CENTRAL REINSURANCE CORPORATION

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2010 AND 2009

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

PRICEWATERHOUSECOOPERS

資誠聯合會計師事務所
PricewaterhouseCoopers, Taiwan
11012台北市基隆路一段333號27樓
27F, 333 Keelung Rd., Sec. 1
Taipei, Taiwan 11012
Tel: (886) 2 2729 6666
Fax: (886) 2 2757 6371
www.pwc.com/tw

Report of Independent Accountants

PWCR10000343

To Central Reinsurance Corporation

We have audited the accompanying balance sheets of Central Reinsurance Corporation as of December 31, 2010 and 2009, 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, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with the accounting practices generally accepted in the insurance industry, "Business Entity Accounting Law", "Regulation on Business Entity Accounting Handling", "Rules Governing the Preparation of Financial Statements by Securities Issuers" and generally accepted accounting principles in the Republic of China.

PricewaterhouseCoopers, Taiwan

March 9, 2011
(Except for subsequent event, which is as of March 11, 2011)
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)

	2010 Amount	%	2009 Amount	%
ASSETS				
Current Assets				
Cash and cash equivalents (Note 4(1))	$ 15,755,264	53	$ 13,107,893	44
Financial assets at fair value through profit or loss-current (Note 4(2))	265,174	1	1,957,378	7
Available-for-sale financial assets-current (Note 4(3))	4,972,987	17	3,691,187	12
Derivative financial assets for hedging-current (Note 4(4))	-	-	13,954	-
Investment in bonds without active markets-current (Note 4(5))	199,740	1	96,553	-
Notes receivable (Note 4(6))	3,194	-	3,962	-
Prepaid reinsurance expenses	622,557	2	764,089	3
Claims recoverable from reinsurers (Note 4(12))	894,424	3	1,223,598	4
Due from reinsurers and ceding companies (Note 5)	622,622	2	521,093	2
Reinsurance receivables	401,112	1	319,308	1
Interest receivable	65,120	-	109,284	-
Other accounts receivable	72,477	-	109,525	-
Other financial assets	294,405	1	134,328	1
Prepaid expenses	2,332	-	2,102	-
Deferred income tax assets-current (Note 4(17))	42,509	-	25,758	-
Other current accounts	7,650	-	22,696	-
	24,221,567	81	22,102,708	74
Investments				
Financial assets at fair value through profit or loss-non current (Note 4(2))	561,898	2	663,319	2
Available-for-sale financial assets-non current (Note 4(3))	1,346,343	4	1,859,270	6
Investment in bonds without active markets-non current (Note 4(5))	1,808,080	6	2,903,973	10
Investments in real estate properties (Note 4(7))	582,156	2	583,191	2
	4,298,477	14	6,009,753	20
Fixed Assets (Note 4(7))				
Cost				
Land	23,536	-	23,536	-
Buildings and equipment	67,224	1	65,410	1
Computer equipment	13,902	-	11,281	-
Transportation equipment	5,321	-	5,321	-
Miscellaneous equipment	3,549	-	3,752	-
Total cost	113,532	1	109,300	1
Revaluation increment	110,299	-	110,299	-
Total cost and revaluation increment	223,831	1	219,599	1
Less: Accumulated depreciation	(68,440)	-	(63,303)	-
	155,391	1	156,296	1
Intangible Asset				
Computer software costs (Note 5)	11,062	-	19,120	-
Other Assets				
Refundable deposits (Note 4(3))	995,302	3	1,027,154	4
Funds held by other insurance companies	142,601	-	118,949	-
Deferred income tax assets-non current (Note 4(17))	181,434	1	200,936	1
Overdue accounts (Note 4(8))	6,541	-	46,781	-
	1,325,878	4	1,393,820	5
TOTAL ASSETS	$ 30,012,375	100	$ 29,681,697	100

	2010 Amount	%	2009 Amount	%
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Financial liabilities at fair value through profit or loss-current (Note 4(9))	$ 44,250	-	$ 5,604	-
Derivative financial liabilities for hedging-current (Note 4(10))	31,674	-	1,267	-
Due to reinsurers and ceding companies	182,831	1	278,284	1
Reinsurance payables (Note 5)	887,395	3	763,135	3
Accrued expenses (Note 5)	62,233	-	48,393	-
Tax payable	32,964	-	118,602	-
Other accounts payable	73,930	1	245,801	1
Collections in advance	367	-	515	-
Other current liabilities	71,522	-	18,676	-
	1,387,166	5	1,480,277	5
Long-term Liabilities				
Reserve for land revaluation increment tax (Note 4(7))	72,223	-	72,223	-
Accrued pension liabilities (Note 4(13))	7,743	-	5,729	-
	79,966	-	77,952	-
Operating Reserves				
Unearned premium reserve (Note 4(12))	5,421,369	18	5,751,855	20
Equalisation reserve	6,730,674	22	6,289,409	21
Claims reserve (Note 4(11))	8,171,230	27	7,960,950	27
Premium deficiency reserve	171,606	1	12,030	-
	20,494,879	68	20,014,244	68
Other Liabilities				
Deposits-in	4,751	-	4,663	-
Other liabilities	-	-	5,901	-
	4,751	-	10,564	-
TOTAL LIABILITIES	21,966,762	73	21,583,037	73
Stockholders' Equity				
Capital				
Common stock (Note 4(14))	5,512,500	18	5,512,500	19
Capital reserve (Note 4(15))				
Additional paid-in capital	300,000	1	300,000	1
Retained earnings (Note 4(16))				
Legal reserve	819,387	3	620,822	2
Special reserve	250,406	1	922,921	3
Undistributed earnings	1,344,767	4	992,823	3
Other adjustments to stockholders' equity				
Unrealized gains or losses on financial instruments (Note 4(3))	(334,864)	(1)	(334,864)	(1)
Revaluation increment on properties (Note 4(7))	153,417	1	153,417	-
TOTAL STOCKHOLDERS' EQUITY	8,045,613	27	8,098,660	27
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 30,012,375	100	$ 29,681,697	100

