

Websites for search:

<http://mops.twse.com.tw>

<http://www.cathayholdings.com>

Stock code: 2882



Cathay Financial Holding Co., Ltd.

2018 Annual Report

Dated: February 28, 2019

1. Contact Information of Spokesperson:

	Spokesperson	Deputy Spokesperson
Name/Title	Chung-Yi Teng / Senior Executive Vice President	Grace Chen/Chief Financial Officer David P. Sun/ Senior Executive Vice President
Phone	(02) 2708-7698 Ext.3606	(02) 2708-7698 Ext.7730 (02) 2708-7698 Ext.7790
Email	service@cathayholdings.com.tw	

2. Contact information of CFH and its Subsidiaries:

Company	Address	
	Website	Telephone
Cathay Financial Holding Co., Ltd.	No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	
	www.cathayholdings.com	(02) 2708-7698
Cathay Life Insurance Co., Ltd.	No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	
	www.cathayholdings.com/life	(02) 2755-1399
Cathay United Bank Co., Ltd.	No.7, Songren Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)	
	www.cathayholdings.com/bank	(02) 8722-6666
Cathay Century Insurance Co., Ltd.	No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	
	www.cathayholdings.com/insurance	(02) 2755-1299
Cathay Securities Corporation	No. 333 and 335, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	
	www.cathayholdings.com/securities	(02) 2326-9888
Cathay Securities Investment Trust Co., Ltd.	6F., No. 39, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	
	www.cathayholdings.com/fund	(02) 2700-8399
Cathay Venture Inc.	7F., No.68, Sec. 5, Zhongxiao E. Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)	
	None	(02) 7711-9889

3. Name of Institution for stock transfer, Address, Website and Telephone:

Institution for stock transfer	Stock Registration, Administrative Division of the Company	Telephone	(02) 2708-7698#9
Website	www.cathayholdings.com	Address	No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)

4. Name of Institution for credit rating, Address, Website and Telephone:

Institution for credit rating	Address	Telephone
Taiwan Ratings	49th Floor Taipei 101 Tower No.7, Xinyi road, Section 5, Taipei 110, Taiwan, R.O.C.	(02) 8722-5800
Moody's Asia-Pacific Ltd.	24F, One Pacific Place 88 Queensway Admiralty, Hong Kong	852-3758-1300
Standard & Poor's	Unit 1,Level 69,International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong	852-2533-3500

5. Contact Information of independent accountants:

Names of Auditors	Bob Chang, James Huang	Telephone	(02) 2757-8888
CPA Office	Ernst & Young	Address	9F, No. 333, Sec. 1, Keelung Road, Xinyi District, Taipei City, Taiwan (R.O.C.)
Website	www.ey.com		

6. Overseas Listings and Access to the Listing Information:

Listing Bourse	Luxembourg Stock Exchange
Information Access	Bloomberg

Content

One.	Letter to Shareholders	1
I.	Business Report for the year 2018.....	1
II.	2019 Business Plan	4
III.	Future strategies, impacts of the competitive environment, regulatory environment, and the overall business environment.....	5
IV.	Latest Credit Ratings	5
Two.	Company Profile	6
I.	Date of Establishment	6
II.	Company Profile	6
Three.	Corporate Governance Report	9
I.	Organization.....	9
II.	Board Members, Supervisors and Top Managers from Each Division and Subsidiary	12
III.	Remuneration Paid to directors (including independent directors), presidents, vice presidents and employees in the latest fiscal year	23
IV.	Implementation of Corporate Governance	30
V.	Professional Fees to the Independent Auditor	92
VI.	Information of Independent Auditor replacement	92
VII.	The facts about the Company chairman, president, managerial officer in charge of financial or accounting affairs having served with the CPA Office or the affiliation thereof over the past year	93
VIII.	Facts about the director or supervisor, managerial office, or a same person or a same affiliated enterprise having held the equity of a same financial holding corporation with voting power exceeding the specified ratio which should be declared under Article 11 of the Managerial Regulations: The facts of equity transfer and change in equity pledge.....	94
IX.	Information of Related Parties of the top ten shareholders	97
X.	Invested businesses jointly held between the financial holding company, its directors, supervisors, managers, and enterprises directly or indirectly controlled by the financial holding company; disclose shareholding in aggregate of the above parties.....	98
Four.	Capital Overview	99
I.	Capital and Shares	99
II.	Issuance of Corporate Bonds	105
III.	Issuance of Preferred Shares	107
IV.	Issuance of Global Depositary Receipts	109
V.	Issuance of Employee Stock Option Plan.....	110
VI.	Issuance of New Restricted Employee Shares.....	110
VII.	Merger and Acquisitions or Transfers of other Financial Institutions	110
VIII.	Implementation of the Capital Utilization Plans.....	110
Five.	Overview of Operations.....	112
I.	The content of business.....	112
II.	Cross-business & Cross-selling Benefits	134
III.	Industry and Market Overview	135
IV.	Employee Profile	143
V.	Corporate responsibility and moral conduct	154
VI.	Number of employees who are not in supervisor positions, the annual average employee benefit expenses, and the differences comparing to the previous year.....	162
VII.	Information System.....	163
VIII.	Industrial Relations	169
IX.	Important contracts and commitments.....	171
Six.	Financial Report	176
I.	Five Year Condensed Balance Sheet and Income Statement Summary	176
II.	Five Year Financial Analysis	180
III.	Audit Report from the Auditing Committee on the Latest Financial Statements	183
IV.	Audited consolidated financial reports of the parent and subsidiaries in the most recent year...	183
V.	In case of insolvency of the financial holding company and its subsidiaries in the most	

	recent year to the date this report was printed, specify the effect on the financial position of the Company.....	183
Seven.	Review and analysis of financial status and financial performance and risk management	184
I.	Analysis of Financial Status	184
II.	Analysis of Financial Performance.....	185
III.	Cash flows.....	185
IV.	Major capital expenditures in the most recent year	185
V.	The investment Strategy in the most recent year, Main Causes for Profits or Losses, Improvement Plans and the Investment Plans for the Coming Year	186
VI.	The analysis and assessment of risk management in the most recent year to the date this report was printed by the analysis of the overall financial position and operation.	187
VII.	Special Event Management	202
VIII.	Other Major Events.....	202
Eight.	Special Disclosure	203
I.	Information on Affiliates	203
II.	Any private placement of securities in the recent years up to the publication of this annual report.....	203
III.	The shares in the Financial Holding Company held or disposed of by subsidiaries in the recent years up to the publication of this annual report:.....	203
IV.	Other important supplementary information:	203
V.	Events occurred in the previous year or up to the publication of this annual report, which significantly affect shareholders' equity or price of shares pursuant to subparagraph 2, paragraph 3, article 36 of the Securities and Exchange Act	203

Appendix

Appendix 1: 2018 Consolidated Financial Statements.....	204
Appendix 2: 2018 Consolidated Business Reports of Affiliated Enterprises.....	592
Appendix 3: 2018 Affiliation Report.....	617
Appendix 4: 2018 Declaration of Internal Control System.....	626

One. Letter to Shareholders

I. Business Report for the year 2018

In 2018, the divergence in global monetary policies and trade friction have led to discrepancies in growth rates for economies across the globe. The business environment was filled with challenges as the U.S. economy continued to expand, growth in the Eurozone, Japan, and China decelerated, and turmoil hit the capital markets. With concerted efforts and commitment, Cathay Financial Holdings once more achieved outstanding business performance in 2018 with consolidated after-tax profit of NT\$51.8 billion (US\$1.7 billion) and earnings per share of NT\$3.95. Our subsidiaries, Cathay Life Insurance and Cathay United Bank, were the primary contributors.

Subsidiaries Delivered Excellent Performance in 2018

Cathay Life Insurance recorded consolidated after-tax profit of NT\$30.3 billion (US\$990 million) for the year. In addition to stable investment performance, Cathay Life Insurance also maintained its position as the market leader in terms of premium income. First-year premium income and total premium income reached NT\$211.6 billion (US\$6.93 billion) and NT\$680.7 billion (US\$22.28 billion), respectively. First-year premium equivalent, a better indicator of the value of business, was NT\$71.4 billion (US\$2.34 billion), and this allowed Cathay Life Insurance to be the industry leader.

