan Stock Exchange or Gre Tai Securities Market and the Company does not have significant influence on the investee; or derivative financial assets which are embedded in these securities.

9) Investments in bonds without active markets

Investments in bonds without active markets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in income when the bond portfolio with no active market are derecognized or impaired, as well as through amortization.

10) Allowance for doubtful accounts

Provision for allowance for doubtful accounts should be made when the Company evaluates impairment losses and unrecoverable amounts of notes receivable, due from reinsurers and ceding companies, other receivables, refundable deposits, funds held by other insurance companies, and other rights should be made in accordance with the "Guidelines for Handling Assessment of Assets, Loans Overdue, Delinquent Accounts Receivable on Demand by Insurance Enterprises".

11) Impairment of non-financial assets

Based on R.O.C. SFAS No. 35, "Accounting for Asset Impairment", an assessment is made at each balance sheet date of whether there is any indication of impairment of any assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price. An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset; however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization), had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

12) Investments in real estate

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

Depreciation on buildings and equipment is computed using the straight-line method over the estimated service lives ranging from 3 to 60 years.

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

13) Reinsurance reserve assets

Reinsurance reserve assets include ceded unearned premium reserve, ceded claims reserve, ceded premium deficiency reserve, ceded liability reserve and ceded liability adequacy reserve. Each of the reinsurance reserve assets should be in compliance with relevant regulation and policy of “Regulation Governing Financial and Business Operations of Professional Reinsurance Enterprises” and “Rules for the Preparation of Financial Reports by Insurance Institutions”.

14) Impairment on reinsurance assets

Starting from January 1, 2011, regular evaluation on reinsurance assets should be made to evaluate if there is any impairment. When there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due to it under the terms of the contract; and that event has a reliably measurable impact on the amounts that the cedant will receive from the reinsuer, the cedant should reduce its carrying amount accordingly and recognize the provision of accumulated impairment loss.

15) Fixed assets

Fixed assets are stated at cost (or cost plus revaluation increment) less accumulated depreciation. Reserve for land revaluation increment tax is presented as other liabilities. Major renewals and betterments are capitalized, while maintenance and repairs are charged to current year income.

Depreciation is computed using straight-line method over the estimated service lives as follows: buildings and equipment, 3 to 60 years; computer equipment, 3 to 6 years; transportation equipment, 3 to 10 years; and miscellaneous equipment, 3 to 10 years.

When an asset is retired or disposed, the cost plus revaluation increment, if any, and related accumulated depreciation are removed from the accounts, and the resulting gain or loss is credited or charged to current income.

16) Liability reserves

The reserves related to Compulsory Automobile Liability Insurance are determined in accordance with “Regulations for Management of the Reserve of Compulsory Automobile Liability Insurance”.

The equalisation reserve related to residential earthquake insurance is determined in accordance with “Regulations Governing Implementation of the Residential Earthquake Risk Spreading Mechanism”.

The reserve related to nuclear insurance is determined in accordance with “Regulations Governing the Setting Aside of Nuclear Insurance Liability Reserves”.

The reserves excluding the reserve listed above were determined in accordance with “Regulations Governing Financial and Business Operations of Professional Reinsurance Enterprises ” and “Rules for the Preparation of Financial Reports by Insurance Institutions” to calculate unearned premium reserve, claims reserve, premium deficiency reserve, policy reserve and liability adequacy reserve of inward reinsurance business.

17) Liability adequacy test

Starting from January 1, 2011, when the estimated future cash flow of insurance contracts recognized as insurance liability at book value is insufficient, the entire deficiency is recognized in current loss in accordance with the requirement of the Actuarial Institution of Republic of China.

18) Pension cost

Under the defined benefit pension plan, net periodic pension costs are recognized in accordance with the actuarial calculations. Under the defined contribution pension plan, net periodic pension costs are recognized as incurred.

Upon amendments to the pension plan, the prior service costs are amortized on a straight-line basis over the average period from the amendment date until the benefits become vested. When the benefits have already vested following changes to a defined benefit plan, the Company should recognize the prior service cost as an expense immediately.

19) Income tax

Based on R.O.C. SFAS No. 22, "Accounting for Income Tax", the Company adopted inter-period and intra-period tax allocation. Deferred income taxes are recognized for tax effects of temporary differences, and unused tax credits. Valuation allowance is provided on deferred income tax assets to the extent that it is more likely than not that the tax benefits will not be realized. When a change in the tax laws is enacted, the deferred tax asset or liability is recomputed accordingly in the period of change. The effect of changes in the deferred tax asset or liability is reported as an adjustment to income tax expense (benefit).

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

Income tax (10%) on undistributed earnings is recorded as expense in the year when the stockholders approve to retain the earnings.

Pursuant to Income Basic Tax Act, if the amount of regular income tax is equal to or more than the amount of basic tax, the income tax payable shall be calculated in accordance with the Income Tax Act and other relevant laws. Whereas the amount of regular income tax is less than the amount of basic tax, the income tax payable shall be equal to the basic tax.

20) Employees' bonuses and directors' and supervisors' remunerations

In accordance with the "Accounting for Employees' Bonus and Directors' and Supervisors' Remuneration", EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., employees' bonus and directors' and supervisors' remuneration are recognized as expense and liability when the recognition is required under a legal or constructive obligation and the amounts can be estimated reasonably.

21) Reinsurance revenues and costs

Reinsurance related revenues and costs are recognized upon receipt of the reinsurance statements from the reinsurers (the bills for the current quarter are received in the following quarter) before December 31, 2010, and the Company accrues the unexpired liabilities accordingly. Starting from January 1, 2011, reinsurance related revenues and costs are recognized on the accrual basis.

22) Operating segments

The Company as a whole is a single reportable segment and reports its operating information and provides internal management reports to the operating decision maker who is responsible for allocating resources to operations and assessing the performance of the operations.

The disclosure of the information of operating segments is in accordance with R.O.C. SFAS No. 41, "Operating Segments".

23) Others

A. Financial assets and liabilities

a) All regular purchases and sales of financial assets are recognized on the trade date (i.e. the date that the Company commits to purchase the asset). Regular purchases or sales of financial assets require delivery of assets within the period generally established by regulation or convention in the marketplace.

b) A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in which the Company surrenders control over those financial assets, and shall be accounted for as a sale.

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

Where an existing financial liability is replaced by another from the same creditor on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

d) The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the recoverable amount shall be measured and the amount of impairment loss shall be recognized based on R.O.C. SFAS No. 34, "Financial Instruments: Recognition and Measurement" and related policies.

B. Derivative financial instruments and hedging

A derivative financial instrument is initially recognized and subsequently measured at fair value. Financial instrument is recognized as derivative financial asset (liability) if the hedging relationship between the designated hedging instrument and the hedged item meets the criteria specified in R.O.C. SFAS No. 34, “Qualification for hedge accounting”. Those that do not meet the prescribed standard are not qualified for hedge accounting and are recognized as financial asset (liability) at fair value through profit or loss.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

Any gains or losses arising from changes in fair value on derivatives that meet the criteria for hedge accounting are accounted for as follows:

a) <u>Fair value hedges</u>

Fair value hedges are hedges of the Company's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is re-measured at fair value and gains and losses from both are taken to profit or loss.

b) <u>Cash flow hedges</u>

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

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs.

Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss.

C. Classification of reinsurance contracts

Starting from January 1, 2011, classification of reinsurance contracts should be made in compliance with R.O.C. SFAS No. 40, “Insurance Contracts”.

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. A contract with no significant insurance risk being transferred is not classified as an insurance contract and is recognized by deposit accounting. For a contract that falls within the definition of insurance contract on the initial recognition will still be deemed as insurance contract before its maturity.