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

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

	2010		2009	
	Amount	%	Amount	%
Operating revenues				
Gross premiums written (Note 5)	$ 13,258,945	100	$ 13,778,934	103
Reinsurance premiums ceded				
(Notes 4(12) and 5)	(966,694)	(7)	(1,222,369)	(9)
Net premiums written	12,292,251	93	12,556,565	94
Overriding commission revenue (Note 5)	20,544	-	26,815	-
Interest income	236,251	2	344,715	3
Gain on valuation of financial assets	-	-	52,337	-
Foreign exchange gain	-	-	12,344	-
Disposal and investment gain	674,838	5	364,072	3
Income from real estate investments-net	15,881	-	15,715	-
Other operating revenues	31	-	22	-
Total operating revenues	13,239,796	100	13,372,585	100
Operating costs				
Reinsurance commission expenses (Note 5)	(3,901,788)	(30)	(4,069,476)	(30)
Reinsurance commission revenue (Note 5)	369,278	3	414,106	3
	(3,532,510)	(27)	(3,655,370)	(27)
Reinsurance claims paid (Note 5)	(8,135,871)	(61)	(8,194,637)	(61)
Reinsurance claims recovery (Note 5)	575,806	4	715,747	5
	(7,560,065)	(57)	(7,478,890)	(56)
Provision for unearned premium reserve-net	188,954	1	951,010	7
Provision for equalisation reserve-net	(441,265)	(3)	(982,753)	(7)
Provision for claims reserve-net	(248,795)	(2)	(334,026)	(3)
Provision for premium deficiency reserve	(159,576)	(1)	(1,094)	-
Overriding commission expenses	(11,754)	-	(10,833)	-
Interest expense	(66)	-	(636)	-
Loss on valuation of financial assets	(118,310)	(1)	-	-
Foreign Exchange loss	(189,832)	(1)	-	-
Other operating costs	(4)	-	(17)	-
Total operating costs	(12,073,223)	(91)	(11,512,609)	(86)
Gross profit	1,166,573	9	1,859,976	14

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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)

	2010		2009	
	Amount	%	Amount	%
Operating expenses (Notes 4(13) (16) (18) and 5)				
Operation expenses	($ 279,895)	(2)	($ 272,800)	(2)
Administration expenses	(108,582)	(1)	(215,307)	(1)
Training expenses	(1,161)	-	(489)	-
	(389,638)	(3)	(488,596)	(3)
Net operating income	776,935	6	1,371,380	11
Non-operating income and gains				
Other income	43,475	-	14,805	-
Non-operating expenses and losses				
Impairment loss	-	-	(85,262)	(1)
Other expenses	(14)	-	(10)	-
	(14)	-	(85,272)	(1)
Income before income tax	820,396	6	1,300,913	10
Income tax expense (Note 4(17))	(115,527)	(1)	(308,090)	(3)
Net income	$ 704,869	5	$ 992,823	7

	Before Tax	After Tax	Before Tax	After Tax
Earnings per share (in NT$)				
Income before income tax	$ 1.49	$ 1.28	$ 2.36	$ 1.80
Net income	$ 1.49	$ 1.28	$ 2.36	$ 1.80

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

CENTRAL REINSURANCE CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(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	Unrealized Gains or Losses on Financial Instruments	Revaluation Increment on Properties	Total
Balance at January 1, 2009	$ 5,512,500	$ 300,000	$ 578,100	$ -	$ 965,643	($ 1,656,240)	$ 153,417	$ 5,853,420
Distributions of 2008 earnings:								
Legal reserve	-	-	42,722	-	(42,722)	-	-	-
Special reserve	-	-	-	922,921	(922,921)	-	-	-
Net income for 2009	-	-	-	-	992,823	-	-	992,823
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	1,252,417	-	1,252,417
Balance at December 31, 2009	5,512,500	300,000	620,822	922,921	992,823	(403,823)	153,417	8,098,660
Distributions of 2009 earnings:								
Legal reserve	-	-	198,565	-	(198,565)	-	-	-
Special reserve	-	-	-	250,406	(250,406)	-	-	-
Reversal of special reserve	-	-	-	(922,921)	922,921	-	-	-
Cash dividends	-	-	-	-	(826,875)	-	-	(826,875)
Net income for 2010	-	-	-	-	704,869	-	-	704,869
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	68,959	-	68,959
Balance at December 31, 2010	$ 5,512,500	$ 300,000	$ 819,387	$ 250,406	$ 1,344,767	($ 334,864)	$ 153,417	$ 8,045,613

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

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

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 704,869	$ 992,823
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,772	7,689
Amortization	8,058	7,791
Provision for reserves-net	951,341	571,337
Amortization of premium on investments in bonds	1,616	7,340
Loss (gain) on valuation of financial assets and liabilities	118,310	(52,337)
Impairment loss	-	85,262
Changes in assets and liabilities:		
Decrease (increase) in financial assets held for trading	1,239,513	(1,241,744)
Notes receivable	768	6,824
Interest receivable	44,164	108,758
Due from reinsurers and ceding companies	(101,529)	27,423
Reinsurance receivables	(81,804)	(91,672)
Other accounts receivable	31,148	(61,820)
Other financial assets	(160,077)	(134,328)
Prepaid expenses	(230)	(1,664)
Deferred income tax assets	2,751	73,317
Other current accounts	15,046	(20,623)
Refundable deposits	31,852	(108,508)
Funds held by other insurance companies	(23,652)	(27,549)
Overdue accounts	40,240	(46,781)
Due to reinsurers and ceding companies	(95,453)	82,090
Reinsurance payables	124,260	(119,468)
Accrued expenses	13,840	15,456
Tax payable	(85,638)	(90,867)
Other accounts payable	(171,871)	217,132
Collections in advance	(148)	(18)
Other current liabilities	52,846	14,038
Accrued pension liabilities	2,014	1,408
Deposits-in	88	(343)
Net cash provided by operating activities	2,670,094	220,966