Cathay United Bank recorded consolidated after-tax profit of NT\$21.3 billion (US\$700 million) for the year. Cathay United Bank had strong operating performance, delivering exceptional performance in corporate banking and retail banking, maintaining stable asset quality, and increasing fee income from credit cards and wealth management as compared to last year. Cathay United Bank also worked with strategic partners to provide a diverse range of payment applications. Cathay United Bank continues to manage its customers' wealth by adhering to the core values of treating customers with respect and sincerity and providing them with professional financial services. Cathay United Bank hopes to be the most trustworthy and reliable brand for customers.

Cathay Century Insurance was ranked second in the industry in terms of premium income. Cathay Securities Investment Trust reported NT\$635.1 billion (US\$20.79 billion) in assets under management, making it the largest securities investment trust company in Taiwan. Cathay Securities also ranked first in the market in terms of sub-brokerage service; its commitment to digital product development has meanwhile led to multiple awards and recognition for its excellent performance in digital operations.

Deepening Our Presence in Overseas Markets

Cathay Financial Holdings continues to forge a deeper presence in overseas markets. Cathay United Bank upgraded its branch in China to a subsidiary, which commenced operations in September 2018, and will focus on strengthening the development of its various financial services. Regarding our insurance business in China, Cathay Lujiazui Life Insurance currently operates 12 offices (headquarters and branch offices) and 51 sales and service agencies across China. Meanwhile, Cathay Century Insurance (China) integrated the technologies and big data analytics capabilities of Ant Financial Services Group, and actively developed eCommerce-related financial services, which contributed substantial premium income growth. Going forward, Cathay Century Insurance will continue to develop property and casualty insurance business opportunities in China.

With respect to our presence in Southeast Asia, Cathay United Bank is completing the expansion of its Southeast Asian network. With overseas offices in nine of the ten ASEAN member states, Cathay United Bank has the most extensive network in the ASEAN markets among Taiwanese banks. In anticipation of potential growth in Vietnam's insurance market, Cathay Life Insurance (Vietnam) has established 6 branch offices and 59 sales and service offices. Our property and casualty business in Vietnam continues to grow steadily.

Integrating Our Asset Management Business

Development of our asset management business is one of Cathay Financial Holdings's core strategies. We are doing this by consolidating the resources of Cathay Securities Investment Trust, Conning Holdings Corp., and China Development Bank Securities in the Asia Pacific, Europe and U.S. markets. In 2018, we completed a strategic investment in Global Evolution, a Denmark-based fixed income asset management company specializing in emerging and frontier markets, which enhanced our investment capabilities. Cathay Financial Holdings will continue to integrate group resources, and develop a global asset management platform.

Promoting Financial Innovation

Cathay Financial Holdings is actively engaged in digital transformation by building digital, data, and technology capabilities and infrastructure that enable us to refine our risk management practices, enhance business performance, and optimize customer experiences. For example, Cathay United Bank and Cathay Life Insurance launched the AI-enabled customer service chatbot "Alpha" to provide quick and timely responses to user queries. Cathay United Bank launched the Cathay Robo, which is a human-machine interface integrating global investment products and intelligent algorithm technology. Cathay Robo enables customers to achieve their financial goals in a rational and disciplined manner. Cathay Century Insurance worked with local airlines to develop the first automated claims for flight delays in Taiwan, taking claims services to a whole new level. Cathay Securities is the first in the industry to introduce a stock loan app that can quickly meet unexpected cash needs by allowing customers to apply for loans online at any time of the day and receive loan approvals in three minutes. In keeping with the times, Cathay Financial Holdings seeks to be a leader in providing innovative financial services for next-gen customers and the best customer-centric digital experiences.

Strengthening Our Corporate Governance and Ensuring Sustainable Development

In 2018, Cathay Financial Holdings and its subsidiaries Cathay Life Insurance and Cathay United Bank received the highest rating (Outstanding) in the CG6011 Corporate Governance Assessment, which was organized by the Corporate Governance Association in Taiwan. Company Secretary has been appointed to assist our Board of Directors in fulfilling their supervisory functions. We also established a whistleblowing system, continued to strengthen our anti-money laundering/countering terrorism financing mechanisms, and organized a wide variety of compliance education and training programs in order to enhance the compliance culture of the Cathay Group. To address the complicated range of emerging risks arising all across the world, we continuously refine our risk map, carefully monitor potential risks, and forge stronger connections between risk assessments and business plans. We also reinforced disclosure of tax information and kept pace with international trends in tax governance to ensure effective tax management. To enhance the independence and effectiveness of our board's

performance evaluation, we will also appoint a third-party professional independent institution to conduct evaluations of board performance before the end of 2019.

For four consecutive years, Cathay Financial Holdings has been selected as a DJSI Emerging Markets constituent of the Dow Jones Sustainability Index (DJSI), a respected international indicator of corporate sustainability. Selected from a pool of more than 3,500 companies around the world, Cathay Financial Holdings excelled in this regard and was ranked among the top 10% global insurance companies for its comprehensive performance in economic, environmental and social aspects.

More than half of the population in Taiwan rely on Cathay Financial Holdings to manage their wealth. We understand our great social responsibility and for this reason we adopted international sustainability financial frameworks—the Principles for Sustainable Insurance (PSI), Equator Principles (EPs), Principles for Responsible Investment (PRI), and Principles for Responsible Banking (PRB) as management guidelines. By incorporating environmental, social and governance (ESG) elements into our operations we seek to continue to strengthen the development of our corporate sustainability.

Climate change imposes considerable risk on Taiwan. Cathay Financial Holdings has consistently addressed climate change issues and developed green finance services by incorporating “investment,” “finance,” and “insurance,” with “low-carbon” initiatives. We are the first to adopt the Task Force on Climate-related Financial Disclosures’ (TCFD) framework for disclosing the financial impact of climate change on the company, future contingency strategies, and goals in compliance with international standards. Cathay Financial Holdings also actively participates in global initiatives with the hope of leveraging its influence as a financial institution to inspire Taiwanese corporations to keep up with international benchmark companies.

Looking forward to 2019, the world remains filled with political and economic uncertainties, and numerous research institutions have predicted slower economic growth amidst the challenges in the business environment. Cathay Financial Holdings will continue to manage its business with integrity, pay attention to capital market volatility, monitor potential risks, commit to integrating the operations of the Cathay Group and focusing on digital transformation, provide more efficient, convenient, and customer-friendly financial services, and implement a customer-centric business model. By reinforcing our AI-enabled technologies, integrating physical and virtual channels, providing a comprehensive range of excellent financial services, and focusing on our three engines of growth, “Insurance + Banking + Asset Management,” as our core development strategy, we aim to create value for our shareholders and advance toward our vision of becoming a “leading financial institution in the Asia-Pacific region,” and thereby demonstrate our sincere gratitude and appreciation to the shareholders who have given us their invaluable support over the years.

II. 2019 Business Plan

The global economy continues to be exposed to uncertain risks due to external factors, such as the U.S.–China trade war, Brexit negotiations, and economic turmoil in emerging markets. As a leading financial institution, Cathay Financial Holdings will continue to closely monitor market dynamics while staying committed to maximizing value for its shareholders, customers and employees by utilizing its robust business development and sustainable management strategies to respond to rapid market changes and intense competition. Going forward, we will prudently respond to global political and economic changes and continue to expand our regional operations, focus on business innovation, optimize organizational structures, and strengthen legal compliance. Our 2019 business plan is outlined below:

(I) Gradually expand regional operations and achieve our vision of being a leading financial institution in the Asia-Pacific region:

Consistent with our vision of being a leading financial institution in the Asia-Pacific region, Cathay Financial Holdings aims to connect our regional offices to build a business network in Greater China and the ASEAN markets, provide a more comprehensive range of financial services for domestic and overseas Taiwanese corporates, and seek local business opportunities in our regions of operation. We remain committed to the development of business opportunities that increase profits and create value for our shareholders by leveraging on our experience in Taiwan and the local resources of overseas strategic partners.