D. Significant assumptions and estimates of insurance contracts

According to the nature of risk insurance, claim development, market experience, professional judgment over claim approval and other factors, appropriate actuarial calculation is adopted to estimate the ultimate loss ratio of each year by each insured type or by each risk type. Use the ultimate loss ratio to multiple total earned premium income to get the ultimate total claim, and recognize claims reserve.

3. CHANGES IN ACCOUNTING PRINCIPLES

1) Starting from January 1, 2011, the Company adopts the newly issued R.O.C. SFAS No. 40, “Insurance Contracts”. This change in accounting principle influenced the net profit and earnings per share to be $37,502 and $0.07 (in dollars), respectively. In addition, according to the related insurance regulations, the additional provision for equalisation reserve less income tax should be recognized as special reserve under stockholders’ equity after annual closing and should not be distributed without approval. As of December 31, 2011, the additional provision for equalisation reserve was $197,450.

2) Starting from January 1, 2011, the Company adopts the revised R.O.C. SFAS No. 34, “Financial Instruments: Recognition and Measurement”, which indicates that impairment losses (bad debts) of various creditors’ rights shall be recognized when objective evidence of impairment exists. This change in accounting principle had no impact on the net income for the year ended December 31, 2011.

3) Starting from January 1, 2011, the Company adopted the newly issued R.O.C. SFAS No. 41, “Operating Segments” to replace R.O.C. SFAS No. 20, “Segment Reporting”. This change in accounting principle had no impact on the net income for the year ended December 31, 2011.

4. DETAILS OF SIGNIFICANT ACCOUNTS

1) Cash and cash equivalents

	December 31,	
	2011	2010
Cash:		
Petty cash	$ 115	$ 115
Checking accounts	6,063	3,960
Demand deposits	2,668,458	2,007,152
Time deposits	13,312,488	13,494,156
Cash equivalents:		
Commercial papers	124,880	249,881
	$ 16,112,004	$ 15,755,264

The balances of the demand deposits and time deposits with specific account of Compulsory Automobile Liability Insurance were $1,158,372 and $3,933,800 as of December 31, 2011 and $1,181,932 and $3,854,300 as of December 31, 2010.

2) Due from reinsurers and ceding companies

	December 31, 2011	December 31, 2010
Due from reinsurers and ceding companies	$ 1,991,067	$ 660,211
Less: Allowance for doubtful accounts	(53,223)	(53,510)
	$ 1,937,844	$ 606,701

As of December 31, 2011 and 2010, due from reinsurers and ceding companies which were overdue amounted to $49,947 and $53,763, respectively.

3) Financial assets at fair value through profit or loss

	December 31, 2011	December 31, 2010
Financial assets held for trading		
Listed (TSE and OTC) stocks	$ 836,064	$ 236,768
Foreign listed stocks	81,602	16,459
Derivative financial instruments	1,086	-
Adjustment of financial assets held for trading	(155,910)	(23,436)
	762,842	229,791
Designated financial assets as at fair value through profit or loss		
Domestic convertible corporate bonds	11,000	32,900
Foreign structured notes	627,740	789,020
Adjustment of designated as at fair value through profit or loss	(120,576)	(224,639)
	518,164	597,281
	$ 1,281,006	$ 827,072

A. For information on derivative business transactions and the contract, please see Note 10 (3).

B. Recoverable amounts of above financial assets held by the Company for more than 12 months are described in Note 10 (4).

4) Available-for-sale financial assets

	December 31,	
	2011	2010
Domestic items:		
Listed (TSE and OTC) stocks	$ 2,406,111	$ 2,969,561
Listed (TSE and OTC) preferred stocks	65,882	66,626
Depositary Receipts	-	38,972
REITs	942,988	869,847
Government bonds	977,565	1,146,191
Corporate bonds	599,922	699,905
Financial bonds	300,000	600,000
Open-end funds	690,020	120,020
Index funds	107,185	-
Private funds-others	80,000	80,000
Foreign items:		
Listed stocks	621,388	586,871
Open-end funds	261,515	-
Hedge funds	188,483	285,863
Index funds	386,124	111,678
	7,627,183	7,575,534
Adjustment of available-for-sale financial assets	(886,212)	(351,395)
Less: statutory deposits	(893,426)	(904,809)
	$ 5,847,545	$ 6,319,330

A. Under the Insurance Law of the Republic of China, the Company deposited 15% of its registered operating capital with Central Bank of the Republic of China. As of December 31, 2011 and 2010, government bonds with par value of $857,000 and $862,000, respectively, were deposited.

B. Recoverable amounts of above financial assets held by the Company for more than 12 months are described in Note 10 (4).

5) Derivative financial assets for hedging

	December 31,	
	2011	2010
FX swap contracts	$ 294	$ -

For information on derivative business transactions, please see Note 10 (3).

6) Investments in bonds without active markets

	December 31, 2011	December 31, 2010
Domestic items:		
Unlisted preferred stocks	$ -	$ 25,000
CDOs	349,031	391,804
Corporate Bonds	200,000	-
Foreign items:		
CMOs	163,279	305,866
CDOs	329,169	1,123,589
Structured notes	933,724	934,309
	1,975,203	2,780,568
Less: Accumulated impairment	(747,748)	(772,748)
	$ 1,227,455	$ 2,007,820

A. The above accumulated impairment resulted from domestic and foreign investments which were reorganized due to financial difficulty and the change in credit default rate, which led to a loss in estimated future cash flows.

B. Recoverable amounts of above financial assets held by the Company for more than 12 months are described in Note 10 (4).

7) Reinsurance reserve assets and liability reserves

A. Movement of ceded unearned premium reserve and unearned premium reserve

	2011					2010			
	Beginning balance	Provision	Recovery	Other (Note)	Ending balance	Beginning balance	Provision	Recovery	Ending balance
Ceded unearned premium reserve	$ 622,557	$ 562,656	$ 625,638	$ 3,081	$ 562,656	$ 764,089	$ 622,557	$ 764,089	$ 622,557
Unearned premium reserve	5,421,369	5,284,977	5,331,422	(89,947)	5,284,977	5,751,855	5,421,369	5,751,855	5,421,369

B. Movement of ceded claims reserve and claims reserve

	2011					2010			
	Beginning balance	Provision	Recovery	Other (Note)	Ending balance	Beginning balance	Provision	Recovery	Ending balance
Ceded claims reserve									
Outstanding losses	$ 501,686	$ 467,691	$ 501,686	$ -	$ 467,691	$ 554,384	$ 501,686	$ 554,384	$ 501,686
Incurred but not reported losses	392,738	505,494	392,738	-	505,494	669,214	392,738	669,214	392,738
	$ 894,424	$ 973,185	$ 894,424	$ -	$ 973,185	$ 1,223,598	$ 894,424	$ 1,223,598	$ 894,424
Claims reserve									
Outstanding losses	$ 3,899,550	$ 4,317,970	$ 3,899,550	$ -	$ 4,317,970	$ 3,661,589	$ 3,899,550	$ 3,661,589	$ 3,899,550
Incurred but not reported losses	4,271,680	6,577,063	5,508,906	1,237,226	6,577,063	4,299,361	4,271,680	4,299,361	4,271,680
	$ 8,171,230	$ 10,895,033	$ 9,408,456	$ 1,237,226	$10,895,033	$ 7,960,950	$ 8,171,230	$ 7,960,950	$ 8,171,230

Note: Other represents the cumulative effect of changes in accounting principles.

C. Movement of equalisation reserve

	2011					2010			
	Beginning balance	Provision	Recovery	Other (Note)	Ending balance	Beginning balance	Provision	Recovery	Ending balance
Equalisation reserve	$ 6,730,674	$ 100,601	$ 600,000	$ 48,390	$6,279,665	$ 6,289,409	$ 807,533	$ 366,268	$ 6,730,674

Note: Other represents the cumulative effect of changes in accounting principles.