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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)

	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of designated financial assets at fair value through profit or loss	($ 11,000)	($ 570,582)
Disposal of designated financial assets at fair value through profit or loss	529,808	86,771
Acquisition of available-for-sale financial assets	(7,487,296)	(3,601,515)
Disposal of available-for-sale financial assets	6,779,340	5,451,932
Held-to-maturity financial assets yield to date	-	565,204
Acquisition of investment in bonds without active markets	(572,710)	(162,488)
Disposal of investment in bonds without active markets	-	79,716
Investment in bonds without active markets yield to date	1,571,842	988,626
Acquisition of investments in real estate and fixed assets	(5,832)	(1,254)
Acquisition of computer software costs	-	(3,966)
Net cash provided by investing activities	804,152	2,832,444
CASH FLOWS FROM FINANCING ACTIVITY		
Payment of cash dividends	(826,875)	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,647,371	3,053,410
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	13,107,893	10,054,483
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 15,755,264	$ 13,107,893
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 66	$ 636
Income tax paid	$ 200,151	$ 363,283

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

CENTRAL REINSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(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, 2010, the Company had 123 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared in accordance with the accounting practices generally accepted in the insurance industry, "Business Entity Accounting Law", "Regulation on Business Entity Accounting Handling", "Rules Governing the Preparation of Financial Statements by Securities Issuers" and accounting principles generally accepted in the Republic of China. The significant accounting policies are summarized as follows:

1) 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.

2) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

a) Assets arising from operating activities that are expected to be realized or consumed, or are intended to be sold within the normal operating cycle;
b) Assets held mainly for trading purposes;
c) Assets that are expected to be realized within twelve months from the balance sheet date;
d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

a) Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;
b) Liabilities arising mainly from trading activities;
c) Liabilities that are to be paid off within twelve months from the balance sheet date;
d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

3) <u>Cash and cash equivalents</u>

Cash and cash equivalents include cash on hand, bank deposits, petty cash and short-term investments with immediate maturity and which are subject to insignificant risk of changes in value resulting from fluctuations in market interest rate.

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

4) <u>Financial assets and liabilities</u>

Financial assets within the scope of SFAS No. 34 “Accounting for Financial Instruments” and “Rules Governing the Preparation of Financial Statements by Securities Issuers” are classified as either financial assets at fair value through profit or loss, derivative financial assets held for hedging, available-for-sale financial assets, held-to-maturity financial assets, financial assets carried at cost and investment in bonds without active markets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Financial liabilities are classified as either financial liabilities at fair value through profit or loss, or derivative financial liabilities for hedging.

All regular way 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 way of purchases or sales of financial assets require delivery of assets within the period generally established by regulation or convention in the marketplace.

A. <u>Financial assets and liabilities at fair value through profit or loss</u>

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.

B. <u>Available-for-sale financial assets</u>

Available-for-sale financial assets are those non-derivative financial assets that are available for sale or are not classified in any of the four preceding 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.

C. 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.

D. 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.

E. 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 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.

F. 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.

G. Fair value

The fair value of investments is determined by reference to the closing price at the balance sheet date for listed shares, or the net asset value for open-ended funds.

5) Derecognition of financial assets and liabilities

A. Financial assets

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.

If a transfer of financial assets in exchange for cash or other consideration (other than beneficial interests in the transferred assets) does not meet the criteria for a sale, the Company accounts for the transfer as a borrowing with collateral.

B. Financial liabilities

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.

6) Impairment of financial assets

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 SFAS No. 34, “Accounting for Financial Instruments” and related policies.

7) 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 SFAS No. 34. “Qualification for hedge accounting”. Those that do not meet the prescribed standard are not qualified for hedge accounting and are recognized as financial asset (liability) at fair value through profit or loss.

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

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

A. 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.

8) Allowance for doubtful accounts

The allowance for doubtful accounts is determined based on the recoverability of notes receivable, due from reinsurers and ceding companies, overdue accounts, other accounts receivable and “Guidelines for Handling Assessment of Assets, Loans Overdue, Delinquent Accounts Receivable on Demand by Insurance Enterprises”.

9) 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.

10) 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 long-term 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.

11) Impairment of assets

Based on 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) Operating reserves

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

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

C.The reserves excluding the reserve listed above were determined in accordance with “Regulations Governing Financial and Business Operations of Professional Reinsurance Enterprises” issued by Financial Supervisory Commission, Executive Yuan. The reinsurance contracts are represented in accordance with related Rules Governing the Preparation of Financial Statements by Insurers and the payment for the unearned premium amount for ceded reinsurance treaty originally stated as unearned premium reserve will be reclassified under prepaid reinsurance expense. The claims recoverable from the reinsurer of a reinsurance treaty with the ceded company will now be reclassified under claims recoverable from reinsurers.

D.Pursuant to insurance regulations and related explanatory notes, an insurer would be required from January 1, 2009 to disclose reserve for unqualified outward reinsurance in the notes to its financial statements.

13) Reinsurance revenues and costs

Reinsurance premiums income and related costs are recognized upon receipt of the reinsurance statements from the reinsurers (the bills for the current quarter are received in the following quarter), and the Company accrues the unexpired liabilities accordingly.

The accounting treatments for reinsurance statements of the Company are the same with the industry practice and are agreed with the competent authorities.

14) 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.