Cathay Financial Holdings will continuously strengthen our investment product lines and management capabilities and integrate the strengths and resources of our insurance and banking businesses in order to develop our asset management business as the third pillar of growth for the Cathay Group, thereby facilitating the overall development of the asset management business and accelerating the group’s “three-engine” strategy.

(II) Develop and implement innovative, technology-driven financial services:

To leverage the impact of developments in big data analytics, artificial intelligence, and blockchain technology, Cathay Financial Holdings established a dedicated group to develop and implement digital transformation initiatives within the Group, actively invest in innovative FinTech applications, integrate customer data, improve customer experiences, and gradually establish even better customer-centric financial services. In addition, we track market trends by participating in startup platforms and through strategic investments.

In the future, Cathay Financial Holdings will continue to develop market-leading technologies, explore ways to cooperate with companies in different industries, and build a comprehensive smart banking environment that increases the depth and breadth of services that fulfill customer needs and drives process improvements in front-, mid-, and back-office support functions, thereby providing customers with a more diverse range of convenient and safe financial services.

(III) Continuously internalize core corporate values and optimize asset–liability allocation and management:

Cathay Financial Holdings seeks to create intangible corporate value through our core values of “Integrity, Accountability and Creativity.” In response to increasingly stringent regulatory requirements,

Cathay Financial Holdings seeks to forge a group culture that embraces legal compliance. By implementing compliance, cultivating compliance professionals, and strengthening compliance education and training, we seek to increase the awareness of the importance of legal compliance among all of our employees and to ensure that we develop our business in compliance with regulations. In response to the challenges brought by global political and economic changes, Cathay Financial Holdings will also continue to optimize how the Cathay Group allocates and manages its assets and liabilities, thereby building a sound financial position and solid foundation for sustainable growth.

III. Future strategies, impacts of the competitive environment, regulatory environment, and the overall business environment

Political and economic instabilities around the world have presented significant uncertainties to the global economic outlook. Also, the financial industry faces a tightened supervisory environment, increased capital requirements and intensified competition driven by Fintech that makes the business environment all the more challenging. In addition to monitoring global political, economic and industrial changes, enforcing compliance, refining risk management, improving financial health and facilitating financial innovations, Cathay Financial Holdings will continue taking progressive steps to realize its vision of becoming “the best financial institution in Asia Pacific” in 2019 with “Integrity, Accountability and Innovation” as its core values and “insurance, banking and asset management” as the three profit engines.

IV. Latest Credit Ratings

Rating results summary:

Credit rating agency		Cathay Financial Holdings	Cathay Life	Cathay Century Insurance	Cathay United Bank	Cathay Securities
Taiwan Ratings	Rating Date	2018.9.26	2018.10.17	2018.10.23	2018.10.22	2018.11.13
	Rating Received	twAA	twAA+	twAA+	twAA+	twAA-
	Rating Outlook	Stable	Stable	Stable	Stable	Stable
Moody's	Rating Date	2019.2.26	2019.2.26	2018.7.17	2019.1.29	None
	Rating Received	Baa1	A3	A2	A2	
	Rating Outlook	Stable	Stable	Stable	Stable	
Standard & Poor's	Rating Date	2018.9.26	2018.10.17	2018.10.23	2018.10.22	None
	Rating Received	BBB+	A-	A-	A-	
	Rating Outlook	Stable	Stable	Stable	Stable	

Two. Company Profile

I. Date of Establishment

December 31, 2001.

II. Company Profile

- Cathay Financial Holding Co., Ltd. (hereinafter referred to as the Company or the Group) was founded on December 31, 2001 with paid-in capital of NT\$58.386 billion through a share swap between the Company and Cathay Life Insurance Co., Ltd. (or Cathay Life Insurance) that became a wholly-owned subsidiary of the Company thereafter. All Cathay Life Insurance shares, TAIEX listed, were transferred to the ownership of the Company on the same day.
- In April 2002, Tong Tai Insurance Co., Ltd. (later renamed to Cathay Century Insurance Co., Ltd. or Cathay Century Insurance) and Hui-Tong commercial banks (Later changed to Cathay United Bank Co., Ltd., or Cathay United Bank) jointed the Group as wholly-owned subsidiaries through share swaps. The conversion ratio between Cathay Century Insurance and Cathay United Bank was 4.5 to 1 and 6 to 1 for the latter transaction. After the transaction, the Company's total paid-in capital reached NT\$60.959 billion.
- In May 2002, the Company issued US\$ 700 million in European Convertible Bond (ECB).
- In December 2002, United World Chinese Commercial Bank converted every of its 1.6848 for one share of the Company to become a 100% subsidiary under the Group. After the merger, total paid-in capital reached NT\$ 84.532 billion.
- In January 2003, total paid-in capital was reduced to NT\$ 83.075 billion, followed by the cancellation of treasury stocks for 145.674 million shares.
- In April 2003, the Company invested NT\$ 600 million to establish Cathay Venture Co., Ltd.
- In July 2003, the Company and Cathay Life Insurance issued US\$ 522 million Global Depository Receipts (GDRs) through a conversion of 448.5 million treasury shares.
- In September 2003, the Company acquired 8.33% of Yitai Venture with NT\$ 75 million.
- In October 2003, United World Bank became the surviving entity after its merger with Cathay Bank and changed its name to Cathay United Bank Co., Ltd (Cathay United Bank).
- In April 2004, the Company invested NT\$ 600 million to establish Yitai II Venture Investment Co., Ltd.
- In May 2004, the Company invested NT\$ 3.5 billion to found Cathay Securities Corporation (or Cathay Securities).
- In July 2004, the Company acquired 100% of Yitai Management Consultant Co., Ltd. with NT\$ 16.56 million.
- In November 2004, the Company issued US\$ 495 million GDRs through a conversion of 254.911million treasury shares.
- In May 2005, the Company injected another NT\$ 150 million into Yitai Venture for its secondary equity offering. The ownership increased to 15% from the original 8.33% after the investment.
- In June 2005, the Company solely participated in Cathay Securities' secondary equity offering of NT\$ 500 million, or NT\$ 25/share for a total of 20 million shares. The securities arm's total paid-in capital, hence, reached NT\$3.7 billion from NT\$ 3.5 billion.
- In 2005, the Company acquired 81.35% of The Lucky Bank through insider transfer and public tender offering. Later in June 2006, Shareholders' meetings from both sides together resolved a conversion ratio of one common share of Cathay Financial Holdings to 3.8392 shares of the bank to make The Lucky Bank a wholly-owned subsidiary under the Group, followed by the Company's Board decision to proceed the share swap in March 2006. Cathay United Bank became the surviving company after the reference merger date of January 01, 2007 based on a decision made in November 2006.