D. Movement of ceded premium deficiency reserve and premium deficiency reserve

	2011					2010				
	Beginning balance	Provision	Recovery	Other (Note 1)	Ending balance	Beginning balance (Note 2)	Provision	Recovery	Other (Note 1)	Ending balance
Ceded premium deficiency reserve	($ 23,401)	$ 2,247	($ 23,401)	$ 4,438	$ 6,685	$ -	($ 23,401)	$ -	$ 23,401	$ -
Premium deficiency reserve	148,205	174,848	148,205	-	174,848	12,030	148,205	12,030	-	148,205

Note 1: Ceded premium deficiency reserve belonging to debtors’ balance should be transferred to liability adequacy reserve.

Note 2: Premium deficiency reserve at the beginning of 2010 is represented at net value.

8) Fixed assets and investments in real estate

	December 31,			
	2011		2010	
	Operations	Investments	Operations	Investments
Cost				
Land	$ 23,536	$ 409,165	$ 23,536	$ 415,049
Buildings and equipment	68,957	79,813	67,224	79,611
Computer equipment	14,210	-	13,902	-
Transportation equipment	5,321	-	5,321	-
Miscellaneous equipment	3,179	-	3,549	-
	115,203	488,978	113,532	494,660
Revaluation increment				
Land	157,260	2,441	102,282	114,946
Buildings and equipment	8,017	394	8,017	394
	165,277	2,835	110,299	115,340
Total cost and revaluation increment	280,480	491,813	223,831	610,000
Accumulated depreciation				
Buildings and equipment	55,007	30,069	52,861	27,844
Computer equipment	8,630	-	8,523	-
Transportation equipment	5,234	-	5,160	-
Miscellaneous equipment	2,059	-	1,896	-
	70,930	30,069	68,440	27,844
Net book value	$ 209,550	$ 461,744	$ 155,391	$ 582,156
Reserve for land revaluation increment tax	$ 40,406	$ 1,149	$ 35,672	$ 36,551

A. The land and buildings were revalued in 2011 in accordance with related law. As of December 31, 2011, the balance of revaluation increment was $168,112, and net amount was $126,557, less reserve for land revaluation increment tax, including in stockholders' equity.

B. The above assets were not pledged.

9) Financial liabilities at fair value through profit or loss

	December 31,	
	2011	2010
Derivative financial instrument	$ -	$ 44,250

For information on derivative business transaction, please see Note 10 (3).

10) Derivative financial liabilities for hedging

	December 31,	
	2011	2010
FX swap contracts	$ -	$ 31,674

For information on derivative business transactions, please see Note 10 (3).

11) Reserves for unqualified reinsurance

A. Summary of unqualified reinsurance contracts are set forth as follows:

The Company entered into contracts with insurance companies and insurance brokers as follows. The scope of reinsurance is the same as the Company's insurance contract.

Insurance companies / insurance brokers	Type of contract
WALSUN INSURANCE LTD.	Fire insurance, Marine cargo insurance, Inland marine insurance, Marine hull insurance, Fishing vessel insurance, Automobile insurance, Casualty Insurance, Personal accident reinsurance and Engineering insurance
RIVERSTONE FRANCE S.A.	Marine hull insurance
CIE TRANSCONTINENTALE DE REASSURANCE	Marine cargo insurance
M.B. BODA REINSURANCE BROKERS PVT. LTD.	Fire insurance
INTERLINK INSURANCE & REINSURANCE BROKERS PVT. LTD.	Fire insurance, Marine cargo insurance and Marine hull insurance
J B BODA INSURANCE SERVICES (L) BHD	Fire insurance and Marine hull insurance
CATHAY INSURANCE (BERMUDA) CO. LTD.	Personal accident reinsurance

B. The unqualified reinsurance premiums ceded was $0 for the years ended December 31, 2011 and 2010.

C. Reserve for unqualified reinsurance as of December 31, 2011 and 2010 were $4,515 and $4,662, respectively.

12) Pension plan

A. The privatization of the Company 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 Company. After privatization, the employees' pension fund is administered by the committee.

The Company has, in accordance with the provisions of the Labor Standards Law, a funded defined benefit retirement plan (the "Plan") for providing retirement benefits which apply to the service years of all regular (full-time) employees covered before the Labor Pension Act became effective on July 1, 2005. Benefits under the Plan are based on participants' length of service and average salaries at the time of retirement, with a benefit ceiling of 45 months of salary. The Company makes a monthly provision equal to 8% of employees' salaries, and is contributed to a retirement fund, which is administered by the Employees' Retirement Fund Supervisory Committee and deposited under the Committee's name with the Bank of Taiwan, Department of Trusts.

B. The “Labor Pension Act” (the “Act”), which was implemented effective 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.

C. The following sets forth the pension information based on the actuarial report:

a) Actuarial assumptions

	For the years ended December 31,	
	2011	2010
Discount rate	2.00%	2.00%
Expected rate of return on plan assets	2.00%	2.00%
Rate of compensation increase	1.00%	3.00%

Unrecognized net transition obligation is amortized on a straight-line basis by 13 years.

b) Funded status of the pension plan

	December 31,	
	2011	2010
Benefit obligation		
Vested benefit obligation	$ 31,358	$ 27,982
Non-vested benefit obligation	15,109	15,394
Accumulated benefit obligation	46,467	43,376
Effect of future salary increments	2,086	7,999
Projected benefit obligation	48,553	51,375
Fair value of plan assets	(50,007)	(46,822)
Funded status	(1,454)	4,553
Unrealized net transition obligation	(449)	(524)
Unrecognized gain on plan assets	10,191	3,714
Accrued pension liabilities	$ 8,288	$ 7,743
Vested benefit	$ 35,584	$ 32,047

c) Net pension cost comprises the following:

	For the years ended December 31,	
	2011	2010
Service cost	$ 5,085	$ 6,526
Interest cost	1,027	1,112
Expected return on plan assets	(936)	(949)
Amortization of unrecognized net transition obligation	75	75
Net pension cost	$ 5,251	$ 6,764

D. Effective July 1, 2005, the Company has established a funded defined contribution pension plan (the "New Plan") under the "Act". Under the New Plan, the pension costs for the years ended December 31, 2011 and 2010 were $5,335 and $4,717, respectively.

13) Common stock

As of December 31, 2011 and 2010, the Company′s authorized capital was $6,000,000, and the paid-in capital was $5,512,500, with a par value of $10 (in dollars) per share.

14) Capital reserve

A. The details of this account are as follows:

	December 31,	
	2011	2010
Excess of par value	$ 300,000	$ 300,000

B. In accordance with the R.O.C. Company Law, starting from January 4, 2012, capital surplus can be used to offset deficit and issue new shares which shall be distributed as dividend shares to its original shareholders in proportion to the number of shares being held by each of them or by cash when the Company has no deficit. Before January 4, 2012, in accordance with the related regulations of the "Securities and Exchange Act", capital increases by capital reserve should not exceed 10% of total common stock outstanding, and can occur only in the following year. The Company cannot use capital reserve to offset against accumulated deficit unless surplus reserves was insufficient.

15) Retained earnings

A. Limitation on distribution of retained earnings and dividend policy

Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 20% of the remaining amount shall be set aside as legal reserve. Appropriation of the remainder shall be proposed by the Board of Directors and resolved by the stockholders. The distribution shall be appropriated as follows:

a) Dividends: cash dividend should not be less than 50% of the dividend distributed;

b) Remuneration to directors and supervisors: Less than 1%; and

c) Bonus to employees: Between 0.5% - 5% and can either be in the form of cash or stock upon resolution of the stockholders.

In accordance with the R.O.C. Company Law, starting from January 4, 2012, the legal reserve should be made until the reserve equals the aggregate par value of the Company's outstanding capital stock. This reserve may be used to offset a deficit and issue new shares which shall be distributed as dividend shares to its original shareholders in proportion to the number of shares being held by each of them or by cash. Before January 4, 2012, the legal reserve may be used to offset a deficit. Also, when the reserve has reached 50% of the aggregate par value of the Company's outstanding capital stock, up to 50% thereof may be declared as dividends.

