CENTRAL REINSURANCE CORPORATION

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2012 AND 2011

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Report of Independent Accountants

PWCR12000315

To Central Reinsurance Corporation

We have audited the accompanying balance sheets of Central Reinsurance Corporation as of December 31, 2012 and 2011, 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, 2012 and 2011, 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", 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 revised R.O.C. SFAS No. 34, "Financial Instruments: Recognition and Measurement" starting from January 1, 2011.

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Starting from January 1, 2013, Central Reinsurance Corporation prepares the financial statements in accordance with International Financial Reporting Standards, International Accounting Standards, and relevant interpretations and interpretative bulletins developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee (Collectively referred herein as the IFRSs) as recognized by the Financial Supervisory Commission (hereinafter "FSC") and the "Rules for the Preparation of Financial Reports by Insurance Institutions" effective in 2013. Information relating to the adoption of IFRSs by Central Reinsurance Corporation is disclosed in Note 20 in accordance with Jin-Guan-Pao-Tzai Letter No. 10002506141 of FSC dated April 15, 2011. The IFRSs may be subject to changes during the time of transition; therefore, the actual impact of IFRSs adoption on Central Reinsurance Corporation may also change.

PricewaterhouseCoopers, Taiwan

March 25, 2013
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.

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

	2012 Amount	2012 %	2011 Amount	2011 %
ASSETS				
Cash and cash equivalents (Note 4 (1))	$ 17,008,182	53	$ 16,112,004	52
Accounts Receivable				
Notes receivable	1,412	-	2,782	-
Due from reinsurers and ceding companies (Notes 4 (2) and 5)	2,014,904	6	2,233,504	7
Other receivables	371,822	1	476,475	2
	2,388,138	7	2,712,761	9
Investments				
Financial assets at fair value through profit or loss (Note 4 (3))	2,025,562	6	1,281,006	4
Available-for-sale financial assets (Note 4 (4))	5,527,325	17	5,847,545	19
Derivative financial assets for hedging (Note 4 (5))	343	-	294	-
Investments in bonds without active markets (Note 4 (6))	1,603,852	5	1,227,455	4
Investments in real estate properties (Note 4 (8))	460,057	2	461,744	2
	9,617,139	30	8,818,044	29
Reinsurance Reserve Assets				
Ceded unearned premium reserve (Note 4 (7))	527,299	2	562,656	2
Ceded claims reserve (Notes 4 (7) and (11))	926,896	3	973,185	3
Ceded premium deficiency reserve (Note 4 (7))	21,625	-	6,685	-
	1,475,820	5	1,542,526	5
Fixed Assets (Note 4 (8))				
Land	23,536	-	23,536	-
Buildings and equipment	69,322	-	68,957	-
Computer equipment	13,992	-	14,210	-
Transportation equipment	5,321	-	5,321	-
Miscellaneous equipment	3,179	-	3,179	-
Prepayments for equipment	253	-	-	-
Revaluation increment	165,277	1	165,277	1
Less: Accumulated depreciation	(73,747)	-	(70,930)	-
	207,133	1	209,550	1
Intangible Asset				
Computer software costs	3,438	-	3,243	-
Other Assets				
Prepayments	2,507	-	2,450	-
Refundable deposits (Note 4 (4))	990,800	3	987,608	3
Funds held by other insurance companies	159,940	-	139,954	-
Deferred income tax assets (Note 4 (16))	238,096	1	232,265	1
Temporary payments and suspense accounts	7,785	-	14,078	-
	1,399,128	4	1,376,355	4
TOTAL ASSETS	$ 32,098,978	100	$ 30,774,483	100

(CONTINUED)

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

	2012 Amount	2012 %	2011 Amount	2011 %
LIABILITIES AND STOCKHOLDERS' EQUITY				
Accounts Payable				
Due to reinsurers and ceding companies (Note 5)	$ 301,117	1	$ 317,745	1
Other payables (Note 5)	625,650	2	288,187	1
	926,767	3	605,932	2
Financial Liabilities				
Financial liabilities at fair value through profit or loss (Note 4 (9))	927	-	-	-
Derivative financial liabilities for hedging (Note 4 (10))	339	-	-	-
	1,266	-	-	-
Liability Reserves (Note 4 (7))				
Unearned premium reserve	5,292,840	16	5,284,977	17
Claims reserve	11,782,295	37	11,190,693	36
Equalization reserve	5,846,750	18	6,279,665	21
Premium deficiency reserve	168,725	1	174,848	1
Liability adequacy reserve	-	-	4,438	-
	23,090,610	72	22,934,621	75
Other Liabilities				
Collections in advance	340	-	465	-
Deposits-in	5,034	-	5,243	-
Reserve for land revaluation increment tax (Note 4 (8))	41,555	-	41,555	-
Accrued pension liability (Note 4 (12))	7,514	-	8,288	-
Temporary receipts and suspense accounts	32,511	-	59,905	-
	86,954	-	115,456	-
TOTAL LIABILITIES	24,105,597	75	23,656,009	77
STOCKHOLDERS' EQUITY				
Capital				
Common stock (Note 4 (13))	5,512,500	17	5,512,500	18
Capital reserve				
Additional paid-in capital (Note 4 (14))	300,000	1	300,000	1
Retained earnings (Note 4 (15))				
Legal reserve	991,944	3	960,360	3
Special reserve	1,108,975	4	378,897	1
Undistributed earnings (Notes 4 (15) and (16))	599,678	2	681,972	2
Other adjustments to stockholders' equity				
Revaluation increment on properties (Note 4 (8))	126,557	-	126,557	1
Unrealized gains or losses on financial instruments (Note 4 (4))	(646,273)	(2)	(841,812)	(3)
TOTAL STOCKHOLDERS' EQUITY	7,993,381	25	7,118,474	23
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 32,098,978	100	$ 30,774,483	100

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 25, 2013.

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

	2012		2011	
	Amount	%	Amount	%
Operating revenues				
Gross premiums written	$ 14,368,568	100	$ 13,791,861	104
Less: Reinsurance premiums ceded (Notes 4 (11) and 5)	(966,232)	(7)	(928,948)	(7)
Net change in unearned premium reserve (Note 4 (7))	(43,220)	-	(16,537)	-
Retention earned premiums	13,359,116	93	12,846,376	97
Reinsurance commission revenue (Note 5)	279,402	2	266,452	2
Overriding commission revenue (Note 5)	19,369	-	18,495	-
Net gain from investment				
Interest income	377,143	3	242,184	2
(Loss) gain on valuation of financial assets	148,894	1	(89,234)	(1)
Foreign exchange loss	(109,460)	(1)	(35,766)	-
Disposal and investment (loss) gain	372,052	3	(322,214)	(2)
Income from real estate investments-net	20,153	-	270,156	2
Loss on investment impairment (Note 4 (6))	(118,849)	(1)	-	-
Total net gain from investment	689,933	5	65,126	1
Other operating revenues	2,695	-	8,536	-
Total operating revenues	14,350,515	100	13,204,985	100
Operating costs				
Reinsurance claims paid	(9,278,604)	(65)	(8,553,553)	(65)
Less: Reinsurance claims recovery (Note 5)	534,899	4	569,409	5
Retention reinsurance claims paid	(8,743,705)	(61)	(7,984,144)	(60)
Net change in liability reserves				
Net change in claims reserve (Note 4 (7))	(637,891)	(4)	(1,402,152)	(11)
Net change in equalization reserve (Note 4 (7))	432,915	3	499,399	4
Net change in premium deficiency reserve (Note 4 (7))	25,501	-	(995)	-
Total net change in liability reserves	(179,475)	(1)	(903,748)	(7)
Reinsurance commission expenses (Note 5)	(4,279,255)	(30)	(3,840,877)	(29)
Other operating costs	(13,676)	-	(3)	-
Total operating costs	(13,216,111)	(92)	(12,728,772)	(96)