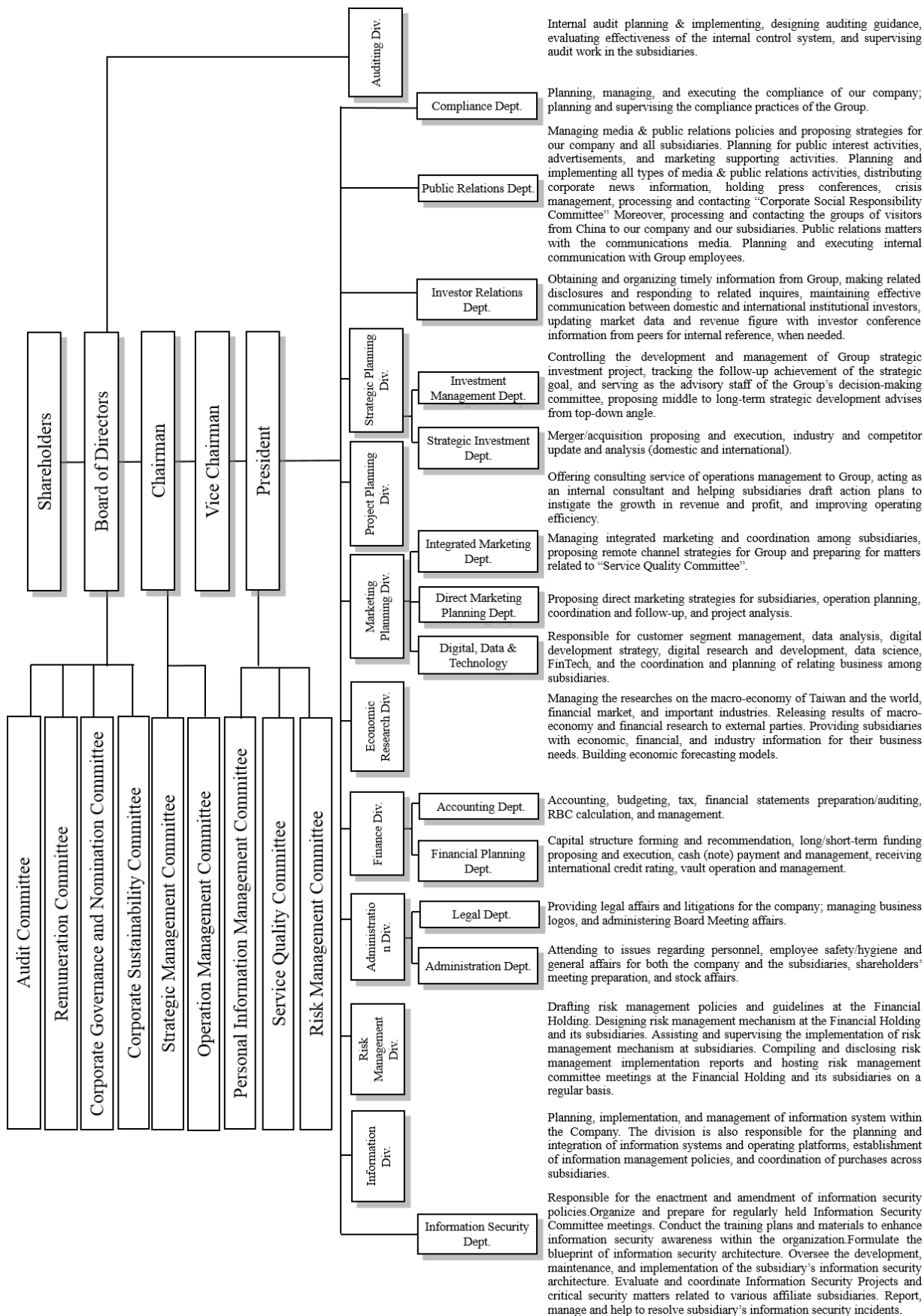
- Rights to convert the ECB into common shares or GDRs became exercisable from October 2004. As of April 30th, 2007, a total of 461.242 million common shares were converted, which made the Company's total paid-in capital NT\$ 92.77 billion. ECB worth of US\$ 13.926 million remained outstanding thereafter.
- All outstanding ECB (US\$ 13.926 million) as of April 16, 2007 were paid off before the expiration day of May 20, 2007.
- In June 2008, the Company solely participated in Cathay Life Insurance's secondary equity offering of NT\$ 15 billion, or NT\$ 75/share for a total of 200 million shares. Total paid-in capital of the insurer thus increased to NT\$ 52.69 billion from NT\$ 50.69 billion.
- In August 2008, the total paid-in capital grew to NT\$ 97.38 billion after stock dividend distributions.
- On December 25, 2008, an investment of NT\$ 15 billion on Cathay Life's preferred share was made through the issuance of the first unsecured subordinated debenture in 2008 (2008-1) for NT\$ 20 billion during the same month. The residual NT\$ 5 billion was kept for working capital of the Company.
- In August 2009, Cathay Venture, Yitai II Venture, Yitai Management Consultant, and Yitai Venture were merged. Cathay Venture was the surviving company.
- In October 2009, to stabilize the ownership, the Company paid NT\$ 925 million for 49.97% of Cathay Venture and incorporated the newly acquired a wholly-owned subsidiary.
- On December 16th, 2009, an investment of NT\$ 10 billion on Cathay Life Insurance's Series-B Preferred Share was made through the issuance of the first unsecured debenture in October 2009 (2009-1) for NT\$ 20 billion during the year. The residual NT\$ 10 billion was kept for future merger/acquisition or capital adequacy ratio improvement.
- In October 2009, the total paid-in capital was reduced to NT\$ 96.709 billion, after the cancellation of treasury stocks for 66.66 million shares obtained through the share swap between the Company and the Lucky Bank.
- In September 2010, the total paid-in capital grew to NT\$ 101.54 billion after the distribution of stock dividends.
- In June 2011, the Company paid NT\$ 2.774 billion to acquire the entire Cathay Investment Trust to establish an asset management platform.
- In August 2011, the total paid-in capital grew to NT\$ 103.58 billion after stock dividend distribution.
- In September 2011, the Company injected additional capital of NT\$ 715 million (NT\$ 10/share) to Cathay Investment Trust.
- In September 2011, the Company acquired 9.9% shares of Conning Holdings Corp. for NT\$ 507 million.
- In September 2011, the Company and Conning Holdings Corp. together set up Cathay Conning Asset Management (or CCAM). An investment proceeds of NT\$ 89 million was made to own 50% of the new venture in February 2012.
- In October 2011, the Company bought back 200 million treasury shares (NT\$ 35.9/share in average), for future ECB conversion.
- In July 2012, the Company invested another NT\$ 199.992 million (NT\$ 12/share) on Cathay Securities. Total paid-in capital of the securities arm became NT\$3,866.660 million then.
- In August 2012, the Company issued US\$ 254.4 million ECB that can be later converted to common stocks out of the treasury shares bought back in October 2011.
- In August 2012, the total paid-in capital grew to NT\$ 108.65 billion after stock dividend distribution.
- In January 2013, additional capital of US\$ 1 million (or NT\$ 29 million) was injected to Cathay Conning Asset Management Ltd. Ownership remained 50% after the transaction.

- In May 2013, additional capital of US\$ 2 million (or NT\$ 60 million) was injected to Cathay Conning Asset Management Ltd. Ownership remained 50% after the transaction.
- In September 2013, our company performed a capital raising by cash at \$36 per share. In total, 353 million shares were issued for \$12.708 billion. The paid-in capital of our company increased to NT\$112.18 billion.
- In September 2013, our company became the sole buyer of a stock offering for capital raising by cash of \$12.002 billion at Cathay United Bank. In total, 324,378,000 shares were sold for \$37 per share. After the capital raising, the paid-in capital of the company increased to \$64.67 billion (including increase of capital by appropriating \$9.15 billion of retained earnings in 2013).
- In November 2013, the total paid-in capital grew to NT\$119.65 billion after stock dividend distributions.
- In November 2013, our company redeemed overseas convertible bonds issued in 2012 before maturity date. As of November 28, 2013, those bonds have been fully converted to common shares.
- In August 2014, the total paid-in capital grew to NT\$125.63 billion after stock dividend distributions.
- In October 2014, the Company invested another NT\$700.000 million (NT\$14 per share) on Cathay Securities. Total paid-in capital of the securities arm became NT\$4,700.000 million then.
- In September 2015, the Company sold 9.9% shares of Conning Holdings Corp. to its subsidiary Cathay Life Insurance, with the amount of NT\$710 million. Conning Holdings Corp. became a wholly owned subsidiary of Cathay Life Insurance after the investment was completed.
- In July 2016, the Company invested another NT\$557 million (NT\$13 per share) on Cathay Venture. Total paid-in capital of the venture arm became NT\$3 billion.
- In December 2016, the company issued 833.3 million Series A Preferred Shares in a cash capital increase for NT\$49.998 billion (NT\$60 per share). The paid-in capital of our company increased to NT\$133.97 billion.
- In December 2016, the Company subscribed NT\$35 billion of non-cumulative perpetual subordinated debts issued by Cathay Life Insurance.
- In June 2017, the Company invested another NT\$ 14.998 billion (NT\$28/share) on Cathay United Bank. Total paid-in capital of the securities arm became NT\$78,604,060 thousand then.
- In September 2017, the Company invested another NT\$ 670 million (NT\$40/share) on Cathay Century Insurance. Total paid-in capital of the securities arm became NT\$3,369,552 thousand then.
- In June 2018, the company issued 700 million Series B Preferred Shares in a cash capital increase for NT\$42 billion (NT\$60 per share). The paid-in capital of our company increased to NT\$140.97 billion.
- In June 2018, the Company invested another NT\$ 42,000 million (NT\$ 100/share) on Cathay Life. Total paid-in capital of the securities arm became NT\$57,265.274 million.