15) Foreign currency transactions

A. The Company maintains its accounts in New Taiwan dollars. Transactions denominated in foreign currencies are translated into New Taiwan dollars at the spot exchange rates prevailing at the transaction dates. Exchange gains or losses due to the difference between the exchange rate on the transaction date and the exchange rate on the date of actual receipt and payment are recognized in current year's profit or loss.

B. Receivables, other 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. However, non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction.

16) Income tax

Based on 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. Deferred tax assets and liabilities are classified as current or non-current according to the classification of the related assets and liabilities. Those which cannot be related to the assets or liabilities in the financial statements are classified as current or non-current based on the expected reversal date. 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.

17) 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., dated March 16, 2007, 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.

3. CHANGE IN ACCOUNTING PRINCIPLE

None.

4. DETAILS OF SIGNIFICANT ACCOUNTS

1) Cash and cash equivalents

	December 31, 2010	December 31, 2009
Cash：		
Petty cash	$ 115	$ 120
Checking accounts	3,960	2,984
Demand deposits	2,007,152	1,004,761
Time deposits	13,494,156	12,100,028
Cash equivalents：		
Commercial papers	249,881	-
	$ 15,755,264	$ 13,107,893

A. As of December 31, 2010 and 2009, the balance of the time deposits with maturity over one year was $0 and $65,800, respectively.

B. As of December 31, 2010, the balance of the demand deposits and time deposits with specific account of Compulsory Motor Insurance was $1,181,932 and $3,854,300, respectively.

2) Financial assets at fair value through profit or loss

	December 31, 2010	December 31, 2009
Current items:		
Financial assets held for trading		
Listed (TSE and OTC) stocks	$ 236,768	$ 1,201,032
Foreign listed stocks	17,578	192,331
Domestic index funds	-	2,700
Foreign index funds	-	15,646
Derivative financial instruments	-	11,803
Adjustment of financial assets held for trading	(24,555)	71,463
	229,791	1,494,975
Designated financial assets as at fair value through profit or loss		
Domestic convertible corporate bonds	32,900	460,915
Adjustment of designated as at fair value through profit or loss	2,483	1,488
	35,383	462,403
	$ 265,174	$ 1,957,378
Non-current items:		
Designated financial assets as at fair value through profit or loss		
Domestic convertible corporate bonds	$ -	$ 30,000
Foreign structured notes	789,020	849,812
Adjustment of designated as at fair value through profit or loss	(227,122)	(216,493)
	$ 561,898	$ 663,319

For information on derivative business transactions and the contract, please see Note 10 (4).

3) Available-for-sale financial assets

	December 31, 2010	December 31, 2009
Current items:		
Domestic items:		
Listed (TSE and OTC) stocks	$ 2,969,561	$ 2,345,489
Listed (TSE and OTC) preferred stocks	15,626	16,141
Taiwan depositary receipts	38,972	-
REITs	869,847	612,161
Financial bonds	300,000	-
Government bonds	105,038	74,072
Corporate bonds	-	99,529
Open-end funds	120,020	130,020
Index funds	-	76,373
Private funds-others	80,000	40,000
Foreign items:		
Listed stocks	627,022	517,342
Hedge funds	273,312	289,661
Index funds	104,591	105,695
	5,503,989	4,306,483
Adjustment of available-for-sale financial assets	(425,897)	(540,294)
Less: statutory deposits	(105,105)	(75,002)
	$ 4,972,987	$ 3,691,187
Non-current items:		
Domestic items:		
Listed (TSE and OTC) preferred stocks	$ 51,000	$ 51,000
Financial bonds	300,000	600,000
Government bonds	1,041,153	893,547
Corporate bonds	699,905	1,099,674
	2,092,058	2,644,221
Adjustment of available-for-sale financial assets	53,989	75,998
Less: statutory deposits	(799,704)	(860,949)
	$ 1,346,343	$ 1,859,270

Under the Insurance Law of the Republic of China, the Company deposited 15% of its registered operating capital with Central Bank of the Republic of China. As of December 31, 2010 and 2009, government bonds with par value of $862,000 and $886,000, respectively, were deposited.

4) Derivative financial assets for hedging – current

	December 31, 2010	December 31, 2009
FX swap contracts	$ -	$ 13,954

For information on derivative business transaction, please see Note 10 (4).

5) Investments in bonds without active markets

	December 31, 2010	December 31, 2009
Current items:		
Domestic items:		
CDOs	$ 199,740	$ -
Foreign items:		
CDOs	-	96,553
	$ 199,740	$ 96,553
Non-current items:		
Domestic items:		
Unlisted preferred stocks	$ 25,000	$ 25,000
CDOs	192,064	291,176
Foreign items:		
CMOs	305,866	1,195,889
CDOs	1,123,589	1,216,723
Structured notes	934,309	947,933
	2,580,828	3,676,721
Less: Accumulated impairment	(772,748)	(772,748)
	$ 1,808,080	$ 2,903,973

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

6) Notes receivable

	December 31, 2010	December 31, 2009
Notes receivable	$ 3,226	$ 4,002
Less: Allowance for doubtful accounts	(32)	(40)
	$ 3,194	$ 3,962

7) Fixed assets and investments in real estate

	December 31,			
	2010		2009	
	Operations	Investments	Operations	Investments
Cost				
Land	$ 23,536	$ 415,049	$ 23,536	$ 415,049
Buildings and equipment	67,224	79,611	65,410	78,532
Computer equipment	13,902	-	11,281	-
Transportation equipment	5,321	-	5,321	-
Miscellaneous equipment	3,549	-	3,752	-
	113,532	494,660	109,300	493,581
Revaluation increment				
Land	102,282	114,946	102,282	114,946
Buildings and equipment	8,017	394	8,017	394
	110,299	115,340	110,299	115,340
Total cost and revaluation increment	223,831	610,000	219,599	608,921
Accumulated depreciation				
Buildings and equipment	52,861	27,844	50,513	25,730
Computer equipment	8,523	-	6,079	-
Transportation equipment	5,160	-	5,023	-
Miscellaneous equipment	1,896	-	1,688	-
	68,440	27,844	63,303	25,730
Net book value	$ 155,391	$ 582,156	$ 156,296	$ 583,191
Reserve for land revaluation increment tax	$ 35,672	$ 36,551	$ 35,672	$ 36,551

A. The land and buildings were revalued in 1976 and 1996. Such revaluation resulted in the recognition of additional carrying value of fixed assets amounting to $280,477. The above capital surplus was reclassified to other accounts, revaluation increment on properties, under stockholders' equity in accordance with the "Business Entity Accounting Law" and Letter No. 950021958 amended on August 18, 2006.