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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)

	2012		2011	
	Amount	%	Amount	%
Operating expenses (Notes 4 (12) (17) and 5)				
Selling expenses	($ 260,098)	(2)	($ 255,664)	(2)
Administration expenses	(99,026)	-	(92,556)	(1)
Training expenses	(1,058)	-	(1,093)	-
	(360,182)	(2)	(349,313)	(3)
Net operating income	774,222	6	126,900	1
Non-operating income and gains				
Other income	19,947	-	10,192	-
Income from continuing operations before tax	794,169	6	137,092	1
Income tax expense (Note 4 (16))	(114,801)	(1)	(16,675)	-
Income from continuing operations after tax	679,368	5	120,417	1
Cumulative effect of changes in accounting principles (Net amount, less income tax expense of $7,681) (Note 3)	-	-	37,502	-
Net income	$ 679,368	5	$ 157,919	1

	Before Tax	After Tax	Before Tax	After Tax
Earnings per share (in NT$)				
Earnings per share from continuing operations	$ 1.44	$ 1.23	$ 0.25	$ 0.22
Cumulative effect of changes in accounting principles	-	-	-	0.07
Net income	$ 1.44	$ 1.23	$ 0.25	$ 0.29

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 25, 2013.

CENTRAL REINSURANCE CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(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, 2011	$ 5,512,500	$ 300,000	$ 819,387	$ 250,406	$ 1,344,767	$ 153,417	($ 334,864)	$ 8,045,613
Distributions of 2010 earnings (Note):								
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 equalization 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
Balance at January 1, 2012	$ 5,512,500	$ 300,000	$ 960,360	$ 378,897	$ 681,972	$ 126,557	($ 841,812)	$ 7,118,474
Distributions of 2011 earnings:								
Legal reserve	-	-	31,584	-	(31,584)	-	-	-
Special reserve	-	-	-	715,255	(715,255)	-	-	-
Reversal of special reserve	-	-	-	(181,447)	181,447	-	-	-
Net income for 2012	-	-	-	-	679,368	-	-	679,368
Additional provision for equalization reserve	-	-	-	196,270	(196,270)	-	-	-
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	-	195,539	195,539
Balance at December 31, 2012	$ 5,512,500	$ 300,000	$ 991,944	$ 1,108,975	$ 599,678	$ 126,557	($ 646,273)	$ 7,993,381

Note: 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 25, 2013.

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

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 679,368	$ 157,919
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	7,544	7,757
Amortization	3,503	8,007
Net change in liability reserves	222,695	2,112,873
Amortization of premium on investments in bonds	1,697	2,401
Gain on disposal of investment in real estate	-	(252,259)
(Gain) loss on valuation of financial assets and liabilities	(148,894)	89,234
Loss on investment impairment	118,849	-
Changes in assets and liabilities:		
Financial assets held for trading	(102,856)	(695,702)
Notes receivable	1,370	412
Other receivables	104,653	(44,473)
Prepayments	(57)	(118)
Due from reinsurers and ceding companies	218,600	(1,325,479)
Temporary payments and suspense accounts	6,293	(6,428)
Deferred income tax assets	(5,831)	(8,322)
Other assets	(23,178)	10,341
Other payables	337,463	119,060
Accrued pension liability	(774)	545
Due to reinsurers and ceding companies	(16,628)	(328,907)
Collections in advance	(125)	98
Temporary receipts and suspense accounts	(27,394)	(11,617)
Other liabilities	(209)	492
Net cash provided by (used in) operating activities	1,376,089	(164,166)

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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)

	2012	2011
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of designated financial assets at fair value through profit or loss	($ 500,000)	$ -
Proceeds from disposal of designated financial assets at fair value through profit or loss	8,411	76,316
Acquisition of available-for-sale financial assets	(6,842,832)	(9,654,338)
Proceeds from disposal of available-for-sale financial assets	7,354,286	9,606,096
Acquisition of investments in bonds without active markets	(718,007)	(506,035)
Investments in bonds without active markets yield to date	225,369	1,297,078
Acquisition of fixed assets	(2,892)	(4,713)
Acquisition of intangible assets	(3,698)	(188)
Acquisition of investments in real estate	(548)	(202)
Proceeds from disposal of investments in real estate	-	258,142
Net cash (used in) provided by investing activities	(479,911)	1,072,156
CASH FLOWS FROM FINANCING ACTIVITY		
Payment of cash dividends	-	(551,250)
NET INCREASE IN CASH AND CASH EQUIVALENTS	896,178	356,740
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	16,112,004	15,755,264
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 17,008,182	$ 16,112,004
SUPPLEMENTAL CASH FLOW INFORMATION		
Income tax paid	$ 42,260	$ 19,513

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 25, 2013.

CENTRAL REINSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(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, 2012, the Company had 131 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" 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. The Company uses New Taiwan Dollars as its functional currency. Transactions denominated in foreign currencies are translated into New Taiwan Dollars at the spot exchange rates prevailing at the transaction date. The translation differences upon actual payment are recognized in current 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

Notes receivable, due from reinsurers and ceding companies, other receivables, refundable deposits, funds held by other insurance companies, and other rights may be transferred to overdue accounts in accordance with the “Guidelines for Handling Assessment of Assets, Loans Overdue, Delinquent Accounts Receivable on Demand by Insurance Enterprises”, and the Company shall also recognize appropriate allowance for doubtful accounts with consideration of impairment losses and unrecoverable amounts.

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 equalization 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

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

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 chief 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. While the Company does not qualify for losing the control over those assets upon transferring, the trade shall be deemed as a pledged loan, and the right to re-obtain assets is not accounted for financial derivatives.

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 meet the criteria for hedge accounting are accounted for as follows:

a) Fair value hedges

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) Cash flow hedges

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. The Company uses the ultimate loss ratio multiplied to the total earned premium income to obtain the ultimate total claim, and recognize claims reserve.