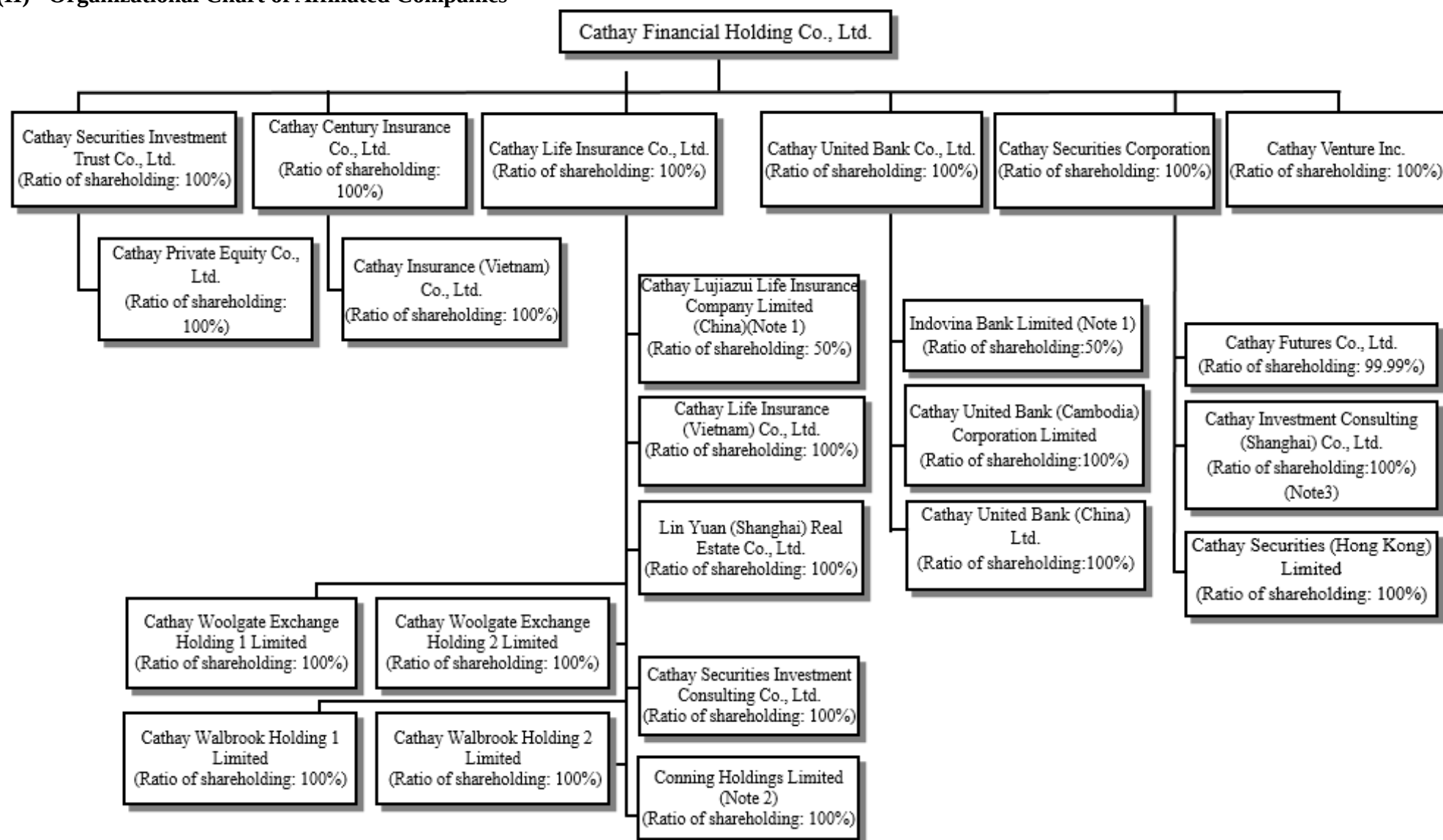
Three. Corporate Governance Report

I. Organization

(I) Organizational Chart and Major Corporate Functions



(II) Organizational Chart of Affiliated Companies



Note 1: A subsidiary other than those referred to in Article 4 of the Financial Holding Company Act.

Note 2: Expressed with the consolidated entity

Note 3: The base date of the organizational diagram is December 31, 2018. The Cathay Investment Consulting(Shanghai) Co., Ltd. completed liquidation work on February 26, 2019.

Subsidiary Company	Shares Held by Cathay Financial Holding Co., Ltd.			
	Percentage (%)	Number of shares (thousand shares)	Original Investment (NT\$ thousands)	Book Value (NT\$ thousands) (Note)
Cathay Life Insurance Co., Ltd.	100%	5,726,527	124,009,366	407,282,933
Cathay United Bank Co., Ltd.	100%	9,119,762	92,302,226	206,162,628
Cathay Century Insurance Co., Ltd.	100%	305,705	3,240,964	10,775,155
Cathay Securities Corporation	100%	570,009	4,899,992	7,828,170
Cathay Securities Investment Trust Co., Ltd.	100%	150,000	3,488,754	4,278,711
Cathay Venture Inc.	100%	335,909	2,390,881	3,792,656

■ Cross-holdings between the parent company and subsidiaries: None.

II. Board Members, Supervisors and Top Managers from Each Division and Subsidiary

(I) Board Members and Supervisors Information (Table 1)

Board Members and Supervisors Information (1)

2019/4/16

Title (Note 1)	Nationality or Place of Registration	Name	Gender	On-Board Date	Office Term	Date first Elected (Note 2)	Shareholding when Elected			Current shareholding (Note 4)		Shareholdings of spouse and underage children (Note 4 & 5)		Shares held in the name of others (Note 4)		Education and selected past positions (Note 9)	Other concurrent positions in the Company or in other companies (Note 6)	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship		
							Common stock	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding			Title	Name	Relationship
							Preferred shares	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding					
Chairman	R.O.C.	Hong-Tu Tsai	M	2016/6/8	Three years	2001/12/31		72,713,489	0.579%	72,713,489	0.579%	0	0%	0	0%	Chairman, Cathay Financial Holdings; Former Chairman, Cathay Life Insurance (J.D., Southern Methodist University, USA)	Chairman, Cathay Medical Care Corporate; Vice Chairman, Cathay Charity Foundation, etc.	Director Director Senior Executive VP	Cheng-Ta Tsai Cheng-Chiu Tsai Tsung-Hsien Tsai	Brothers Brothers Paternity
								0	0%	6,128,386	0.399%	0	0%	0	0%					
Vice Chairman	R.O.C.	Cathay Medical Care Corporate Representative: Tsu-Pei Chen	M	2016/6/8	Three years	2007/6/15		25,148,985	0.200%	25,148,985	0.200%	147,463	0.001%	0	0%	Vice Chairman, Cathay Financial Holdings; Former Chairman, Cathay United Bank (B.A., National Chengchi University)	Director of Taiwan Real Estate Management, Taiwan Asset Management Corporation, Mr. & Mrs. Yuan Dong Sheu Culture and Education Memorial Foundation, and Culture and Charity Foundation of the CUB; Executive Director of Cathay Charity Foundation, etc.	None	None	None
								0	0%	0	0%	0	0%	0	0%					
Director	R.O.C.	Cathay Medical Care Corporate Representative: Cheng-Ta Tsai	M	2016/6/8	Three years	2007/6/15		25,148,985	0.200%	25,148,985	0.200%	56,624,464	0.451%	0	0%	Former Managing Director, Cathay Life Insurance (B.A., Chinese Culture University)	Director of Cathay Medical Care Corporate and Cathay Real Estate Foundation; Managing Director of Cathay Charity Foundation, etc.	Chairman Director	Hong-Tu Tsai Cheng-Chiu Tsai	Brothers Brothers
								0	0%	0	0%	0	0%	0	0%					
Director	R.O.C.	Chen-Sheng Industrial Co., Ltd. Representative: Cheng-Chiu Tsai	M	2016/6/8	Three years	2007/6/15		27,915,093	0.222%	27,915,093	0.222%	600,000	0.005%	0	0%	Chairman, Cathay Century Insurance (M.A., Keio University, Japan)	Chairman of Cathay Century Insurance; Director of Cathay Medical Care Corporate and Cathay Real Estate Foundation; Executive Director of Cathay Charity Foundation, etc.	Chairman Director	Hong-Tu Tsai Cheng-Ta Tsai	Brothers Brothers
								0	0%	0	0%	0	0%	0	0%					