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

B. Special reserve

As prescribed by the regulations of the Securities and Futures Bureau, a special reserve equal to the negative items 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. If there is a reversal of deducted amount of stockholders' equity, earnings may be distributed based on the reversal.

Starting from January 1, 2011, according to the related insurance regulations, the additional provision for equalisation reserve less income tax should be recognized as special reserve under stockholders' equity after annual closing and should not be distributed without approval. The release of the equalisation reserve shall be made through equalisation reserve under liability reserves first. If such liability reserves are insufficient for release, then the deficiency shall be released through special reserves under stockholders' equity based on its net amount after tax.

For the year 2011, the additional provision for equalisation reserve amounting to $197,450 has been recognized as special reserve under shareholders' equity and is not available for distribution.

C. Earnings appropriation for 2010 and 2009 as resolved by the stockholders on June 15, 2011 and June 18, 2010, respectively, are as follows:

	2010 earnings		2009 earnings	
	Amount	Dividend per share	Amount	Dividend per share
Distribution of earnings:				
Legal reserve	$ 140,973		$ 198,565	
Special reserve	181,447		250,406	
Reversal of special reserve	(250,406)		(922,921)	
Cash dividends	551,250	$ 1.0	826,875	$ 1.5
	$ 623,264		$ 352,925	
Employees' bonus and directors' and supervisors' remuneration:				
Employees' bonus	$ 7,092		$ 8,042	
Directors' and supervisors' remuneration	1,800		800	
Total	$ 8,892		$ 8,842	

D. Earnings appropriation for 2011 resolved by the Board of Directors on March 28, 2012 is as follows:

	2011	
	Amount	Dividend per share
Distribution of earnings:		
Legal reserve	$ 31,584	
Special reserve(Note)	912,705	
Reversal of special reserve	(181,447)	
Cash dividends	-	$ -
	$ 762,842	
Employees' bonus and directors' and supervisors' remuneration:		
Employees' bonus	$ -	
Directors' and supervisors' remuneration	-	
Total	$ -	

Note: Special reserve was recognized based on the regulation amounting to $912,705 as follows:

a) The negative amount of other adjustments to stockholders' equity amounted to $715,255.

b) The net amount after tax of equalisation reserve recognized for 2011 is $197,450.

As of the report date, earnings appropriation for 2011 had not been resolved by the stockholders.

Information on the appropriation will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

E. The estimated expense for employees' bonus and directors' and supervisors' remuneration was $0 for the year ended December 31, 2011; the estimated expenses of employees' bonus and directors' and supervisors' remuneration were $7,092 and $1,800 for the year ended December 31, 2010. The Company estimates employees' bonus based on a certain percentage of net income in accordance with the Company's Articles of Incorporation and previous years' experiences. The directors' and supervisors' remuneration is estimated based on prior years' remuneration per person. The difference between estimated amount and actual payment will be recognized in profit or loss of the following year.

16) Income tax

A. Income tax expense

	For the years ended December 31, 2011	2010
Income before income tax	$ 137,092	$ 820,396
Permanent differences	(102,203)	(355,139)
Temporary differences	(174,537)	171,994
Changes in accounting principles	45,183	-
	(94,465)	637,251
Income tax payable	-	108,333
Effect of deferred income tax	(8,322)	2,751
Unrealized loss (gain) on available-for-sale financial assets	21,934	(240)
Under provision of prior year's income tax	2,584	4,683
Effect of changes in accounting principles	(7,681)	-
10% tax on undistributed earnings	8,160	-
Income tax expense	$ 16,675	$ 115,527

According to the amended Income Tax Act announced by the Presidential Office on June 15, 2010, the corporate income tax was reduced to 17% starting from year 2010 onwards. The effect of changes in the deferred tax assets and liabilities was $31,488, booked under income tax expense for the year ended December 31, 2010.

B. Deferred income tax assets and liabilities are as follows:

	December 31, 2011	2010
Deferred income tax assets	$ 233,990	$ 225,668
Deferred income tax liabilities	(1,725)	(1,725)
	$ 232,265	$ 223,943

C. Deferred tax assets and liabilities arising from temporary differences are as follows:

	December 31, 2011	December 31, 2010
Unrealized valuation loss on available-for-sale financial assets	$ 38,467	$ 16,533
Bad debts provision	5,094	9,869
Unrealized tax effect from impairment loss of financial assets	127,117	127,117
Unrealized valuation loss on financial assets	39,688	39,108
Pension expense	1,776	1,683
Unrealized exchange loss	5,789	31,077
Loss carryforwards	16,059	-
Unrealized loss on derivative financial assets	-	281
Cumulative effect of changes in accounting principles	(1,725)	(1,725)
	$ 232,265	$ 223,943

D. As of December 31, 2011, the Company's income tax returns through 2009 have been assessed and approved by the Tax Authority.

E. Undistributed earnings:

	December 31, 2011	December 31, 2010
Earnings generated in and before 1997	$ -	$ -
Earnings generated in and after 1998	681,972	1,344,767
	$ 681,972	$ 1,344,767

F. Local stockholders' tax credit account and tax credit rate were as follows:

	December 31, 2011	December 31, 2010
Stockholders' tax credit account	$ 236,234	$ 396,303

	2011 (Estimated)	2010 (Actual)
Tax credit rate	26.86%	31.81%

G. As of December 31, 2011, the expiration of unused loss carryforwards and effect on income tax are as follows:

Year of loss	Amount	Unused amount	Year of expiration
2011 (Per audit)	$ 94,465	$ 94,465	2021

17) PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel, depreciation and amortization expenses by function are as follows:

Function / Expense	2011		2010	
	Operating Costs	Operating Expenses	Operating Costs	Operating Expenses
Personnel Expenses	$ -	$ 172,299	$ -	$ 202,262
Salaries	-	144,259	-	174,071
Employees' insurance	-	9,686	-	8,924
Pension	-	10,586	-	11,481
Others (Note 1)	-	7,768	-	7,786
Depreciation (Note 2)	2,225	5,532	2,114	5,658
Amortization	-	8,007	-	8,058

Note 1: Other personnel expenses include employees' welfare and training expenses.

Note 2: The depreciation, which is classified as operating cost, is accounted for as deduction to income from real estate investments.

5. RELATED PARTY TRANSACTIONS

1) Names of related parties and their relationship with the Company

Names of related parties	Relationship with the Company
Evergreen International Corporation	The Company's Corporate director
Evergreen Reinsurance Company Limited	The investee company of a major shareholder of Evergreen International Corporation
Chang Yung-Fa Charity Foundation	Evergreen International Corporation's representative is Chang Yung-Fa Charity Foundation's director

2) Significant related party transactions and balances

A. Due from reinsurers and ceding companies

	December 31, 2011		December 31, 2010	
	Amount	%	Amount	%
Evergreen Reinsurance Company Limited	$ 6,515	0.34	$ 117	0.02

B. Other payables

	December 31, 2011		December 31, 2010	
	Amount	%	Amount	%
Evergreen International Corporation	$ 4,082	1.42	$ 3,507	2.07

C. Operating revenues and operating costs

	For the years ended December 31,			
	2011		2010	
	Amount	%	Amount	%
Evergreen Reinsurance Company Limited				
Gross premiums written	$ 8,127	0.06	$ 7,745	0.06
Reinsurance premiums ceded	2,524	0.27	272	0.03
Overriding commissions revenue	10	0.05	3	0.01
Reinsurance commission expenses	2,907	0.08	2,589	0.07
Reinsurance commission revenue	(1,154)	(0.43)	1,128	0.31
Reinsurance claims paid	833	0.01	3,396	0.04
Reinsurance claims recovery	10,790	1.89	5,040	0.80

The differences of prices and conditions between related parties and non-related parties were not significant.