3. CHANGES IN ACCOUNTING PRINCIPLES

1) Starting from January 1, 2011, the Company adopted the newly issued R.O.C. SFAS No. 40, “Insurance Contracts”. This change in accounting principle increased the net profit and earnings per share by $37,502 and $0.07 (in dollars), respectively. In addition, according to the related insurance regulations, the additional provision for equalization 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 equalization reserve was $197,450.

2) Starting from January 1, 2011, the Company adopted 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,	
	2012	2011
Cash:		
Petty cash	$ 111	$ 115
Checking accounts	32,599	6,063
Demand deposits	2,179,976	2,668,458
Time deposits	14,240,849	13,312,488
Cash equivalents:		
Commercial papers	554,647	124,880
	$ 17,008,182	$ 16,112,004

The balances of the demand deposits and time deposits with specific account of Compulsory Automobile Liability Insurance were $1,320,975 and $3,580,200 as of December 31, 2012 and $1,158,372 and $3,933,800 as of December 31, 2011, respectively.

2) Due from reinsurers and ceding companies

	December 31,	
	2012	2011
Due from reinsurers and ceding companies	$ 2,068,127	$ 2,286,727
Less: Allowance for doubtful accounts	(53,223)	(53,223)
	$ 2,014,904	$ 2,233,504

As of December 31, 2012 and 2011, due from reinsurers and ceding companies which were overdue amounted to $41,118 and $49,947, respectively.

3) Financial assets at fair value through profit or loss

	December 31,	
	2012	2011
Financial assets held for trading		
Listed (TSE and OTC) stocks	$ 979,433	$ 836,064
Foreign listed stocks	67,306	81,602
Derivative financial instruments	3,352	1,086
Adjustment of financial assets held for trading	(60,707)	(155,910)
	989,384	762,842
Designated financial assets as at fair value through profit or loss		
Domestic convertible corporate bonds	1,000	11,000
Domestic mandatory convertible corporate bonds	500,000	-
Foreign structured notes	604,000	627,740
Adjustment of designated as at fair value through profit or loss	(68,822)	(120,576)
	1,036,178	518,164
	$ 2,025,562	$ 1,281,006

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

B. Recoverable amounts of the 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, 2012	December 31, 2011
Domestic items:		
Listed (TSE and OTC) stocks	$ 2,413,368	$ 2,406,111
Listed (TSE and OTC) preferred stocks	14,662	65,882
REITs	717,365	942,988
Government bonds	987,945	977,565
Corporate bonds	599,941	599,922
Financial bonds	300,000	300,000
Open-end funds	72,502	690,020
Index funds	89,621	107,185
Private funds-others	-	80,000
Foreign items:		
Listed stocks	538,382	621,388
Open-end funds	203,756	261,515
Hedge funds	631,913	188,483
Index funds	593,651	386,124
	7,163,106	7,627,183
Adjustment of available-for-sale financial assets	(689,182)	(886,212)
Less: statutory deposits	(946,599)	(893,426)
	$ 5,527,325	$ 5,847,545

A. Under the Insurance Law of the Republic of China, the Company deposited 15% of its registered operating capital with the Central Bank of the Republic of China. As of December 31, 2012 and 2011, government bonds with par value of $900,000 and $857,000, respectively, were deposited.

B. Recoverable amounts of the 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, 2012	December 31, 2011
FX swap contracts	$ 343	$ 294

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

6) Investments in bonds without active markets

	December 31, 2012	December 31, 2011
Domestic items:		
Collateralized debt obligation	$ 347,567	$ 349,031
Corporate bonds	400,000	200,000
Foreign items:		
Collateralized mortgage obligation	386,094	163,279
Collateralized debt obligation	319,337	329,169
Structured notes	871,771	933,724
Financial bonds	145,680	-
	2,470,449	1,975,203
Less: Accumulated impairment	(866,597)	(747,748)
	$ 1,603,852	$ 1,227,455

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. Loss on investment impairment recognized in 2012 amounted to $118,849.

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

7) Reinsurance reserve asset and liability reserves

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

	2012				2011				
	Beginning balance	Provision	Recovery	Ending balance	Beginning balance	Provision	Recovery	Others (Note)	Ending balance
Ceded unearned premium reserve	$ 562,656	$ 527,299	$ 562,656	$ 527,299	$ 622,557	$ 562,656	$ 625,638	$ 3,081	$ 562,656
Unearned premium reserve	5,284,977	5,292,840	5,284,977	5,292,840	5,421,369	5,284,977	5,331,422	(89,947)	5,284,977

B. Movement of ceded claims reserve and claims reserve

	2012				2011				
	Beginning balance	Provision	Recovery	Ending balance	Beginning balance	Provision	Recovery	Others (Note)	Ending balance
Ceded claims reserve									
Outstanding losses	$ 467,691	$ 441,701	$ 467,691	$ 441,701	$ 501,686	$ 467,691	$ 501,686	$ -	$ 467,691
Incurred but not reported losses	505,494	485,195	505,494	485,195	392,738	505,494	392,738	-	505,494
	$ 973,185	$ 926,896	$ 973,185	$ 926,896	$ 894,424	$ 973,185	$ 894,424	$ -	$ 973,185
Claims reserve									
Outstanding losses	$ 4,613,630	$ 5,060,274	$ 4,613,630	$ 5,060,274	$ 4,200,874	$ 4,613,630	$ 4,200,874	$ -	$ 4,613,630
Incurred but not reported losses	6,577,063	6,722,021	6,577,063	6,722,021	4,271,680	6,577,063	5,508,906	1,237,226	6,577,063
	$ 11,190,693	$ 11,782,295	$ 11,190,693	$ 11,782,295	$ 8,472,554	$ 11,190,693	$ 9,709,780	$ 1,237,226	$ 11,190,693

Note: Others represent the cumulative effect of changes in accounting principles.

C. Movement of equalization reserve

	2012				2011				
	Beginning balance	Provision	Recovery	Ending balance	Beginning balance	Provision	Recovery	Others (Note)	Ending balance
Equalization reserve	$ 6,279,665	($ 232,915)	$ 200,000	$ 5,846,750	$ 6,730,674	$ 100,601	$ 600,000	$ 48,390	$6,279,665

Note: Others represent the cumulative effect of changes in accounting principles.

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

	2012					2011				
	Beginning balance	Provision	Recovery	Others (Note)	Ending balance	Beginning balance	Provision	Recovery	Others (Note)	Ending balance
Ceded premium deficiency reserve	$ 6,685	$ 21,625	$ 2,247	($ 4,438)	$ 21,625	$ -	$ 2,247	($ 23,401)	($ 18,963)	$ 6,685
Premium deficiency reserve	174,848	168,725	174,848	-	168,725	148,205	174,848	148,205	-	174,848

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

E. Liability adequacy reserve

	2012					2011				
	Beginning balance	Provision	Recovery	Others (Note)	Ending balance	Beginning balance	Provision	Recovery	Others (Note)	Ending balance
Liability adequacy reserve	$ 4,438	$ -	$ -	($ 4,438)	$ -	$ 23,401	$ -	$ -	($ 18,963)	$ 4,438

Note: Liability adequacy reserve of the Company is transferred from the debit account balance of ceded premium deficiency reserve.