Title (Note 1)	Nationality or Place of Registration	Name	Gender	On-Board Date	Office Term	Date first Elected (Note 2)	Shareholding when Elected			Current shareholding (Note 4)		Shareholdings of spouse and underage children (Note 4 & 5)		Shares held in the name of others (Note 4)		Education and selected past positions (Note 9)	Other concurrent positions in the Company or in other companies (Note 6)	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship		
							Common stock	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding			Title	Name	Relationship
							Preferred shares	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding					
Director	R.O.C.	Chia Yi Capital Co., Ltd. Representative: Chi-Wei Joong	M	2016/6/8	Three years	2013/6/14		53,084,668	0.423%	53,084,668	0.423%	4,545	0%	0	0%	Chairman and CEO (legal representative) of Moderntimes Co., Ltd.; Director of Cathay United Bank, Former President, CMB Credit Card Center (B.A., Kean College of New Jersey, USA)	Legal Representative, Moderntimes (China) Co., Ltd.; Chairman and CEO (legal representative) of Moderntimes Co., Ltd.; Director of Cathay United Bank, Essence Management Services Limited, Moderntimes Information Co., Ltd., etc.	None	None	None
								0	0%	5,153,614	0.336%	0	0%	0	0%					
Director	R.O.C.	Chia Yi Capital Co., Ltd. Representative: Andrew Ming-Jian Kuo	M	2016/6/8	Three years	2007/6/15 (Note 7)		53,084,668	0.423%	53,084,668	0.423%	0	0%	0	0%	Chairman, Cathay United Bank (M.B.A., Baruch College, City University of New York, USA)	Chairman of Cathay United Bank and Cathay United Bank (China); Independent Director of Samson Holding Ltd.; Director of Long Chen Paper Co., Ltd., Far East Horizon Limited, Taiwan Farm Industry Co., Ltd., Avary Holding (Shenzhen) Co., Limited, Financial Information Service Co., Ltd., Cathay Medical Care Corporate and Cathay Charity Foundation; Director of Taiwan Mergers& Acquisitions and Private Equity Council, etc.	None	None	None
								0	0%	5,153,614	0.336%	0	0%	0	0%					
Director	R.O.C.	Cathay Life Employees' Welfare Committee: Representative: Tiao-Kuei Huang	M	2016/6/8	Three years	2001/12/31 (Note 8)		34,590,372	0.275%	34,590,372	0.275%	307,907	0.002%	0	0%	Chairman, Cathay Life Insurance/Former Vice Chairman and President, Cathay Life Insurance (M.S., National Tsing Hua University)	Chairman of Cathay Life Insurance; Chairman of The Life Insurance Association of R.O.C.; Managing Supervisor of Cathay Medical Care Corporate, etc.	None	None	None
								0	0%	0	0%	29,890	0.002%	0	0%					
Director	R.O.C.	Cathay Life Employees' Welfare Committee: Representative: Ming-Ho Hsiung	M	2016/6/8	Three years	2007/6/15		34,590,372	0.275%	34,590,372	0.275%	58,692	0%	0	0%	Vice Chairman, Cathay Life Insurance/Former President, Cathay Life Insurance (M.S., University of Iowa, USA)	Vice Chairman of Cathay Life Insurance; Director of Culture and Charity Foundation of the CUB and Cathay Charity Foundation, etc.	None	None	None
								0	0%	0	0%	25,000	0.002%	0	0%					

Title (Note 1)	Nationality or Place of Registration	Name	Gender	On-Board Date	Office Term	Date first Elected (Note 2)	Shareholding when Elected			Current shareholding (Note 4)		Shareholdings of spouse and underage children (Note 4 & 5)		Shares held in the name of others (Note 4)		Education and selected past positions (Note 9)	Other concurrent positions in the Company or in other companies (Note 6)	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship		
							Common stock	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding			Title	Name	Relationship
							Preferred shares	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding					
Director	R.O.C.	Cathay Life Employees' Welfare Committee; Representative: Chang-Ken Lee	M	2016/6/8	Three years	2010/6/18		34,590,372	0.275%	34,590,372	0.275%	124,729	0.001%	0	0%	President, Cathay Financial Holdings/Former President, Cathay United Bank (M.B.A., University of Pennsylvania, USA)	President of Cathay Financial Holdings; Executive Director of CDIB & Partners Investment Holding Corp.; Director of Cathay United Bank, Cathay Securities Corporation, Cathay Charity Foundation, Culture and Charity Foundation of the CUB, Joint Credit Information Center and Taiwan Real Estate Management; Supervisor of Cathay Medical Care Corporate; Managing Supervisor of The Bankers Association of The Republic of China; Director of The Bankers Association of Taipei, etc.	None	None	None
								0	0%	0	0%	20,000	0.001%	0	0%					
Independent Director	R.O.C.	Tsing-Yuan Hwang	M	2016/6/8	Three years	2007/6/15		0	0%	0	0%	0	0%	0	0%	Director, Hon Hai Precision Industry Co., Ltd./Former Executive Officer & Head of Asia and Oceania, Daiwa Securities SMBC Co., Ltd., Former Director, First Financial Holding (Ph.D. Candidate, Business Graduate School, Nihon University, Japan)	Independent Director of Cathay Life, Cathay Century Insurance and Taiwan Glass Ind. Corp.; Managing (Independent) Director of Cathay United Bank; Chairman of Wei Heng Asset Management, KHL Venture Capital and KHL IB Venture Capital; Director of Hon Hai Precision Industry, KHL Capital, Hongtze Investment, KHL Investment I Ltd., United Advertising Co., Ltd., Scope Star International Limited and Gloss Victory International Limited; Director of Chinese National Association of Industry and Commerce, Taiwan (CNAIC), etc.	None	None	None
								0	0%	0	0%	0	0%	0	0%					

Title (Note 1)	Nationality or Place of Registration	Name	Gender	On-Board Date	Office Term	Date first Elected (Note 2)	Shareholding when Elected			Current shareholding (Note 4)		Shareholdings of spouse and underage children (Note 4 & 5)		Shares held in the name of others (Note 4)		Education and selected past positions (Note 9)	Other concurrent positions in the Company or in other companies (Note 6)	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship		
							Common stock	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding			Title	Name	Relationship
							Preferred shares	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding					
Independent Director	R.O.C.	Feng-Chiang Miau	M	2016/6/8	Three years	2016/6/8		0	0%	0	0%	0	0%	0	0%	Chairman, MITAC Holdings Corporation (M.B.A., Santa Clara University, USA, B.A. in Electrical Engineering, UC Berkeley, USA)	Independent Director of Cathay Life Insurance, Cathay United Bank, Cathay Century Insurance and Cathay Securities Corporation; Chairman of MITAC Holdings Corp., MITAC Inc., Synnex Technology International Corp., Lien Hwa Industrial Corp., UPC Technology Corp., Harbinger Venture Capital Corp., Lien Jei Investment Co., Ltd., MITAC International Corp., Harbinger VII Venture Capital Corp., Harbinger Venture Management Co., Ltd., Union Venture Capital Corp. and Mei Feng Investment Corp.; Director of Getac Technology Corp., Wei Chen Investment Co., Linde LienHwa Industrial Gases Co. Ltd., Harbinger III Venture Capital Corp. , MITAC Information Technology Corp., MITAC Computing Technology Corp., Synnex Corporation, United Industrial Gases Co., Ltd., MITAC Digital Technology Corp., GLORY ACE INTERNATIONAL INC. and Synnex Global Ltd.; Director of Chinese National Association of Industry and Commerce, Taiwan (CNAIC), etc.	None	None	None
								0	0%	0	0%	0	0%	0	0%					