D. Operating expenses

	For the years ended December 31,			
	2011		2010	
	Amount	%	Amount	%
Evergreen International Corporation				
System service charge, fees paid to stock transfer agent and printing expenses etc.	$ 21,613	6.19	$ 19,927	5.11
Chang Yung-Fa Charity Foundation Donation	$ -	-	$ 10,000	2.57

E. Salary and remuneration paid to directors, supervisors, general managers, vice general managers, and other major management personnel.

	2011	2010
Salary	$ 15,311	$ 15,988
Bonus	2,031	5,062
Service execution expense	1,111	1,218
Earnings distribution	-	2,319
	$ 18,453	$ 24,587

a) Salary includes salary, service pay, pension, severance pay, etc.

b) Bonus includes each kind of bonus, incentives, etc.

c) Service execution expense includes travel allowance, special expenditures and subsidies.

d) Earnings distribution refers to the estimated directors' and supervisors' remuneration and employee bonus of the current year.

e) For more information, please refer to the Company's annual report.

6. PLEDGED ASSETS

Please see Note 4 (4).

7. COMMITMENTS

As of December 31, 2011, the Company's unused letters of credit issued were USD 3,502 and CAD 21 (in thousand).

8. SIGNIFICANT ACCIDENTAL LOSS

None.

9. SIGNIFICANT SUBSEQUENT EVENTS

Earnings appropriation of the Company for 2011 was resolved by the Board of Directors on March 28, 2012. Please see Note 4 (15).

10. OTHERS

1) Financial statement presentation

A. Certain accounts in the 2010 financial statements were reclassified to conform with the 2011 financial statement presentation.

B. In accordance with the amended "Rules for the Preparation of Financial Reports by Insurance Institutions" announced on December 30, 2009, the effect on the financial statements as of December 31, 2010 are as follows:

Balance Sheet	Before reclassification	After reclassification
Due from reinsurers and ceding companies	$ 622,622	$ 606,701
Reinsurance receivables	401,112	-
Interest receivable	65,120	-
Other receivables	72,477	137,597
Overdue accounts	6,541	-
Due to reinsurers and ceding companies	182,831	646,652
Reinsurance payable	887,395	-
Accrued expenses	62,233	-
Tax payable	32,964	-
Other payables	73,930	169,127
Premium deficiency reserve	171,606	148,205
Liability adequacy reserve	-	23,401

Statement of Income	Before reclassification	After reclassification
Other operating revenues (Note 1)	$ 31	$ 2,491
Interest income	236,251	233,791
Foreign exchange loss	189,832	185,033
Other operating costs (Note 2)	4	4,869
Interest expense	66	-
Net change in claims reserve (Note 3)	248,795	539,454
Reinsurance claims paid	8,135,871	7,897,910
Reinsurance claims recovery	575,806	628,504
Reinsurance commission expenses (Note 4)	3,901,788	3,913,542
Overriding commission expenses	11,754	-

Explanations for reclassification for 2010 are as follows:

Note 1: Other operating revenues include interest income of non-investment amounting to $2,460.

Note 2: Other operating costs include interest expenses and foreign exchange loss of non-investment amounting to $4,799.

Note 3: Net change in claims reserve includes reserve for outstanding losses amounting to $237,961 and reinsurance claims recovery amounting to ($52,698).

Note 4: Reinsurance commission expenses include overriding commission expenses.

2) Fair value of the financial instruments

Financial instruments	December 31, 2011 Book value	December 31, 2011 Fair value: Quotations in an active market	December 31, 2011 Fair value: Estimated using a valuation technique	December 31, 2010 Book value	December 31, 2010 Fair value: Quotations in an active market	December 31, 2010 Fair value: Estimated using a valuation technique
Non-derivative financial instruments						
ASSETS						
Financial assets with fair values equal to book values	$ 18,529,105	$ -	$ 18,529,105	$ 16,797,161	$ -	$ 16,797,161
Financial assets at fair value through profit or loss	1,279,920	772,847	507,073	827,072	265,174	561,898
Available-for-sale financial assets (Note)	6,740,971	5,335,683	1,405,288	7,224,139	6,937,361	286,778
Investments in bonds without active markets	1,227,455	-	1,227,455	2,007,820	-	2,007,820
Refundable deposits	94,182	-	94,182	90,493	-	90,493
Funds held by other insurance companies	139,954	-	139,954	142,601	-	142,601
LIABILITIES						
Financial liabilities with fair values equal to book values	605,932	-	605,932	815,779	-	815,779
Deposits-in	5,243	-	5,243	4,751	-	4,751

Note: Includes statutory deposits.

Financial instruments	December 31, 2011			December 31, 2010		
		Fair value			Fair value	
	Book value	Quotations in an active market	Estimated using a valuation technique	Book value	Quotations in an active market	Estimated using a valuation technique
Derivative financial instruments						
ASSETS						
Financial assets at fair value through profit or loss						
FX swap contracts	$ 1,086	$ -	$ 1,086	$ -	$ -	$ -
Derivative financial assets for hedging						
FX swap contracts	294	-	294	-	-	-
LIABILITIES						
Financial liabilities at fair value through profit or loss						
FX swap contracts	-	-	-	44,250	-	44,250
Derivative financial liabilities for hedging						
FX swap contracts	-	-	-	31,674	-	31,674

The methods and assumptions used to estimate the fair values of the above financial instruments are summarized below:

A. For short-term instruments, the fair values were determined based on their carrying values because of the short maturities of the instruments. This method was applied to Cash and cash equivalents, Accounts receivable and Accounts payable.

B. Fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is based on quoted price in an active market. If the market for a financial instrument is not active, broker quotation is used.

C. Investment in bonds without active markets is based on amortized costs.

D. The carrying values of the refundable deposits, funds held by other insurance companies and deposits-in are equivalent to the fair value of the deposit funds.

E. The fair values of derivative financial instruments which include unrealized gains or losses on unsettled contracts were determined based on the amounts to be received or paid assuming that the contracts were settled as of the reporting date.

3) Derivative financial instruments

A. FX swap contracts

a) Applicable to hedge accounting

Fair values of foreign investments held by the Company may fluctuate with changes in foreign exchange rates. The Company had assessed that the risk may be significant, so the Company hedged such risk by FX swap contracts. As of December 31, 2011 and 2010, the notional amounts of FX swap contracts were USD 17,000 and USD 37,000 (in thousands), respectively. Their fair values were as follows:

	Designated as hedging instrument		
	Financial instrument was designated as	Fair value	
Hedge item	hedging instrument	December 31, 2011	December 31, 2010
Foreign CMOs, structured notes and CDOs	Derivative financial assets for hedging - FX swap contracts	$ 294	$ -
Foreign CMOs, structured notes and CDOs	Derivative financial liabilities for hedging - FX swap contracts	$ -	$ 31,674

b) Not applicable to hedge accounting

As of December 31, 2011 and 2010, the notional amounts of FX swap contracts not applicable to hedge accounting were USD 67,170 and USD 47,370 (in thousands), respectively. The fair values were $1,086 and ($44,250), respectively, and booked under financial assets (liabilities) at fair value through profit or loss.

B. Futures contracts

As of December 31, 2011 and 2010, all futures contracts were settled, and the related margins were $72,739 and $69,372, respectively.

4) Interest rate risk:

The interest risk of the book value (cost) of financial instruments that the Company is based on the maturity is shown below:

A. December 31, 2011

Fixed interest rate

	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
Cash and cash equivalents	$ 6,635,815	$ -	$ -	$ -	$ -	$ -	$ 6,635,815
Available-for-sale financial assets	207,784	349,974	-	299,922	514,822	204,985	1,577,487
Investments in bonds without active markets	152,259	4,000	2,894	202,118	1,789	260,219	623,279

Floating interest rate

	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
Cash and cash equivalents	$ 9,470,011	$ -	$ -	$ -	$ -	$ -	$ 9,470,011
Financial assets at fair value through profit or loss	-	627,740	-	-	-	-	627,740
Available-for-sale financial assets	-	300,000	-	-	-	-	300,000
Investments in bonds without active markets	-	933,724	89,031	193,458	59,986	75,725	1,351,924

The interest rate will be readjusted within one year for financial instruments with floating interest rate, while the interest rate of financial instruments with fixed interest rate will not change up to the maturity date. Other non-interest-bearing financial instruments are not included in the above table because they are free of interest rate risk.