B. The above assets were not pledged.

8) Overdue accounts

	December 31,	
	2010	2009
Overdue accounts	$ 65,250	$ 104,784
Less: Allowance for doubtful accounts	(58,709)	(58,003)
	$ 6,541	$ 46,781

9) Financial liabilities at fair value through profit or loss-current

	December 31,	
	2010	2009
Derivative financial instruments	$ 44,250	$ 5,604

For information on derivative business transaction, please see Note 10 (4).

10) Derivative financial liabilities for hedging-current

	December 31,	
	2010	2009
FX swap contracts	$ 31,674	$ 1,267

For information on derivative business transactions, please see Note 10 (4).

11) Claims reserve

	December 31,	
	2010	2009
Reserve for outstanding losses	$ 3,899,550	$ 3,661,589
Reserve for incurred but not reported losses	4,271,680	4,299,361
	$ 8,171,230	$ 7,960,950

12) 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 same as the Company’s insurance contract.

Insurance companies / insurance brokers	Type of contract
WALSUN INSURANCE LTD.	Fire insurance, Marine cargo insurance, Inland marine insurance, Marine hull insurance, Fishing vessel insurance, Automobile insurance, Casualty Insurance, Personal accident reinsurance and Engineering insurance
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
CIGNA INTERNATIONAL REINSURANCE COMPANY LTD.	Marine cargo insurance and Marine hull insurance
UIB ASIA REINSURANCE BROKERS PTE LTD.	Marine cargo insurance and Marine hull insurance
RIVERSTONE FRANCE S.A.	Marine hull insurance
CIE TRANSCONTINENTALE DE REASSURANCE	Marine cargo insurance
MUTUELLE CENTRALE DE REASSURANCE	Fire insurance
HANNOVER RUCKVERSICHERUNGS – AG, EISEN UND STAHL RUCK –AG	Marine cargo insurance
IKATAN ASIA PACIFIC REINSURANCE BROKERS PTE LTD.	Fire insurance
WESTPORT INSURANCE CORPORATION	Marine cargo insurance
COLOGNE REINSURANCE CO. PLC	Marine cargo insurance
ARIG REINSURANCE COMPANY B.S.C.C HONG KONG BRANCH	Marine cargo insurance
CHARTIS INSURANCE HONG KONG LTD.	Marine cargo insurance
THE YASUDA FIRE & MARINE INSURANCE COMPANY, LTD.	Fire insurance and Marine cargo insurance
SWISS RE FRANKONA REINSURANCE CORPORATION (SINGAPORE BRANCH)	Marine cargo insurance
GE FRANKONA REINSURANCE A/S HONG KONG BRANCH OFFICE	Fire insurance, Marine cargo insurance and Casualty insurance

B. The unqualified reinsurance premiums ceded were $0 and $5,596 for the years ended December 31, 2010 and 2009, respectively.

C. Reserve for unqualified reinsurance as of December 31, 2010 and 2009, comprises the following:

	December 31,	
	2010	2009
Unearned premium reserve	$ -	$ 2,798
Claims recoverable from reinsurers within 9 months overdue	4,662	14,582
Claims recoverable from reinsurers – outstanding losses	-	-
	4,662	17,380
Refundable deposits for reinsurance	-	-
	$ 4,662	$ 17,380

13) 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,	
	2010	2009
Discount rate	2.00%	2.25%
Expected rate of return on plan assets	2.00%	2.25%
Rate of compensation increase	3.00%	3.00%

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

b) Funded status of the pension plan

	December 31,	
	2010	2009
Benefit obligation		
Vested benefit obligation	$ 27,982	$ 24,310
Non-vested benefit obligation	15,394	16,702
Accumulated benefit obligation	43,376	41,012
Effect of future salary increments	7,999	8,420
Projected benefit obligation	51,375	49,432
Fair value of plan assets	(46,822)	(42,196)
Funded status	4,553	7,236
Unrealized net transition obligation	(524)	(599)
Unrecognized loss on plan assets	3,714	(908)
Accrued pension liabilities	$ 7,743	$ 5,729
Vested benefit	$ 32,047	$ 28,817

c) Net pension cost comprises the following:

	For the years ended December 31,	
	2010	2009
Service cost	$ 6,526	$ 8,648
Interest cost	1,112	1,374
Expected return on plan assets	(949)	(1,165)
Amortization of unrecognized net transition obligation	75	75
Net pension cost	$ 6,764	$ 8,932

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, 2010 and 2009 were $4,717 and $3,910, respectively.

14) Common stock

As of December 31, 2010 and 2009, the Company′s authorized capital was $6,000,000 for both years, and the paid-in capital was $5,512,500 for both years, with a par value of $10 (in dollars) per share.

15) Capital reserve

A. The details of this account are as follows:

	December 31,	
	2010	2009
Excess of par value	$ 300,000	$ 300,000

B. In accordance with the ROC Company Law, capital surplus can only be used to offset deficit, and cannot be used to distribute cash dividends. However, if the Company has no deficit, the capital surplus from shares issued above their par value and earnings from donation received can be used to increase capital. In accordance with the regulations of the Securities and Futures Bureau, capital increases by capitalizing paid-in capital in excess of par value should not exceed 10% of total common stock outstanding, and can occur only in the following year.