8) Fixed assets and investments in real estate

	December 31,			
	2012		2011	
	Operations	Investments	Operations	Investments
Cost				
Land	$ 23,536	$ 409,165	$ 23,536	$ 409,165
Buildings and equipment	69,322	80,361	68,957	79,813
Computer equipment	13,992	-	14,210	-
Transportation equipment	5,321	-	5,321	-
Miscellaneous equipment	3,179	-	3,179	-
Prepayments for equipment	253	-	-	-
	115,603	489,526	115,203	488,978
Revaluation increment				
Land	157,260	2,441	157,260	2,441
Buildings and equipment	8,017	394	8,017	394
	165,277	2,835	165,277	2,835
Total cost and revaluation increment	280,880	492,361	280,480	491,813
Accumulated depreciation				
Buildings and equipment	57,147	32,304	55,007	30,069
Computer equipment	8,732	-	8,630	-
Transportation equipment	5,303	-	5,234	-
Miscellaneous equipment	2,565	-	2,059	-
	73,747	32,304	70,930	30,069
Net book value	$ 207,133	$ 460,057	$ 209,550	$ 461,744
Reserve for land revaluation increment tax	$ 40,406	$ 1,149	$ 40,406	$ 1,149

A. The land and buildings were revalued in 2011 in accordance with related laws. As of December 31, 2012, the balance of revaluation increment was $168,112, and net amount was $126,557, less reserve for land revaluation increment tax, included in stockholders' equity.

B. The above assets were not pledged.

9) Financial liabilities at fair value through profit or loss

	December 31,	
	2012	2011
FX swap contracts	$ 927	$ -

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

10) Derivative financial liabilities for hedging

	December 31,	
	2012	2011
FX swap contracts	$ 339	$ -

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 contracts.

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
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, 2012 and 2011.

C. Reserve for unqualified reinsurance as of December 31, 2012 and 2011 were $3,751 and $4,515, 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, the trustee.

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,	
	2012	2011
Discount rate	1.75%	2.00%
Expected rate of return on plan assets	1.75%	2.00%
Rate of compensation increase	1.00%	1.00%

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

b) Funded status of the pension plan

	December 31,	
	2012	2011
Benefit obligation		
Vested benefit obligation	$ 35,160	$ 31,358
Non-vested benefit obligation	15,044	15,109
Accumulated benefit obligation	50,204	46,467
Effect of future salary increments	2,126	2,086
Projected benefit obligation	52,330	48,553
Fair value of plan assets	(52,962)	(50,007)
Funded status	(632)	(1,454)
Unrealized net transition obligation	(374)	(449)
Unrecognized gain on plan assets	8,520	10,191
Accrued pension liabilities	$ 7,514	$ 8,288
Vested benefit	$ 38,417	$ 35,584

c) Net pension cost comprises the following:

	For the years ended December 31,	
	2012	2011
Service cost	$ 4,044	$ 5,085
Interest cost	971	1,027
Expected return on plan assets	(1,000)	(936)
Amortization of unrecognized gain on pension cost	(324)	-
Amortization of unrecognized net transition obligation	75	75
Net pension cost	$ 3,766	$ 5,251

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, 2012 and 2011 were $5,455 and $5,335, respectively.

13) Common stock

As of December 31, 2012 and 2011, 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,	
	2012	2011
Excess of par value	$ 300,000	$ 300,000

B. In accordance with the R.O.C. Company Law, 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. 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;

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

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

In stockholders' dividend distribution, cash dividend shall not be less than 50% and the remainder is stock dividend. Employee bonuses may be distributed in the form of stocks or cash through a resolution in the stockholders' meeting.

In accordance with the R.O.C. Company Law, 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.

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

According to Securities and Futures Bureau of the former Financial Supervisory Commission, Executive Yuan, the Company should set aside special reserve equal to the deducted amount of the stockholders' equity from earnings after tax of the current year and the unappropriated earnings of the prior period. For the deducted amount from the stockholders' equity accumulated from prior periods, an equal amount of special reserve should be set aside from unappropriated earnings of the prior period and is not to be distributed. If there is a reversal of deducted amount of stockholders' equity, earnings may be distributed based on the reversal.

According to the related insurance regulations, the additional provision for equalization 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 equalization reserve shall be made through equalization 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 years 2012 and 2011, the provision for equalization reserve amounting to \$196,270 and \$197,450, respectively, has been recognized as special reserve under shareholders' equity upon annual resolution and is not available for distribution.

C. Earnings appropriation for 2011 and 2010 as resolved by the stockholders on June 15, 2012 and June 15, 2011, respectively, are as follows:

	2011 earnings		2010 earnings	
	Amount	Dividend per share	Amount	Dividend per share
Distribution of earnings:				
Legal reserve	$ 31,584		$ 140,973	
Special reserve	912,705		181,447	
Reversal of special reserve	(181,447)		(250,406)	
Cash dividends	-	$ -	551,250	$ 1.0
	$ 762,842		$ 623,264	
Employees' bonus and directors' and supervisors' remuneration:				
Employees' bonus	$ -		$ 7,092	
Directors' and supervisors' remuneration	-		1,800	
Total	$ -		$ 8,892	

D. Earnings appropriation for 2012 resolved by the Board of Directors on March 25, 2013 is as follows:

	2012 earnings	
	Amount	Dividend per share
Distribution of earnings:		
Legal reserve	$ 135,874	
Special reserve(Note)	731	
Stock dividends	110,250	$ 0.2
Cash dividends	275,625	0.5
	$ 522,480	
Employees' bonus and directors' and supervisors' remuneration:		
Employees' bonus	$ 5,580	
Directors' and supervisors' remuneration	2,300	
Total	$ 7,880	

Note: Special reserve was recognized based on the regulation amounting to $731 as follows:

a) The reversal of negative amount of other adjustments to stockholders' equity amounted to $195,539.

b) The net amount after tax of equalization reserve recognized for 2012 is $196,270.