B. December 31, 2010

Fixed interest rate

	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
Cash and cash equivalents	$ 7,407,788	$ -	$ -	$ -	$ -	$ -	$ 7,407,788
Available-for-sale financial assets	405,038	212,222	349,952	-	299,904	878,980	2,146,096
Investments in bonds without active markets	-	285,155	3,101	3,272	3,360	110,978	405,866

Floating interest rate

	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
Cash and cash equivalents	$ 8,343,401	$ -	$ -	$ -	$ -	$ -	$ 8,343,401
Financial assets at fair value through profit or loss	-	154,518	634,502	-	-	-	789,020
Available-for-sale financial assets	-	-	-	300,000	-	-	300,000
Investments in bonds without active markets	199,740	934,309	-	92,064	193,537	930,052	2,349,702

5) Calculation of retention earned premiums are shown below:

	2011					
Category of insurance	Gross premiums written (1)	Reinsurance premiums ceded (2)	Retention premiums (3)=(1)-(2)	Provision (4)	Recovery (5)	Retention earned premiums (6)=(3)-(4)+(5)
Non-Compulsory insurance	$ 11,596,644	$ 928,948	$ 10,667,696	$ 3,328,055	$ 3,265,300	$ 10,604,941
Compulsory insurance	2,195,217	-	2,195,217	1,394,266	1,440,484	2,241,435
Total	$ 13,791,861	$ 928,948	$ 12,862,913	$ 4,722,321	$ 4,705,784	$ 12,846,376

	2010					
Category of insurance	Gross premiums written (1)	Reinsurance premiums ceded (2)	Retention premiums (3)=(1)-(2)	Provision (4)	Recovery (5)	Retention earned premiums (6)=(3)-(4)+(5)
Non-Compulsory insurance	$ 10,985,058	$ 966,694	$ 10,018,364	$ 3,358,328	$ 3,401,278	$ 10,061,314
Compulsory insurance	2,273,887	-	2,273,887	1,440,484	1,586,488	2,419,891
Total	$ 13,258,945	$ 966,694	$ 12,292,251	$ 4,798,812	$ 4,987,766	$ 12,481,205

6) Calculation of retention reinsurance claims paid are shown below:

	2011					
	Reinsurance claims paid		Reinsurance claims recovery		Retention reinsurance claims paid	
Category of insurance		(1)		(2)		(3)=(1)-(2)
Non-Compulsory insurance	$	6,358,100	$	569,409	$	5,788,691
Compulsory insurance		2,189,789		-		2,189,789
Total	$	8,547,889	$	569,409	$	7,978,480

	2010					
	Reinsurance claims paid		Reinsurance claims recovery		Retention reinsurance claims paid	
Category of insurance		(1)		(2)		(3)=(1)-(2)
Non-Compulsory insurance	$	5,870,211	$	628,504	$	5,241,707
Compulsory insurance		2,027,699		-		2,027,699
Total	$	7,897,910	$	628,504	$	7,269,406

7) Details of balance, provision and recovery of each reserve for compulsory automobile liability insurance are as follows:

	2011							
	Beginning balance		Provision		Recovery		Ending balance	
Unearned premium reserve	$	1,440,484	$	1,394,266	$	1,440,484	$	1,394,266
Claims reserve		470,759		462,666		470,759		462,666
Equalisation reserve		3,207,401		100,601		-		3,308,002
Total	$	5,118,644	$	1,957,533	$	1,911,243	$	5,164,934

	2010							
	Beginning balance		Provision		Recovery		Ending balance	
Unearned premium reserve	$	1,586,488	$	1,440,484	$	1,586,488	$	1,440,484
Claims reserve		482,994		470,759		482,994		470,759
Equalisation reserve		2,775,276		432,125		-		3,207,401
Total	$	4,844,758	$	2,343,368	$	2,069,482	$	5,118,644

8) Balance sheets for compulsory automobile liability insurance are as follows:

	December 31, 2011	December 31, 2010
Assets		
Cash and cash equivalents	$ 5,092,172	$ 5,036,232
Due from reinsurers and ceding companies	72,762	82,412
Total	$ 5,164,934	$ 5,118,644
Liabilities		
Unearned premium reserve	$ 1,394,266	$ 1,440,484
Claims reserve	462,666	470,759
Equalisation reserve	3,308,002	3,207,401
Total	$ 5,164,934	$ 5,118,644

9) Details of revenues and costs for compulsory automobile liability insurance are as follows:

	2011	2010
Operating revenues		
Gross premiums written	$ 2,195,217	$ 2,273,887
Net change in unearned premium reserve	46,218	146,004
Retention earned premiums	2,241,435	2,419,891
Interest income	40,862	27,698
Total	$ 2,282,297	$ 2,447,589
Operating costs		
Reinsurance claims paid	$ 2,189,789	$ 2,027,699
Net change in claims reserve	(8,093)	(12,235)
Net change in equalisation reserve	100,601	432,125
Total	$ 2,282,297	$ 2,447,589

10) Foreign currency asset and liability positions

The foreign currency assets and liabilities that are affected by changes in foreign exchange rate are mainly denominated in US dollars. The exchange rate was 1: 30.29 for the year ended December 31, 2011. The US dollar asset position for bank deposit and financial assets was USD 96,489 (in thousands). The US dollar liability position for accounts payable, temporary receipts and suspense accounts was USD 1,765 (in thousands). As of December 31, 2011, the notional amount arising from FX swap contracts, which fluctuates with changes in foreign exchange rate, is shown on Note 10 (3).

11) Risk management

The Company has established risk management policy and procedure being the highest directive of promoting enterprise risk management, to efficiently identify, assess, respond and monitor all the risks assumed and to ensure that all of them are within the limitations as planned. Reasonable consideration relationship between risk and reward has been taken into account to maximize the value of stockholders' equity, well maintain the capital adequacy and solvency capability and strengthen the long-term operations of business. The Company has also set up risk management committee which is in charge of executing risk management decisions made by the Board of Directors', as well as independent risk management unit which is responsible for executive affairs in daily monitoring, assessment and evaluation of risks.

The various risks of overall evaluation are imposed in “Risk Management Mechanism” and categorized into market, credit, liquidity, operation, insurance, asset and liability match, emerging, and other (strategy and reputation) risks. In order to lift the efficiency of strategic risk management, risk quantitative models are used to analyze volatility of businesses and to calculate Value at Risk (VaR) and Risk-adjusted Return of Capital (RAROC) which are important reference for setting operating strategy. At the same time, risk appetite and risk tolerance are stipulated and used for the standard of risk control. In addition, various risk modules are continually put in the process of computerization to improve the efficiency of risk management.

12) Risk management of insurance contracts

After assessing the insurance contracts assumed by the Company, all are insurance risk transferred. Risk management and procedures are summarized below:

A. Measurement and management of insurance risk:

Insurance risk occurs when loss frequency, severity, timing and other possible risk factors are far from past experience. For example, natural and man-made catastrophes risk may occur randomly and thus actual claims may be more than expected.