16) Limitation on distribution of retained earnings and dividend policy

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

a) Dividends: cash dividend should not be less than 50% of the dividend distributed;
b) Remuneration to directors and supervisors: Less than 1%; and
c) Bonus to employees: Between 0.5% - 5% and can either be in the form of cash or stock upon resolution of the stockholders.

Under the 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. Also, when the reserve has reached 50% of the aggregate par value of the Company's outstanding capital stock, up to 50% thereof may be declared as dividends.

As prescribed by the regulations of the Securities and Futures Bureau, a special reserve equal to the negative items in the stockholders' equity shall be appropriated from the current year's earnings and unappropriated earnings generated in the prior years. The special reserve appropriation arising from the foregoing is not available for dividends.

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. The details of distribution are as follows:

	2009 earnings		2008 earnings	
	Amount	Dividend per share	Amount	Dividend per share
Distributions of earnings :				
Legal reserve	$ 198,565	$ -	$ 42,722	$ -
Special reserve	250,406	-	922,921	-
Reversal of special reserve	(922,921)	-	-	-
Cash dividends	826,875	1.5	-	-
	$ 352,925	$ 1.5	$ 965,643	$ -
Employees' bonus and directors' and supervisors' remuneration :				
Employees' bonus	$ 8,042	$ -	$ -	$ -
Directors' and supervisors' remuneration	800	-	-	-
Total	$ 8,842	$ -	$ -	$ -

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

C. The estimated expenses of employees' bonus were $7,092 and $8,042 for the years ended December 31, 2010 and 2009, respectively; the estimated expenses of directors' and supervisors' remuneration were $1,800 and $500 for the years ended December 31, 2010 and 2009, respectively. 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 by an average per person each year in the past. The difference between estimated amount and actual payment will be recognized in profit or loss of the following year.

The Company's performance for the fiscal year of 2009 was well-run under the leadership of its directors and supervisors. Stockholders' resolved that the renumeration of directors' and supervisors' to be $800 for the year ended December 31, 2009. The difference between estimated amount and actual payment is $300, which has been recognized in profit or loss for the year ended December 31, 2010.

17) Income tax

A. Income tax expense

	For the years ended December 31,	
	2010	2009
Income before income tax	$ 820,396	$ 1,300,913
The effect of income tax - permanent differences	(355,139)	(354,159)
The effect of income tax - temporary differences	171,994	70,917
	637,251	1,017,671
Income tax payable	108,333	254,408
Effect of deferred income tax	2,751	73,317
Tax credits	-	(147)
Unrealized gain on available-for-sale financial assets-current	(240)	(38,566)
Separate income tax	-	1,554
Under provision of prior year's income tax	4,683	17,524
Income tax expense	$ 115,527	$ 308,090

According to the amended Income Tax Act announced by the Presidential Office on May 27, 2009, the corporate income tax will be reduced to 20% starting from year 2010 onwards. The effect of changes in the deferred tax assets and liabilities was $43,604, booked under income tax expense for the year ended December 31, 2009. In addition, according to the amended Income Tax Act announced by the Presidential Office on June 15, 2010, the corporate income tax will be reduced to 17% starting from year 2010 onwards. The effect of changes in the deferred tax assets and liabilities was $31,488 thousand, booked under income tax expense for the year ended December 31, 2010.

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

	December 31,	
	2010	2009
Current items:		
Deferred income tax assets	$ 42,509	$ 28,700
Deferred income tax liabilities	-	(2,942)
	$ 42,509	$ 25,758
Non-current items:		
Deferred income tax assets	$ 183,159	$ 202,658
Deferred income tax liabilities	(1,725)	(1,722)
	$ 181,434	$ 200,936

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

	December 31, 2010	December 31, 2009
Current items:		
Unrealized valuation loss on available-for-sale financial assets	$ 16,533	$ 16,773
Bad debts provision	9,869	11,391
Other expenses	-	220
Unrealized valuation loss (gain) on financial assets	497	(740)
Unrealized exchange loss	15,329	316
Unrealized loss (gain) on derivative financial assets	281	(2,202)
	$ 42,509	$ 25,758
Non-current items:		
Unrealized tax effect from impairment loss of financial assets	$ 127,117	$ 154,549
Unrealized valuation loss on financial assets	38,611	43,779
Pension expense	1,683	1,578
Unrealized exchange loss	15,748	2,752
Cumulative effect of changes in accounting principles	(1,725)	(1,722)
	$ 181,434	$ 200,936

D. As of December 31, 2010, the Company's income tax returns through 2008 have been assessed and approved by the Tax Authority.

E. Undistributed retained earnings:

	December 31, 2010	December 31, 2009
Earnings generated in and before 1997	$ -	$ -
Earnings generated in and after 1998	1,344,767	992,823
	$ 1,344,767	$ 992,823

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

	December 31, 2010	December 31, 2009
Stockholders' tax credit account	$ 394,182	$ 281,200

	2010 (Estimated)	2009 (Actual)
Tax credit rate	29.31%	40.47%

18) PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

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

Function / Expense	2010		2009	
	Operating Costs	Operating Expenses	Operating Costs	Operating Expenses
Personnel Expenses	$ -	$ 202,262	$ -	$ 171,171
Salaries	-	174,071	-	143,153
Employees' insurance	-	8,924	-	7,930
Pension	-	11,481	-	12,842
Others (Note A)	-	7,786	-	7,246
Depreciation (Note B)	2,114	5,658	2,055	5,634
Amortization	-	8,058	-	7,791