Earnings appropriation for 2012 has not yet been resolved at the stockholders' meeting as of the reporting date. Detailed information on earnings appropriation proposed by the Board of Directors and resolved by the stockholders are posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

E. The estimated expenses for employees' bonus and directors' and supervisors' remuneration were $5,580 and $2,300 for the year ended December 31, 2012; the estimated expenses of employees' bonus and directors' and supervisors' remuneration was $0 for the year ended December 31, 2011. 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, 2012	2011
Income before income tax	$ 794,169	$ 137,092
Permanent differences	(361,439)	(102,203)
Temporary differences	122,357	(174,537)
Changes in accounting principles	-	45,183
	555,087	(94,465)
Income tax payable	94,365	-
Effect of deferred income tax	(5,831)	(8,322)
Unrealized loss (gain) on available-for-sale financial assets	(1,492)	21,934
Under provision of prior year's income tax	27,759	2,584
Effect of changes in accounting principles	-	(7,681)
10% tax on undistributed earnings	-	8,160
Income tax expense	$ 114,801	$ 16,675

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

	December 31, 2012	2011
Deferred income tax assets	$ 239,821	$ 233,990
Deferred income tax liabilities	(1,725)	(1,725)
	$ 238,096	$ 232,265

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

	December 31, 2012	2011
Unrealized valuation loss on available-for-sale financial assets	$ 36,975	$ 38,467
Bad debts provision	7,675	5,094
Unrealized tax effect from impairment loss of financial assets	147,321	127,117
Unrealized valuation loss on financial assets	35,138	39,688
Pension expense	1,776	1,776
Unrealized exchange loss	10,936	5,789
Loss carryforwards	-	16,059
Cumulative effect of changes in accounting principles	(1,725)	(1,725)
	$ 238,096	$ 232,265

D. As of December 31, 2012, the Company's income tax returns through 2010 have been assessed and approved by the Tax Authority.

E. Undistributed earnings:

	December 31, 2012	December 31, 2011
Earnings generated in and before 1997	$ -	$ -
Earnings generated in and after 1998	599,678	681,972
	$ 599,678	$ 681,972

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

	December 31, 2012	December 31, 2011
Stockholders' tax credit account	$ 82,383	$ 236,234

	2012 (Estimated)	2011 (Actual)
Tax credit rate	10.35%	28.61%

17) PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

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

Function / Expense	2012 Operating Costs	2012 Operating Expenses	2011 Operating Costs	2011 Operating Expenses
Personnel Expenses	$ -	$ 180,974	$ -	$ 172,299
Salaries	-	153,392	-	144,259
Employees' insurance	-	10,005	-	9,686
Pension	-	9,220	-	10,586
Others (Note 1)	-	8,357	-	7,768
Depreciation (Note 2)	2,235	5,309	2,225	5,532
Amortization	-	3,503	-	8,007

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

2) Significant related party transactions and balances

A. Due from reinsurers and ceding companies

	December 31, 2012 Amount	December 31, 2012 %	December 31, 2011 Amount	December 31, 2011 %
Evergreen Reinsurance Company Limited	$ 249	0.01	$ 6,515	0.29

B. Other payables

	December 31, 2012		December 31, 2011	
	Amount	%	Amount	%
Evergreen International Corporation	$ 3,825	0.61	$ 4,082	1.42

C. Operating revenues and operating costs

	For the years ended December 31,			
	2012		2011	
	Amount	%	Amount	%
Evergreen Reinsurance Company Limited				
Gross premiums written	$ 8,779	0.06	$ 8,127	0.06
Reinsurance premiums ceded	(235)	(0.02)	2,524	0.27
Overriding commissions revenue	18	0.09	10	0.05
Reinsurance commission expenses	2,885	0.07	2,907	0.08
Reinsurance commission revenue	(99)	(0.04)	(1,154)	(0.43)
Reinsurance claims paid	3,756	0.04	833	0.01
Reinsurance claims recovery	1,602	0.30	10,790	1.89

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,			
	2012		2011	
	Amount	%	Amount	%
Evergreen International Corporation				
System service charge, fees paid to stock transfer agent and printing expenses etc.	$ 22,917	6.36	$ 21,613	6.19

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

	2012	2011
Salary	$ 15,510	$ 15,311
Bonus	3,517	2,031
Service execution expense	960	1,111
Earnings distribution	2,793	-
	$ 22,780	$ 18,453

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, 2012, the Company's unused letters of credit issued were USD 2,408 (in thousands).

8. SIGNIFICANT ACCIDENTAL LOSS

None.

9. SIGNIFICANT SUBSEQUENT EVENTS

Earnings appropriation of the Company for 2012 was resolved by the Board of Directors on March 25, 2013. Please see Note 4 (15).

10. OTHERS

1) Financial statement presentation

A. Certain accounts in the 2011 financial statements were reclassified to conform with the 2012 financial statement presentation.

B. According to the Pao-Xhong-Zih Letter No. 1010001731 of Taiwan Insurance Institute dated October 29, 2012, the effects on financial statements as of and for the year ended December 31, 2011 are as follows:

	December 31, 2011	
Balance Sheet	Before reclassification	After reclassification
Due from reinsurers and ceding companies	$ 1,937,844	$ 2,233,504
Claims reserve	10,895,033	11,190,693

	2011	
Statements of Income	Before reclassification	After reclassification
Reinsurance claims paid	$ 8,547,889	$ 8,553,553
Net change in claims reserve	1,407,816	1,402,152

2) Fair value of the financial instruments

	December 31, 2012			December 31, 2011		
		Fair value			Fair value	
Financial instruments	Book value	Quotations in an active market	Estimated using a valuation technique	Book value	Quotations in an active market	Estimated using a valuation technique
Non-derivative financial instruments						
ASSETS						
Financial assets with fair values equal to book values (Note 1)	$ 19,333,240	$ -	$ 19,333,240	$ 18,759,133	$ -	$ 18,759,133
Financial assets at fair value through profit or loss	2,022,210	987,127	1,035,083	1,279,920	772,847	507,073
Available-for-sale financial assets (Note 2)	6,473,924	4,952,387	1,521,537	6,740,971	5,335,683	1,405,288
Investments in bonds without active markets	1,603,852	-	1,603,852	1,227,455	-	1,227,455
Refundable deposits	44,201	-	44,201	94,182	-	94,182
Funds held by other insurance companies	159,940	-	159,940	139,954	-	139,954
LIABILITIES						
Financial liabilities with fair values equal to book values (Note 3)	819,931	-	819,931	581,633	-	581,633
Deposits-in	5,034	-	5,034	5,243	-	5,243

Financial instruments	December 31, 2012			December 31, 2011		
		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	$ 3,352	$ -	$ 3,352	$ 1,086	$ -	$ 1,086
Derivative financial assets for hedging						
FX swap contracts	343	-	343	294	-	294
LIABILITIES						
Financial liabilities at fair value through profit or loss						
FX swap contracts	927	-	927	-	-	-
Derivative financial liabilities for hedging						
FX swap contracts	339	-	339	-	-	-

Note1: Excluding tax refund receivable.

Note2: Including statutory deposits.

Note3: Excluding income tax payable.

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 (liabilities) 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, 2012 and 2011, the notional amounts of FX swap contracts were both USD 17,000 (in thousands). Their fair values were as follows:

	Designated as hedging instrument		
	Financial instrument was designated as	Fair value	
Hedge item	hedging instrument	December 31, 2012	December 31, 2011
Foreign CMOs, structured notes and CDOs	Derivative financial assets for hedging - FX swap contracts	$ 343	$ 294
Foreign CMOs, structured notes and CDOs	Derivative financial liabilities for hedging - FX swap contracts	$ 339	$ -

b) Not applicable to hedge accounting

As of December 31, 2012 and 2011, the notional amounts of FX swap contracts not applicable to hedge accounting were both USD 67,170 (in thousands). The fair values were $3,352 and ($927), and $1,086, respectively, and booked under financial assets (liabilities) at fair value through profit or loss.