The Company follows underwriting and risk management related guidelines to assume reinsurance business. The Company's internal quantitative model, external monitoring model, internal control system and other related systems are developed to ensure insurance risks efficiently identified, measured, steered and monitored

a) Underwriting policy

The reinsurance portfolio of the Company consists of various types of reinsurance and businesses from different countries and territories. The insurance types include life insurance, property and casualty insurance and others which are in compliance with regulatory requirement. The Company's core markets are in Asia

b) Retrocession strategy

In consideration of financial strength, capacity and the operation strategies, the Company arranges retrocession to increase the capacity, diversify risks, mitigate retained risk and increase business competitiveness. Furthermore, the Company has purchased catastrophe cover to minimize the exposure to catastrophe loss which may greatly impact the Company’s financial performance. Stringent evaluation of the reputation and credit rating of the reinsurer is taken into account when the Company arranges a retrocession contract. Although the Company adopts various prescribed methods to control insurance risk, given the random and unpredictable nature of insured incidents, deviation may occur between the actual result and the expectation derived from historical experience.

B. Insurance risk concentration

Premium income and retention premium income ratio based on the business type for 2011 and 2010 are as follows:

Type \ Year	2011		2010	
	Premium	Retention premium	Premium	Retention premium
Domestic inward property reinsurance business	55.79%	54.97%	54.90%	54.30%
Domestic inward life reinsurance business	28.35%	29.11%	29.99%	30.34%
Subtotal-Domestic inward reinsurance business	84.14%	84.08%	84.89%	84.64%
Foreign inward reinsurance business	15.86%	15.92%	15.11%	15.36%
Total	100.00%	100.00%	100.00%	100.00%

C. Sensitivity analysis of insurance risk

The retention earned premium income of the Company (excluding the compulsory automobile liability insurance business) for 2011 was $10,604,941. If the change of combined ratio of the Company is 1%, the impact on gains and losses of underwriting for 2011 is around $106,049.

D. Loss development pattern

As of December 31, 2011, the following table indicates the loss development pattern of the Company's retention business:

Year of underwriting	2007	2008	2009	2010	2011	Total
Non-statutory insurance						
Accumulated estimated claim amount						
At the end of the year	$ 3,678,112	$ 2,980,127	$ 2,788,623	$ 3,003,431	$ 4,455,722	
After the first year	6,308,375	6,577,559	6,268,228	7,292,393		
After the second year	5,969,882	5,738,360	6,088,240			
After the third year	5,910,992	5,690,175				
After the fourth year	5,888,858					
Estimated claim amount	5,888,858	5,690,175	6,088,240	7,292,393	4,455,722	$ 29,415,388
Accumulated claim payment	(5,363,035)	(5,147,360)	(4,974,657)	(4,404,521)	(847,279)	(20,736,852)
Accumulated unpaid claim	525,823	542,815	1,113,583	2,887,872	3,608,443	8,678,536
Add: Accumulated unpaid claim before 2006						780,599
						9,459,135
Provision for statutory insurance claims reserve (Note)	(1)	15,346	55,814	208,529	183,022	462,710
Add: Provision for statutory insurance claims reserve before 2006						3
						462,713
Recognition in balance sheet						$ 9,921,848

Note: Statutory insurance includes compulsory automobile liability insurance, residential earthquake insurance and nuclear insurance.

13) Procedure of financial risk control and hedge and information of material financial risk

Except for derivatives held by the Company, the Company's financial instruments mainly comprise cash and cash equivalents, and all kinds of current and non-current investments. The Company utilizes those instruments to achieve adjustments to operating cash flows. The Company holds other financial assets and liabilities as well, such as notes receivable from operating activities, due from (to) reinsurers and ceding companies, reinsurance receivables (payables), other accounts receivable, and other accounts payable.

The Company undertakes derivative financial instruments such as futures, forward exchange contracts and FX swap contracts to hedge fair value risk arising from fluctuations in stock prices and exchange rates.

The Company's activities expose the Company to a variety of financial risks: interest rate risk, foreign exchange risk, market risk, credit risk, liquidity risk and cash flow risk. The authorized strategies to control financial risks are as follows:

A. Interest rate risk

The Company holds floating rate financial instruments which may cause risk arising from fluctuations in interest rates. The Company evaluated the effects of the risk and determined that these are not significant.

B. Foreign exchange risk

To hedge cash flow fair value risk arising from fluctuations in exchange rates, the Company undertakes derivative financial instruments such as FX swap contracts and forward exchange contracts to hedge recognized assets and liabilities denominated in foreign currencies. The Company estimates that the conditions of the hedge instruments and the hedged items are the same, thus maximizing the hedging effectiveness.

C. Market risk

a) The values of financial instruments may be changed by economic situations, industrial circumstances, market capital flows and government monetary policies. To hedge market value risk exposures, the Company adopts diversified assets allocation strategy taking into account the current trends of financial markets to flexibly adjust assets portfolio under the provisions of Article 146 (1) ~ (8) of the Insurance Act, regulating the limits of funds utilization ratios and accordingly, disperse the market value risk.

b) The Company adopts the FX swap contracts and forward exchange contracts to hedge exchange rate fluctuations risk on foreign-currency denominated assets. As the gain (loss) arising from exchange rate changes will mostly offset against the loss (gain) on hedged objectives, the Company estimates no material market value risk would arise. The Company is exposed to price risk because of investments in Taiwan Stock Index Futures, which have fair value in the active market. The Company sets limits to control the transaction volume and stop-loss amount of derivatives to reduce its market risk.

D. Credit risk

a) When investing in financial instruments, the Company will probably encounter the risks that the transaction counterparties may default on contracts and the custodians may incur operating difficulties. The Company utilizes funds and makes investments in accordance with the Article 146 of Insurance Act and relevant laws, and conducts transactions only with counterparties with good credit ratings, or ensures that financial instruments are issued or guaranteed by reputable financial institutions, or acquires adequate collaterals. The Insurance Act also puts a limit to the transaction amount on an individual counterparty. Accordingly, the maximum loss to the Company is the total amount of all book value.

b) The Company utilizes funds and makes investments in financial instruments except for short-term notes and bills, time deposits, demand deposits and cash equivalents in accordance with Article 146 of Insurance Act and related laws, and sets limits to control the investment volume with an individual institution. Therefore, the Company has lower significant concentrations of credit risk.

c) The Company undertakes FX swap contracts and forward exchange contracts only with high-credit-quality financial institutions. If the counterparties of Taiwan Stock Index Futures default, the futures brokers will be liable for the losses incurred on the default. Accordingly, the Company estimates no material credit risk would arise.

E. Liquidity risk and cash flow risk

a) The Company uses short-term notes and bills, time deposits, demand deposits and other cash equivalents to adequately adjust its cash flows. When conducting investment evaluation, the Company will take into account the liquidity of financial instruments in secondary markets and may allocate some funds to lower-liquidity but higher-yield-rate financial instruments on condition that the risk is controlled. Even if those financial instruments are sold in the short-term, there is a less likelihood that liquidity risk would arise due to the selling price being significantly lower than the fair value. However, those financial instruments are not intended to be sold in the short-term.

b) The nominal principal of FX swap contracts and forward exchange contracts is usually used as a calculation basis of receivables and payables for these transactions, and is not the actual settlement amount. The actual settlement amount is usually lower than the nominal principal. The Company has paid margins in advance before undertaking Taiwan Stock Index Futures transactions, and daily evaluates the unsettled futures positions. In case when additional margins have to be paid later on, the Company has sufficient working capital to fulfill its payment obligations. Accordingly, the Company estimates no material cash flow risk would arise.

11. OTHER DISCLOSURES

1) Information of significant transactions

A. Acquisition of real estate of $100,000 or 20% of the capital: None.

B. Disposals of real estate in excess of $100,000 or 20% of the capital:

Disposal Company	Name of property	Transaction or event date	Transaction Amount	Proceeds	Disposal gain	Counterparty	Relationship	Disposal purpose	Pricing basis	Others
The Company	Real estate investment	November 14, 2011	$286,280	Fully collected	$ 252,259	Feng-Hua Development Ltd.	None	Note	Public bidding	None

Note: According to the Letter No. 10002502291 dated on February 24, 2011 announced by the FSC, treatment should be in compliance with “Regulations Governing the Recognition Standard and Principle for Real Estate Investment by Insurance Institutions”.