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

Note B: 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 Corp.	The Company's Corporate director
Evergreen Reinsurance Company Limited	The investee company of a major shareholder of Evergreen International Corporation
Chang Yung-Fa Charity Foundation	Evergreen International Corp.'s representative is Chang Yung-Fa Charity Foundation's director

2) Significant related party transactions and balances

A. Due from reinsurers and ceding companies

	December 31, 2010		December 31, 2009	
	Amount	%	Amount	%
Evergreen Reinsurance Company Limited	$ 774	0.12	$ 2,537	0.49

B Reinsurance payables

	December 31, 2010		December 31, 2009	
	Amount	%	Amount	%
Evergreen Reinsurance Company Limited	$ 657	0.07	$ 1,304	0.14

C. Accrued expenses

	December 31, 2010		December 31, 2009	
	Amount	%	Amount	%
Evergreen International Corp.	$ 3,507	5.64	$ 227	0.47

D. Operating revenues and operating costs

	For the years ended December 31,			
	2010		2009	
	Amount	%	Amount	%
Evergreen Reinsurance Company Limited				
Gross premiums written	$ 7,745	0.06	$ 5,699	0.04
Reinsurance premiums ceded	272	0.03	(530)	(0.04)
Overriding commission revenue	3	0.01	21	0.08
Overriding commission expense	7	0.06	6	0.06
Reinsurance commission expenses	2,582	0.07	2,226	0.05
Reinsurance commission revenue	1,128	0.31	433	0.10
Reinsurance claims paid	3,396	0.04	1,505	0.02
Reinsurance claims recovery	5,040	0.88	14,544	2.03

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

E. Operating expenses

	For the years ended December 31,			
	2010		2009	
	Amount	%	Amount	%
Evergreen International Corp.				
System service charge, fees paid to stock transfer agent and printing expenses etc.	$ 19,927	5.11	$ 18,762	3.84
Chang Yung-Fa Charity Foundation Donation	$ 10,000	2.57	$ 120,000	24.56

F. Computer software costs

The cost was incurred on the computer systems developed by Evergreen International Corp. As of December 31, 2010 and 2009, the Company had paid $0 and $378, respectively, to Evergreen International Corp. for the computer systems.

G. Salary and remuneration paid for directors, supervisors, general managers, vice general managers, and other major management personnel.

	2010	2009
Salary	$ 15,988	$ 15,988
Bonus	5,062	3,040
Service execution expense	1,218	1,218
Earnings distribution	2,319	999
	$ 24,587	$ 21,245

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 (3).

7. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2010, the Company's unused letters of credit issued were USD 3,602 and CAD 21 (in thousand).

8. SIGNIFICANT ACCIDENTAL LOSS

None.

9. SIGNIFICANT SUBSEQUENT EVENTS

The earthquake occurred in Japan on March 11, 2011. Insurance companies are investigating and calculating the amount of claims arising from the incident, and the Company has not received any notifications yet.

10. OTHERS

1) Financial statement presentation

Certain accounts in the 2009 financial statements were reclassified to conform with the 2010 financial statement presentation.

2) The fair value of the financial instruments

Financial Instruments	December 31, 2010 Book Value	December 31, 2010 Fair Value: Quotations in an active market	December 31, 2010 Fair Value: Estimated using a valuation technique	December 31, 2009 Book Value	December 31, 2009 Fair Value: Quotations in an active market	December 31, 2009 Fair Value: Estimated using a valuation technique
Non-derivative financial instruments						
ASSETS						
Financial assets with fair values equal to book values	$ 18,108,618	$ -	$ 18,108,618	$ 15,528,991	$ -	$ 15,528,991
Financial assets at fair value through profit or loss	827,072	265,174	561,898	2,608,894	1,977,974	630,920
Available-for-sale financial assets (Note)	7,224,139	6,937,361	286,778	6,486,408	6,151,260	335,148
Investments in bonds without active markets	2,007,820	-	2,007,820	3,000,526	-	3,000,526
Refundable deposits	90,493	-	90,493	91,203	-	91,203
Funds held by other insurance companies	142,601	-	142,601	118,949	-	118,949
Overdue accounts	6,541	-	6,541	46,781	-	46,781
LIABILITIES						
Financial liabilities with fair values equal to book values	1,239,353	-	1,239,353	1,454,215	-	1,454,215
Deposits-in	4,751	-	4,751	4,663	-	4,663
Other liabilities	-	-	-	5,901	-	5,901

Financial Instruments	December 31, 2010			December 31, 2009		
		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						
Forward contracts	$ -	$ -	$ -	$ 2,297	$ -	$ 2,297
FX swap contracts	-	-	-	9,506	-	9,506
Derivative financial assets for hedging						
FX swap contracts	-	-	-	13,954	-	13,954
LIABILITIES						
Financial liabilities at fair value through profit or loss						
Forward contracts	-	-	-	5,604	-	5,604
FX swap contracts	44,250	-	44,250	-	-	-
Derivative financial liabilities for hedging						
FX swap contracts	31,674	-	31,674	1,267	-	1,267

Note: Includes statutory deposits.

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

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, Notes receivable, Claims recoverable from reinsurers, Due from (to) reinsurers and ceding companies, Reinsurance receivables (payables), Interest receivable, Other accounts receivable (payable), Other financial assets, Accrued expenses and Tax payable.

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

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

D. The carrying values of the refundable deposits, funds held by other insurance companies, deposits-in and other liabilities 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.

F. The carrying value of overdue accounts is the estimated recoverable amount after deducting the allowance for bad debts. Accordingly, the carrying value is used as the fair value.

3) <u>Procedure of financial risk control and hedge and information of material financial risk</u>

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

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

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

A. Interest rate risk

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

B. Foreign exchange risk

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

C. Market risk

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

b) The Company adopts the FX swap contracts and forward exchange contracts to hedge exchange rate fluctuations risk on foreign-currency 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.