B. Futures contracts

As of December 31, 2012 and 2011, all futures contracts were settled, and the related margins were $22,780 and $72,739, 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, 2012

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	$ 8,990,741	$ -	$ -	$ -	$ -	$ -	$ 8,990,741
Financial assets at fair value through profit or loss	-	-	-	-	-	500,000	500,000
Available-for-sale financial assets	349,996	-	299,941	511,763	-	426,186	1,587,886
Investments in bonds without active markets	382,275	1,485	201,359	975	300,000	160,000	1,046,094

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	$ 7,984,731	$ -	$ -	$ -	$ -	$ -	$ 7,984,731
Financial assets at fair value through profit or loss	604,000	-	-	-	-	-	604,000
Available-for-sale financial assets	-	300,000	-	-	-	-	300,000
Investments in bonds without active markets	871,771	87,567	335,819	56,358	72,840	-	1,424,355

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, 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

5) Calculation of retention earned premiums are shown below:

	2012					
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	$ 12,137,007	$ 966,232	$ 11,170,775	$ 3,350,797	$ 3,328,055	$ 11,148,033
Compulsory insurance	2,231,561	-	2,231,561	1,414,744	1,394,266	2,211,083
Total	$ 14,368,568	$ 966,232	$ 13,402,336	$ 4,765,541	$ 4,722,321	$ 13,359,116

	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

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

	2012		
Category of insurance	Reinsurance claims paid (1)	Reinsurance claims recovery (2)	Retention reinsurance claims paid (3)=(1)-(2)
Non-Compulsory insurance	$ 6,814,177	$ 534,899	$ 6,279,278
Compulsory insurance	2,464,427	-	2,464,427
Total	$ 9,278,604	$ 534,899	$ 8,743,705

	2011		
Category of insurance	Reinsurance claims paid (1)	Reinsurance claims recovery (2)	Retention reinsurance claims paid (3)=(1)-(2)
Non-Compulsory insurance	$ 6,358,101	$ 569,409	$ 5,788,692
Compulsory insurance	2,195,452	-	2,195,452
Total	$ 8,553,553	$ 569,409	$ 7,984,144

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

	2012			
	Beginning balance	Provision	Recovery	Ending balance
Unearned premium reserve	$ 1,394,266	$ 1,414,744	$ 1,394,266	$ 1,414,744
Claims reserve	758,326	782,721	758,326	782,721
Equalization reserve	3,308,002	(232,915)	-	3,075,087
Total	$ 5,460,594	$ 1,964,550	$ 2,152,592	$ 5,272,552

	2011			
	Beginning balance	Provision	Recovery	Ending balance
Unearned premium reserve	$ 1,440,484	$ 1,394,266	$ 1,440,484	$ 1,394,266
Claims reserve	772,082	758,326	772,082	758,326
Equalization reserve	3,207,401	100,601	-	3,308,002
Total	$ 5,419,967	$ 2,253,193	$ 2,212,566	$ 5,460,594

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

	December 31, 2012	December 31, 2011
Assets		
Cash and cash equivalents	$ 4,901,175	$ 5,092,172
Due from reinsurers and ceding companies	371,426	368,422
Total	$ 5,272,601	$ 5,460,594
Liabilities		
Unearned premium reserve	$ 1,414,744	$ 1,394,266
Claims reserve	782,721	758,326
Equalization reserve	3,075,087	3,308,002
Other Liabilities	49	-
Total	$ 5,272,601	$ 5,460,594

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

	2012	2011
Operating revenues		
Gross premiums written	$ 2,231,561	$ 2,195,217
Net change in unearned premium reserve	(20,478)	46,218
Retention earned premiums	2,211,083	2,241,435
Interest income	44,824	40,862
Total	$ 2,255,907	$ 2,282,297
Operating costs		
Reinsurance claims paid	$ 2,464,427	$ 2,195,452
Net change in claims reserve	24,395	(13,756)
Net change in equalization reserve	(232,915)	100,601
Total	$ 2,255,907	$ 2,282,297

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 were 1: 29.136 and 1: 30.29 for the year ended December 31, 2012 and 2011, respectively. The US dollar asset position for bank deposit and financial assets were USD 139,982 (in thousands) and USD 123,452 (in thousands), respectively. The US dollar liability position for accounts payable, temporary receipts and suspense accounts were USD 14,115 (in thousands) and USD 1,765 (in thousands), respectively. As of December 31, 2012 and 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, 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.

With regard to the overall risk evaluation of various circumstances, the Company implemented “Risk Managing Mechanism” covering market, credit, liquidity, operation, insurance, asset and liability, emerging market and others. In order to better improve the strategic risk management efficiency, risk quantitative module, finance of risk variance are put to use to analyze various businesses and calculate Value at Risk (VaR) and Risk-adjusted Return of Capital (RAROC). In addition, the Company set up risk capacity and risk bearing as the basis for risk management, and promoting the computerization of various risk modules to continually strengthen the efficiency of risk management at the same time.

12) <u>Risk management of insurance contracts</u>

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 are 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 2012 and 2011 are as follows:

Type \ Year	2012		2011	
	Premium	Retention premium	Premium	Retention premium
Domestic inward property reinsurance business	56.35%	55.46%	55.79%	54.97%
Domestic inward life reinsurance business	30.25%	31.24%	28.35%	29.11%
Subtotal-Domestic inward reinsurance business	86.60%	86.70%	84.14%	84.08%
Foreign inward reinsurance business	13.40%	13.30%	15.86%	15.92%
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 the years ended in December 31, 2012 and 2011 were $11,148,033 and $10,604,941, respectively. If the change of combined ratio of the Company is 1%, the estimated effect on gains and losses of underwriting for the years ended in December 31, 2012 and 2011 is approximately $111,480 and $106,049, respectively.

D. Loss development pattern

1） As of December 31, 2012, the following table indicates the loss development pattern of the Company's retention business:

Year of underwriting	2007	2008	2009	2010	2011	2012	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	$ 4,062,535	
After the first year	6,308,375	6,577,559	6,268,228	7,292,393	7,768,781	-	
After the second year	5,969,882	5,738,360	6,088,240	7,085,938	-	-	
After the third year	5,910,992	5,690,175	5,970,669	-	-	-	
After the fourth year	5,888,858	5,649,643	-	-	-	-	
After the fifth year	5,881,504	-	-	-	-	-	
Estimated claim amount	5,881,504	5,649,643	5,970,669	7,085,938	7,768,781	4,062,535	$ 36,419,070
Accumulated claim payment	(5,420,066)	(5,264,001)	(5,177,043)	(5,681,738)	(4,601,626)	(848,246)	(26,992,720)
Accumulated unpaid claim	461,438	385,642	793,626	1,404,200	3,167,155	3,214,289	9,426,350
Add: Accumulated unpaid claim before 2006							646,305
							10,072,655
Provision for statutory insurance claims reserve (Note)	-	(1)	27,613	105,722	350,152	299,258	782,744
Recognition in balance sheet							$ 10,855,399