Title (Note 1)	Nationality or Place of Registration	Name	Gender	On-Board Date	Office Term	Date first Elected (Note 2)	Shareholding when Elected			Current shareholding (Note 4)		Shareholdings of spouse and underage children (Note 4 & 5)		Shares held in the name of others (Note 4)		Education and selected past positions (Note 9)	Other concurrent positions in the Company or in other companies (Note 6)	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship		
							Common stock	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding			Title	Name	Relationship
							Preferred shares	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding					
Independent Director	R.O.C.	Edward Yung Do Way	M	2017/6/16	Two years	2017/6/16		0	0%	0	0%	0	0%	0	0%	Chairman, YCSY Co., Ltd./Former CEO, Deloitte Taiwan (M.B.A., University of Georgia, USA)	Independent Director of Cathay United Bank, Far Eastern Department Stores, Ltd., Synnex Technology International Corp. and ALT International Co., Ltd.; Independent Non-executive Director of Da Chan Food (Asia) Limited; Chairman of YCSY Co., Ltd.; Director of Iron Force Industrial Co., Ltd., Vanguard International Semiconductor Corp., MiTAC Holdings Corp. and Chilsin Electronics Corp.; Supervisor of Kaimet Electronic Corp., etc.	None	None	None
								0	0%	0	0%	0	0%	0	0%					

Note1: For representatives of institutional shareholders, the name of the institutional shareholder should be noted and filled in Chart 1 below.

Note2: Fill in “the Date of First Elected of the financial holdings’ directors and supervisors” and footnote any discontinuation.

Note3: The Company has established an audit committee in lieu of a supervisor since 06/15/2007 according to Article 14-4 of the Securities and Exchange Act.

Note4: Data baseline date: 04/16/2019.

Note5: For representatives of corporate directors, “Shareholdings of spouse and underage children” shall refer to the representative and spouse and underage children of the representative.

Note6: Directors’ concurrent employments were accurate as at Feb~Mar 2019.

Note7: Director Andrew Ming-Jian Kuo served as independent director of the Company from June 15, 2007 to March 30, 2016 and served as director of the Company from June 17, 2017.

Note8: Director Tiao-Kuei Huang served as director of the Company from December 31, 2001 to February 18, 2008 and again from June 30, 2011 to June 7, 2016.

Note9: Experiences related with current position. Detailed job title and the working responsibilities should be described if previously worked for the auditing accounting firm or its affiliated company.

Note10: Mr. Peter V. Kwok had resigned from director position on February 1, 2018.

Chart 1: Major Shareholders of Institutional Shareholders

2019/4/16

Institutional Shareholders (Note 1)	Major Shareholders of Institutional Shareholders (Note 2)
Chen-Sheng Industrial Co., Ltd.	Cheng-Chiu Tsai (77.17%), Tsung-Hsun Tsai (18.18%)
Chia Yi Capital Co., Ltd.	Wan Pao Development Co., Ltd. (60.07%), Lin Yuan Investment Co., Ltd (39.93%)
Cathay Life Insurance Co., Ltd. Employees' Welfare Committee	Non-company organization (Not applicable)
Cathay Medical Care Corporate	Non-company organization (Not applicable)

Note1: For directors and supervisors who are representatives of institutional shareholders, the name of the institutional shareholder should be filled.

Note2: Fill in the major shareholders (top-10 shareholdings) of the institutional shareholders and their individual holding percentage. Fill in Chart 2 below, if the major shareholders are institutions/corporate.

Chart 2: Major Shareholders of the Entities from Chart 1 that Are Institutions/Corporate

2019/4/16

Institutional Shareholders (Note 1)	Major Shareholders of Institutional Shareholders (Note 2)
Wan Pao Development Co., Ltd.	Tung Chi Capital Co., Ltd. (19.96%), Chia Yi Capital Co., Ltd. (19.85%), Liang Ting Industrial Co., Ltd. (17.85%), Lin Yuan Investment Co., Ltd (14.70%), Wan Ta Investment Co., Ltd. (12.89%), Pai Hsing Investment Co., Ltd. (9.18%), Chen Sheng Industrial Co., Ltd. (3.57%), Tzung Lien Industrial Co., Ltd. (2.00%)
Lin Yuan Investment Co., Ltd.	Chia Yi Capital Co., Ltd. (19.75%), Tung Chi Capital Co., Ltd. (19.69%), Liang Ting Industrial Co., Ltd. (17.74%), Wan Pao Development Co., Ltd. (14.81%), Wan Ta Investment Co., Ltd. (13.01%), Pai Hsing Investment Co., Ltd. (9.45%), Chen Sheng Industrial Co., Ltd. (3.54%), Tzung Lien Industrial Co., Ltd. (2.01%)

Note1: The name of the institutional shareholder should be filled in for an institutional investor, like that in Chart 1.

Note2: Fill in the major shareholders (top-10 shareholdings) of the institutional shareholders and their individual holding percentage.

Directors and Supervisors Information (2)

Name	Criteria	Has at least five years of relevant working experience and the following professional qualifications			Independence Criteria (Note 1)										Name of other Taiwanese Companies currently Serves as an independent Director (Note 2)
		An instructor of Commerce, Law Finance, Accounting, or other fields related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist who possessed National Exam Certificate in profession necessary for the business of the company	Work experience in areas of commerce, law, finance, or accounting necessary for the business of the company	1	2	3 (Note 3)	4 (Note 3)	5 (Note 3)	6 (Note 3)	7	8	9	10	
Hong-Tu Tsai				✓	✓				✓	✓	✓		✓	✓	
Tsu-Pei Chen				✓	✓		✓	✓	✓	✓	✓	✓	✓		
Cheng-Ta Tsai				✓	✓				✓	✓	✓		✓		
Cheng-Chiu Tsai				✓	✓		✓		✓	✓	✓		✓		
Chi-Wei Joong				✓	✓		✓	✓	✓	✓	✓	✓	✓		
Andrew Ming-Jian Kuo				✓	✓		✓		✓	✓		✓	✓		
Tiao-Kuei Huang				✓	✓		✓	✓	✓	✓	✓	✓	✓		
Ming-Ho Hsiung				✓			✓	✓	✓	✓	✓	✓	✓		
Chang-Ken Lee				✓			✓	✓	✓	✓	✓	✓	✓		
Tsing-Yuan Hwang				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Feng-Chiang Miao				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Edward Yung Do Way		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2

Note1: Directors or supervisors who, during the two years before being elected or during the term of office, meet any of the following situations, please tick (✓) the appropriate corresponding boxes.

- (1) Not an employee of the company or an affiliate.
- (2) Not a director or supervisor of an affiliate of the Company (this does not apply to independent directors of the Company or its Parent company or subsidiaries established in accordance with the Securities and Exchange Act or local laws and regulations).
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names in an aggregate amount of 1% or more than the total outstanding shares of the Company or ranked in the top-10 holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of an institutional shareholder that directly holds 5% or more of the total outstanding shares of the Company or that holds shares ranked in the top-five holdings.
- (6) Not a director, supervisor, officer, or shareholder holding 5% or more of the total outstanding shares of a specified company or institution that has a financial or business relationship with the Company.
- (7) Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any subsidiaries of the Company, or a spouse thereof. This excludes roles as remuneration, public acquisition or merger committee members appointed in accordance with the Act or Business Mergers And Acquisitions Act.
- (8) Not a relative within the second degree of kinship to any other director of the company.
- (9) Not been a person of any conditions defined in Article 30 of the Company Act.
- (10) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

Note2: Calculation is made per Order No. Financial-Supervisory-Securities-I-0960010070 of the Financial Supervisory Commission, Executive Yuan.

Note3: Data baseline date: 04/16/2019.