4) 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, 2010 and 2009, the notional amounts of FX swap contracts were USD 37,000, and USD 56,510 and CAD 7,000 (in thousand), respectively. Their fair values were as follows:

	Designated as hedging instrument		
	Financial instrument was designated as	Fair value	
Hedge item	hedging instrument	December 31, 2010	December 31, 2009
Foreign CMOs, structured notes and CDOs	Derivative financial assets for hedging - FX swap contracts	$ -	$ 13,954
Foreign CMOs, structured notes and CDOs	Derivative financial liabilities for hedging - FX swap contracts	$ 31,674	$ 1,267

(b) Not applicable to hedge accounting

As of December 31, 2010 and 2009, the notional amounts of FX swap contracts not applicable to hedge accounting were USD 47,370 and USD 33,660 (in thousand), respectively. The fair value were ($44,250) and $9,506, respectively, and booked under financial (liabilities) assets at fair value through profit or loss.

B. Forward contracts

As of December 31, 2010, the notional amounts and fair values of derivative financial assets (liabilities) arising from forward contracts were $0. As of December 31, 2009, the notional amounts of derivative financial assets (liabilities) arising from forward contracts were USD 946 and KRW 1,298,000 (in thousand), respectively. The fair value were $2,297 and ($5,604), respectively, booked under financial assets (liabilities) at fair value through profit or loss.

C. Futures contracts

As of December 31, 2010 and 2009, all futures contracts were settled, and the related margins were $69,372 and $70,062, respectively.

5) Interest rate risk:

The interest risk of the book value (cost) of financial instruments the Company is exposed to were specified by maturities as follows:

A. December 31, 2010

Fixed interest rate

	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
Cash and cash equivalents	$ 7,407,788	$ -	$ -	$ -	$ -	$ -	$7,407,788
Available-for-sale financial assets – current	405,038	-	-	-	-	-	405,038
Available-for-sale financial assets – non current	-	212,222	349,952	-	299,904	878,980	1,741,058
Investments in bonds without active markets – non current	-	285,155	3,101	3,272	3,360	110,978	405,866

Floating interest rate

	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
Cash and cash equivalents	$ 8,343,401	$ -	$ -	$ -	$ -	$ -	$8,343,401
Financial assets at fair value through profit or loss – non current	-	154,518	634,502	-	-	-	789,020
Available-for-sale financial assets – non current	-	-	-	300,000	-	-	300,000
Investments in bonds without active markets – current	199,740	-	-	-	-	-	199,740
Investments in bonds without active markets – non current	-	934,309	-	92,064	193,537	930,052	2,149,962

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 be changed 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, 2009

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	$ 3,785,711	$ -	$ -	$ -	$ -	$ -	$3,785,711
Available-for-sale financial assets – current	173,601	-	-	-	-	-	173,601
Available-for-sale financial assets – non current	-	406,203	216,603	349,931	-	1,320,484	2,293,221
Investments in bonds without active markets – non current	-	722,584	73,926	36,804	37,604	324,971	1,195,889

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	$ 9,253,278	$ 65,800	$ -	$ -	$ -	$ -	$9,319,078
Investments in bonds without active markets – current	96,553	-	-	-	-	-	96,553
Financial assets at fair value through profit or loss – non current	-	143,593	-	641,851	64,368	-	849,812
Available-for-sale financial assets – non current	-	-	-	-	300,000	-	300,000
Investments in bonds without active markets – non current	-	518,536	-	-	95,217	1,842,079	2,455,832

6) Foreign currency asset and liability positions

The foreign currency assets and liabilities that are affected by changes in foreign exchange rate was for the most part denominated in US dollars. The exchange rate was 1: 30.368 for the year ended December 31, 2010. The US dollar asset position with bank deposit and financial assets was USD 138,620 thousand. The US dollar liability position with claims reserve and accounts payable was USD 18,470 thousand. In addition, as of December 31, 2010, the notional amount arising from FX swap contracts, which also fluctuate with changes in foreign exchange rate, was USD 84,370 thousand. Please see Note 10 (4).

11. OTHER DISCLOSURES

1) Information of significant transactions

A. Collateral loan to others: Not applicable.

B. As guarantor or surety for others: Not applicable.

C. Holding marketable securities at year end: Not applicable.

D. Accumulated acquisition costs or disposal proceeds for specific marketable securities amounting to more than $100,000 or 20% of capital: Not applicable.

E. Acquisitions of real estate with a value in excess of $100,000 or 20% of capital: None.

F. Disposals of real estate with a value in excess of $100,000 or 20% of capital: None.

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

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

I. Derivative business transactions: Please see Note 10 (4).

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

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

12. SEGMENT INFORMATION

1) Financial information by industry:

The Company is only engaged in reinsurance. Hence, disclosure of information by industry is not applicable.

2) Financial information by geographic area:

The Company does not have overseas operations. Hence, disclosure of information by geographical area is not applicable.

3) Information of export sales:

Not applicable.

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 2010 and 2009, gross premiums written amounted to $2,273,887 and $2,456,794, constituting 17.15% and 17.83% 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

None.

15. IMPORTANT LAWSUITS IN PROGRESS OR ADJUDICATED

The Company's income tax return for 2002 had been examined by the National Tax Authority (NTA). In connection with such examinations, the Company disagreed with the assessment and appealed to the tax authority. As of December 31, 2010, the Company's income tax return for 2002 had been revoked by the Taipei High Administrative Court and the case had been closed.

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

The Company had no important contracts signed, discharged by performance, agreement, or breached except for regular contracts related to the insurance businesses.

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

In accordance with the amended Income Tax Act announced by the Presidential Office on June 15, 2010, the corporate income tax will be reduced from 20% to 17% starting from year 2010 and onwards. Please refer to Note 4(17) for the related effect on the financial statements.