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

2) 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)	27,057	96,652	334,018	300,644	758,370
Add: Provision for statutory insurance claims reserve before 2006						3
						758,373
Recognition in balance sheet						$ 10,217,508

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 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 in excess 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 Jin-Guan-Pao-Tzai Order No. 10002502291 dated February 24, 2011 announced by the former Financial Supervisory Committee, Executive Yuan, 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 the chief operating decision-maker assesses performance and allocates resources as a whole; 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 2012 and 2011 are as follows:

	2012	2011
Domestic inward reinsurance	$ 12,443,203	$ 11,605,086
Foreign inward reinsurance	1,925,365	2,186,775
	$ 14,368,568	$ 13,791,861

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 2012 and 2011, premium income from these customers amounted to $2,231,561 and $2,195,217, constituting 15.53% and 15.92% 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, starting from January 1, 2011.

20. PRE-DISCLOSURE INFORMATION FOR IFRSs ADOPTION

Pursuant to the regulations of the Financial Supervisory Commission, Executive Yuan (hereinafter referred to as FSC), enterprises engaged in insurance business should prepare the financial statements in accordance with the International Financial Reporting Standards, International Accounting Standards, and relevant interpretations and interpretative bulletins (IFRSs) that are ratified by the FSC as well as “Rules for the Preparation of Financial Reports by Insurance Institutions” effective in 2013, starting from the fiscal year of 2013.

The Company discloses the following information in advance prior to the adoption of IFRSs in accordance with Jin-Guan-Pao-Tzai letter No. 10002506141 dated April 15, 2011:

1) Executive Summary on IFRSs adoption and transition plan

The Company has 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
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 2012	Accounting Department	Completed
11. Complete the adjustment of relevant internal controls (including the standard procedure of financial reporting and relevant information system)	Accounting and Audit Departments	Completed

2) Material differences that may arise between the current accounting policies used in the preparation of financial statements and the 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 and the impact of such differences are outlined below:

The Company uses the IFRSs already recognized currently by the Financial Supervisory Commission and the “Rules for the Preparation of Financial Reports by Insurance Institutions” that are expected to be applicable 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 that are subsequently recognized by the Financial Supervisory Commission or amendments to the “Rules for the Preparation of Financial Reports by Insurance Institutions” come in the future. Therefore, the actual impact of those differences may also change.

The impact of material differences identified by the Company that may arise between the current accounting policies used in the preparation of financial statements and the 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, and the effects of exemptions selected by the Company under IFRS No. 1, “First-time Adoption of International Financial Reporting Standards” (refer to Note 20(3)) are set forth below:

A. Reconciliation of balance sheet accounts with differences between different accounting policies adopted as at January 1, 2012:

	Accounting Standards in R.O.C.	Adjustments	IFRSs	Remark
Prepaid pension cost	$ -	$ 870	$ 870	(1)
Deferred income tax assets	232,265	1,295	233,560	(1)(2)(4)
Others	30,542,218	-	30,542,218	
Total assets	30,774,483	2,165	30,776,648	
Other payables	288,187	6,630	294,817	(2)
Equalization reserve	6,279,665	-	6,279,665	(3)
Reserve for land revaluation increment tax	41,555	(41,555)	-	(5)
Accrued pension liabilities	8,288	(8,288)	-	(1)
Deferred income tax liabilities	-	43,280	43,280	(4)(5)
Others	17,038,314	-	17,038,314	
Total liabilities	23,656,009	67	23,656,076	
Special reserve	378,897	126,557	505,454	(3)(6)
Unappropriated earnings	681,972	8,031	690,003	(1)(2)(4)～(6)
Revaluation increment on properties	126,557	(126,557)	-	(5)
Unrealized gains or losses on financial instruments	(841,812)	(5,933)	(847,745)	(4)
Others	6,772,860	-	6,772,860	
Total stockholders’ equity	7,118,474	2,098	7,120,572	

Reasons for differences are outlined below:

a) Pension

The discount rate used to calculate pensions shall be determined with reference to the factors specified in R.O.C. SFAS No. 18, paragraph 23. However, IAS 19, “Employee Benefits”, requires an entity to determine the rate used to discount employee benefits with reference to market yields on high quality corporate bonds that match the currency at the end day of the reporting period and duration of its pension plan; when there is no deep market in corporate bonds, an entity is required to use market yields on government bonds (at the end day of the reporting period) instead.

In accordance with the Company's accounting policies, unrecognized transitional net benefit obligation should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive pension benefits. However, as the Company is the first-time adopter of IFRSs, the transitional provisions in IAS 19, "Employee Benefits", are not applicable to the Company. Accordingly, the Company therefore has no unrecognized transitional liability.

In addition, the Company chose the exemption of employee benefits and recognized accumulated actuarial gains and loss in unappropriated earnings according to IFRS No. 1, "First-time Adoption of International Financial Reporting Standards". Therefore, the Company increased prepaid pension cost by $870, decreased accrued pension liabilities by $8,288, decreased deferred income tax assets by $1,557 and increased unappropriated earnings by $7,601 at the opening IFRS balance sheet date.

b) Employee benefits

The current accounting standards in R.O.C. do not specify the rules on recognition of the cost of accumulated unused compensated absences. The Company recognized such cost as expense upon actual payment. However, IAS 19, "Employee Benefits", requires that cost of accumulated unused compensated absences should be accrued as expense at the end of the reporting period. Therefore, the Company increased other payables by $6,630, increased deferred income tax assets by $1,127 and decreased unappropriated earnings by $5,503 at the opening IFRS balance sheet date.

c) Insurance contract

According to the R.O.C SFAS No. 40, paragraph 41, liabilities for catastrophe and stability reserve for insurance contracts under 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. According to the related insurance regulations to be pronounced and effective in 2013 of FSC, special reserve recognized under liabilities prior to the date of December 31, 2012, except for other designation required by competent authorities under a supervisory purpose, shall be recognized as special reserve under stockholders' equity after the deduction of income tax according to IAS No. 12 on January 1, 2013. However, according to Jin-Guan-Pao-Tsai Order No. 10102517491, "Directions for Strengthening Special Reserve by Reinsurance Enterprises", Jin-Guan-Pao-Chan Order No. 10102531541, "Directions for Strengthening Co-insurance Reserve of Residential Earthquake Insurance" and Jin-Guan-Pao-Tsai Order No. 10102517091, "Regulations for Reserving Nuclear Energy Insurance Reserve by Non-Life Insurance Enterprises" dated December 28, 2012, subsequent equalization reserve recognized under liabilities by December 31, 2012 should still be recognized under liabilities starting from January 1, 2013.