C. Related party transactions in excess of $100,000 or 20% of the capital: None.

D. Accounts receivable from related parties in excess of $100,000 or 20% of the capital: None.

E. Derivative business transactions: Please see Note 10 (3).

2) Information related to long-term investments: None.

3) Investments in Mainland China and business transactions: None.

12. INFORMATION OF OPERATING SEGMENTS

1) Financial information by industry:

The Company only operates reinsurance business and as a whole for its performance evaluation and resource distribution; therefore, the Company has only single operating segment.

2) Financial information by product:

The Company has only one kind of product; therefore, disclosure of financial information by product is not applicable.

3) Financial information by geographic area:

Premium incomes of the Company from domestic and foreign clients for 2011 and 2010 are as follows:

	2011	2010
Domestic inward reinsurance	$ 11,605,086	$ 11,254,901
Foreign inward reinsurance	2,186,775	2,004,044
	$ 13,791,861	$ 13,258,945

4) Information on major customers:

There are specific customers of Compulsory Motor Insurance Pool that contributed over 10% of the total revenues stated on the Company's statement of income. In 2011 and 2010, premium income from these customers amounted to $2,195,217 and $2,273,887, constituting 15.92% and 17.15% of the related totals, respectively.

13. BORROWINGS RESULTED FROM PAYMENT OF CLAIMS

None.

14. ACQUISITION, CONSTRUCTION, IDLELIZATION AND SALES OF MAIN OPERATING ASSETS AND REAL ESTATE INVESTMENTS

Please see Note 11 (1).

15. IMPORTANT LAWSUITS IN PROGRESS OR ADJUDICATED

None.

16. IMPORTANT CONTRACTS SIGNED, DISCHARGED BY PERFORMANCE, AGREEMENT, OR BREACHED

Aside from regular contracts related to the insurance business, the Company had contracts signed for acquisitions of real estate. Please see Note 11 (1).

17. INVESTMENT ITEMS AND INVESTMENT CEILINGS WITH THE INVESTMENT FUNDS BEING HANDLED AND MANAGED BY THE SECURITIES INVESTMENT TRUST COMPANIES OR SECURITIES INVESTMENT CONSULTING COMPANIES

None.

18. ADJUSTMENT OF ORGANIZATION AND SIGNIFICANT CHANGE OR REFORM OF MANAGEMENT MECHANISM

None.

19. EFFECTS OF GOVERNMENT LAWS' SIGNIFICANT CHANGE

Please see Note 4 (15) for effect of special reserve on the financial statements according to the related insurance regulations.

20. PRE-DISCLOSURE INFORMATION FOR IFRSs ADOPTION

In accordance with Financial Supervisory Commission, Executive Yuan (hereinafter referred to as FSC), enterprises engaged in insurance business should prepare the financial statements in accordance with International Accounting Standards, International Financial Reporting Standards, Explanation Letters and announcements (hereinafter referred to as IFRSs) pronounced by the FSC, starting from the fiscal year of 2013.

The Company should disclose the information below in advance before the adoption of IFRSs in accordance with the letter No. 10002506141 dated April 15, 2011 announced by the FSC:

1) Executive Summary on IFRSs adoption and transition plan

The Company has already set up an ad hoc committee with regard to IFRSs adoption and the transition plan. The plan is delegated to the Chief Accountant of the Company. The major contents and status of execution of this plan are as follows:

Phase	Implementing Department	Status
1. Set up an ad hoc committee	Accounting Department	Completed
2. Establish an adoption plan for IFRSs conversion	Accounting Department	Completed
3. Complete identification of differences between current accounting policy and IFRSs	Accounting Department	Completed
4. Complete the evaluation of the impact of various exemptions and options for IFRS 1, "First-time Adoption of International Financial Reporting Standards"	Accounting Department	Completed
5. Complete the evaluation of adjustments needed for information system	Accounting and Computer Departments	Completed

Phase	Implementing Department	Status
6. Complete the evaluation of adjustments needed for internal control	Accounting and Audit Departments	Completed
7. Determine IFRS accounting policy	Accounting Department	Completed
8. Determine various exemptions and options of IFRS 1, "First-time Adoption of International Financial Reporting Standards"	Accounting Department	Completed
9. Complete the preparation of IFRSs financial position statements on the opening balance date	Accounting Department	Completed
10. Complete the preparation of financial comparative statements of IFRSs for the 1st quarter of 2012	Accounting Department	In progress
11. Complete the adjustment of relevant internal controls (including the standard procedure of financial reporting and relevant information system)	Accounting and Audit Departments	In progress

2) Material differences that may arise between current accounting policies used in the preparation of financial statements and IFRSs and "Rules for the Preparation of Financial Reports by Insurance Institutions" that will be used in the preparation of financial statements in the future:

The Company uses the IFRSs already ratified currently by FSC and "Rules for the Preparation of Financial Reports by Insurance Institutions" that will be applied in 2013 as the basis for evaluation of material differences in accounting policies as mentioned above. However, the Company's current evaluation results may be different from the actual differences that may arise when new issuances of or amendments to IFRSs are subsequently ratified by FSC or relevant interpretations or amendments to the "Rules for the Preparation of Financial Reports by Insurance Institutions" come in the future.

Material differences identified by the Company that may arise between current accounting policies used in the "Rules for the Preparation of Financial Reports by Insurance Institutions" and IFRSs in the future are set forth below:

A. Pension

Discount method adopted for pension actuarial calculation is determined by referencing Sec. 23 set out in R.O.C. SFAS No. 18. However, according to IAS 19, "Employee Benefits", adoption of discount rate should be determined with reference to market yields on high quality corporate bonds with the same currency at the reporting period ending date and maturity periods. For countries with no deep market for such bonds, market yields of the government bonds shall be used.

According to the current accounting standards adopted by R.O.C., the unrecognized transition obligation is amortized under straight line method based on the expected average remaining working lives of the participating employees who are eligible for pension. However, the transitional rules set out in IAS 19, “Employee Benefits” are not applicable for the Company as it is the Company’s first-time adoption of International Financial Reporting Standards.

The profits and losses for the pension actuarial calculation of the Company should be recognized as net current pension costs under corridor approach according the current accounting standards adopted by R.O.C. However, according to IAS 19, “Employee Benefits” , both corridor approach and recognition at once are allowed. And the Company elects for the recognition at once under the comprehensive net income.

B. Employee benefits

The current accounting standards in R.O.C do not specify the rules on the cost recognition for accumulated unused compensated absences. The Company recognizes such cost as expense upon actual payment. However, IAS 19, “Employee Benefits”, requires that the costs of accumulated unused compensated absences should be accrued as expense at the end of the reporting period.

C. Insurance contract

According to the R.O.C. SFAS No. 40, paragraph 41, liabilities for catastrophe and stability reserve in insurance contract according to current related insurance regulations which have existed before effective date of the adoption (January 1, 2011) can still be recognized as liabilities. However, according to IFRS 4, “Insurance Contracts”, future potential claim expense derived from a contract which does not exist at the end of reporting period shall not be recognized as a liability. In addition, according to the revised insurance related regulation pronounced by FSC which is estimated to be effective in 2013, special reserve under liabilities set aside before December 31, 2012 shall be recognized as special reserve under stockholders’ equity after deduction of income tax on January 1, 2013 according to IAS 12 except for other designation appointed by the competent authorities for a supervision purpose.

D. Income tax

With regard to the foreign investment classified as available-for-sale financial assets by the Company, when relevant deferred income tax assets or liabilities are incurred due to its unrealized fair values through profit or loss, the effects should be accounted for in current profit and loss. However, in accordance with IAS 12, “Income Taxes”, such effect should be recognized under other comprehensive income.