d) Income tax

Deferred income tax assets and liabilities arising from any unrealized gains or losses on foreign investment classified as available-for-sale financial assets at fair value shall be recognized as current gains and loss when there is a change in tax law according to current generally accounting accepted principles. However, according to IAS No. 12, “Income Taxes”, the effects shall be classified as other adjustments to stockholders’ equity. The Company therefore decreased unrealized gains or losses on financial instruments by $5,933 and increased unappropriated earnings by $5,933 at the opening IFRS balance sheet date. Deferred income tax assets and liabilities of the same entity are eligible to be offset each other based on the current generally accepted accounting principles. However, according to IAS No. 12, “Income tax”, only when an entity has the legal enforceable right to offset current income tax assets against current income tax liabilities, can deferred income tax assets and liabilities be offset against each other. The Company therefore increased deferred income tax assets by $1,725 at the opening IFRS balance sheet date and increased deferred income tax liabilities by $1,725.

e) Deemed cost

The Company chose the exemption under IFRS No. 1, “First-time Adoption of International Financial Reporting Standards” at the opening IFRS balance sheet date (please refer to Note 20(3(1))). The Company, therefore, decreased unrealized revaluation increment by $126,557, and increased unappropriated earnings by $126,557 at the same time. In addition, the Company transferred reserve for land revaluation increment tax amounting to $41,555 as deferred income tax liabilities.

f) Special reserve

According to Jin-Guan-Zheng-Fa Order No. 1010012865 of FSC dated on April 6, 2012, upon the first-time adoption for IFRSs, equivalent amounts of special reserve with regard to the unrealized evaluation increment under the stockholders’ equity as well as the exemptions transferred from unappropriated retained earnings according to IFRS No. 1 shall be set aside. The Company therefore increased special reserve by $126,557 and decreased unappropriated earnings by $126,557 at the opening IFRS balance sheet date.

B. Reconciliation of balance sheet and income statement accounts with differences between different accounting policies adopted for the year ended December 31, 2012:

	Accounting Standards in R.O.C.	Adjustments	IFRSs	Remark
Prepaid pension cost	$ -	$ 35	$ 35	(1)
Deferred income tax assets	238,096	1,571	239,667	(1)(2)(4)
Others	31,860,882	-	31,860,882	
Total assets	32,098,978	1,606	32,100,584	
Other payables	625,650	6,855	632,505	(1)(2)
Equalization reserve	5,846,750	-	5,846,750	(3)
Reserve for land revaluation increment tax	41,555	(41,555)	-	(5)
Accrued pension liabilities	7,514	(7,514)	-	(1)
Deferred income tax liabilities	-	43,280	43,280	(4)(5)
Others	17,584,128	-	17,584,128	
Total liabilities	24,105,597	1,066	24,106,663	
Special reserve	1,108,975	126,557	1,235,532	(3)(6)
Unappropriated earnings	599,678	6,473	606,151	(1)(2)(4)～(6)
Revaluation increment on properties	126,557	(126,557)	-	(5)
Unrealized gains or losses on financial instruments	(646,273)	(5,933)	(652,206)	(4)
Others	6,804,444	-	6,804,444	
Total stockholders' equity	7,993,381	540	7,993,921	

	Accounting Standards in R.O.C.	Adjustments	IFRSs	Remark
Operating revenues	$ 14,350,515	$ -	$ 14,350,515	
Operating costs	13,216,111	-	13,216,111	
Gross operating profit	1,134,404	-	1,134,404	
Operating expenses	360,182	523	360,705	(1)(2)
Net operating income	774,222	(523)	773,699	
Non-operating income and gains	19,947	-	19,947	
Income before Income tax	794,169	(523)	793,646	
Income tax expense	114,801	(89)	114,712	(1)(2)
Net Income	679,368	(434)	678,934	
Other comprehensive income in the period(net of tax)	-	(1,124)	(1,124)	(1)

Reasons for differences are outlined below:

a) Pension

For the explanation of the adjustment, please refer to above explanation as of January 1, 2012. As a result, the Company increased pension expense by $255 and decreased income tax expense by $43 for the year 2012. The Company also increased prepaid pension by $35, decreased accrued pension liabilities by $7,514, decreased deferred income tax assets by $1,327, decreased other payables by $43, decreased other comprehensive income, net of tax by $1,124 and increased unappropriated earnings by $6,265 (in which the effects on gains and loss for the year 2012 have been included) as of December 31, 2012.

b) Employee benefits

For the explanation of the adjustment, please refer to above explanation as of January 1, 2012. As a result, the Company increased payroll expense by $268 and decreased income tax expense by $46 for the year 2012. The Company also increased other payables by $6,898 and deferred income tax assets by $1,173 and decreased unappropriated earnings by $5,725 (in which the effects on gains and loss for the year 2012 have been included) as of December 31, 2012.

c) Insurance contract

For the explanation of the adjustment, please refer to above explanation as of January 1, 2012.

d) Income tax

For the explanation of the adjustment, please refer to above explanation as of January 1, 2012. As a result, the Company decreased unrealized gains or loss on financial instruments by $5,933 and increased unappropriated earnings by $5,933, increased deferred income tax assets by $1,725 and also increased deferred income tax liabilities by $1,725 as of December 31, 2012.

e) Deemed cost

For the explanation of the adjustment, please refer to above explanation as of January 1, 2012. As a result, the Company decreased unrealized revaluation increment by $126,557 and increased unappropriated earnings by $126,557 as of December 31, 2012. The Company also transferred reserve for land revaluation increment tax amounting to $41,555 as deferred income tax liabilities.

f) Special reserve

For the explanation of the adjustment please refer to above explanation as of January 1, 2012. As a result, the Company increased special reserve by $126,557 and decreased unappropriated earnings by $126,557 as of December 31, 2012.

3) The Company has elected the following exemptions in accordance with IFRS No.1, “First-time Adoption of International Financial Reporting Standards” and “Rules for the Preparation of Financial Reports by Insurance Institutions” that are expected to be applicable in 2013:

A. Deemed cost

For self-used property and investment property that were revalued under ROC GAAP before the date of the Company’s first IFRS balance sheet, the Company has elected to use the revalued amount under ROC GAAP at the date of the revaluation as the ‘deemed cost’ of these assets under IFRSs.

B. Employee benefits

The Company has elected to recognize all cumulative actuarial gains and losses for all employee benefit plans in ‘retained earnings’ at the opening IFRS balance sheet date, and to disclose the information of present value of defined benefit obligation, fair value of plan assets, gain or loss on plan assets and experience adjustments under the requirements of paragraph 120A (P), IAS 19, “Employee Benefits”, based on their prospective amounts for financial periods from the opening IFRS balance sheet date.

C. Share-based payment

The Company has elected not to apply the requirements in IFRS No. 2, “Share-based Payment”, retrospectively to equity instruments that were vested arising from share-based payment prior to transition to IFRSs.

The selection of exemptions above may be different from the actual selection at the date of transition to IFRSs due to the issuance of related regulations by competent authorities, changes in economic environment, or changes in the evaluation of the impact of the Company’s selection of exemptions.