(II) Background information of the President, Vice Presidents, Assistant Vice Presidents, and heads of departments and branch offices (Appendix 1-1)

2019/4/16

Title (Note 1)	Nationality	Name	On-Board Date	Gender	Number of shares held			Shares held by spouses, minor children		Shares held in the name of others		Education and selected past positions (Note 2)	Concurrent positions at other companies	Managers who are spouses or relatives within the second degree of kinship		
					Common stock	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding			Title	Name	Relationship
					Preferred shares	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding					
President	R.O.C.	Chang-Ken Lee	2011/02/25	M	124,729		0.001%	0	0%	0	0%	M.B.A., University of Pennsylvania, USA	Executive Director of CDIB & Partners Investment Holding Corp.; Director of Cathay United Bank, Cathay Securities Corporation, Cathay Charity Foundation, Culture and Charity Foundation of the CUB, Joint Credit Information Center and Taiwan Real Estate Management; Supervisor of Cathay Medical Care Corporate; Managing Supervisor of The Bankers Association of The Republic of China; Director of The Bankers Association of Taipei	None	None	None
					20,000		0.001%	0	0%	0	0%					
Chief Auditor	R.O.C.	Chih-Jung Kung	2016/08/05	M	60,000		0%	0	0%	0	0%	E.M.B.A, China Europe International Business School	None	None	None	None
					0		0%	0	0%	0	0%					
Chief Financial Officer	R.O.C.	Grace Chen	2004/01/09	F	39,368		0%	0	0%	0	0%	M.B.A., National Chengchi University	Director, Culture and Charity Foundation of the CUB, Ann Fong Co.	None	None	None
					25,000		0.002%	0	0%	0	0%					
Senior Executive VP	USA	David P. Sun	2008/02/01	M	7,168		0%	0	0%	0	0%	M.B.A. & M.S., Harvard University, USA	Chairman, Cathay Securities Investment Consulting ; Director, Cathay United Bank (Cambodia), Conning Holdings Limited and Quantifeed Holdings Limited	None	None	None
					15,000		0.001%	0	0%	0	0%					
Chief Investment Officer	R.O.C.	Sophia Cheng	2012/07/23	F	9,737		0%	0	0%	0	0%	M.S., Golden Gate University, USA	Director, Cathay Venture	None	None	None
					6,000		0%	0	0%	0	0%					
Senior Executive VP	R.O.C.	Chung-Yi Teng	2013/05/01	M	15,000		0%	0	0%	0	0%	M.B.A., M.I.T., USA/M.S. Statistics, National Tsinghua University	Senior Executive Vice President of Cathay United Bank; Director of Cathay United Bank, Cathay United Bank (China) and Taiwan Star Telecom; Chairman of Cathay United Bank (Cambodia); Supervisor of Taipei Forex Inc.	None	None	None
					0		0%	0	0%	0	0%					
Chief Information Officer	R.O.C.	Chia-Sheng Chang	2015/04/01	M	0		0%	0	0%	0	0%	Ph. D., Weatherhead School of Management at Case Western Reserve University, USA	Chairman, Symphox Information; Director of Cathay Real Estate Foundation	None	None	None
					15,000		0.001%	0	0%	0	0%					
Senior Executive VP	R.O.C.	Jian-Hsing Wu	2016/01/18	M	0		0%	16,975	0%	0	0%	M.S., Tamkang University	Senior Executive Vice President, Cathay United Bank; Director, Cathay United Bank	None	None	None
					39,000		0.003%	0	0%	0	0%					
Senior Executive VP	R.O.C.	Tsung-Hsien Tsai	2017/08/18	M	0		0%	0	0%	0	0%	M.S. in Electronic Engineering, Harvard University, USA	Director, Cathay United Bank, Cathay Century Insurance, Symphox Information	Chairman	Hong-Tu Tsai	Paternity
					15,000		0.001%	0	0%	0	0%					

Title (Note 1)	Nationality	Name	On-Board Date	Gender	Number of shares held			Shares held by spouses, minor children		Shares held in the name of others		Education and selected past positions (Note 2)	Concurrent positions at other companies	Managers who are spouses or relatives within the second degree of kinship		
					Common stock	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding			Title	Name	Relationship
					Preferred shares	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding					
Vice President and Company Secretary	R.O.C.	Deh-Yen Weng	2011/06/29	F	12,812		0%	0	0%	0	0%	M.B.A., Massachusetts Institute of Technology, USA	None	None	None	None
					9,000		0.001%	0	0%	0	0%					
Executive VP	R.O.C.	Shu-Ying Wu	2013/05/01	F	532		0%	1,467	0%	0	0%	M.B.A., Michigan State University, USA	Executive Vice President of Cathay Life; Director of Kaitai Energy, Shin Ritai Energy, Tai Hsu Energy and PSS	None	None	None
					4,000		0%	0	0%	0	0%					
Executive VP	R.O.C.	Ta-Ching Hung	2013/12/28	M	20,524		0%	0	0%	0	0%	M.B.A., National Chengchi University	Executive Vice President, Cathay Life Insurance; Supervisor, Taiwan Star Telecom Corporation Limited	None	None	None
					25,000		0.002%	0	0%	0	0%					
Chief Compliance Officer	R.O.C.	Judie Hsu	2015/03/25	F	781		0%	0	0%	0	0%	LLM, University of London, School of Oriental and African Studies	None	None	None	None
					0		0%	0	0%	0	0%					
Executive VP	R.O.C.	Ching-Yuan Kung	2015/11/01	M	0		0%	0	0%	0	0%	M.B.A., Carlson School, University of Minnesota	Executive Vice President, Cathay United Bank	None	None	None
					0		0%	0	0%	0	0%					
Executive VP	R.O.C.	Hsiang-Hsin Tsai	2016/03/18	F	9,395		0%	0	0%	0	0%	M.B.A., Thunderbird School of Global Management, USA	Executive Vice President, Cathay United Bank	None	None	None
					10,000		0.001%	0	0%	0	0%					
Executive VP	R.O.C.	Fu-Min Wang	2017/04/28	M	16,000		0%	0	0%	0	0%	B.A., Soochow University	Executive Vice President, Cathay Life Insurance; Supervisor, Cathay Life Insurance (Vietnam) Co., Ltd.	None	None	None
					11,000		0.001%	0	0%	0	0%					
Executive VP	R.O.C.	Yu-Mei Lee	2017/08/18	F	38,664		0%	0	0%	0	0%	LL.B. National Taipei University	Senior Executive Vice President, Cathay Securities Corporation; Supervisor, Cathay Futures	None	None	None
					0		0%	0	0%	0	0%					
Executive VP	R.O.C.	Chen-Tung Chang	2018/02/10	M	38,531		0%	14,806	0%	0	0%	M.B.A, National Chiayi University	Executive Vice President, Cathay United Bank	None	None	None
					4,000		0%	0	0%	0	0%					
Executive VP	R.O.C.	Xu-Jie Yao	2018/02/10	M	0		0%	0	0%	0	0%	M.I.T. SLOAN Business	Executive Vice President, Cathay United Bank	None	None	None
					3,000		0%	0	0%	0	0%					

Title (Note 1)	Nationality	Name	On-Board Date	Gender	Number of shares held			Shares held by spouses, minor children		Shares held in the name of others		Education and selected past positions (Note 2)	Concurrent positions at other companies	Managers who are spouses or relatives within the second degree of kinship		
					Common stock	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding			Title	Name	Relationship
					Preferred shares	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding					
Chief Risk Officer	R.O.C.	Ching-Lu Huang	2018/09/14	M	10,970		0%	67	0%	0	0%	M.S. Statistics, National Tsinghua University	Executive Vice President, Cathay Life Insurance	None	None	None
					7,000		0%	3,000	0%	0	0%					
Executive VP	R.O.C.	Chao-Chi Tsai	2019/01/31	M	16,831		0%	0	0%	0	0%	B.B.A.National Chiao Tung University	Executive Vice President, Cathay Life Insurance	None	None	None
					9,000		0.001%	0	0%	0	0%					
Senior VP	R.O.C.	Shan-Chih Liu	2004/01/01	M	7,886		0%	2,606	0%	0	0%	M.B.A., Massachusetts Institute of Technology, USA	None	None	None	None
					4,000		0%	0	0%	0	0%					
Senior VP	R.O.C.	Huan-Chen Chang	2009/03/05	M	75,162		0%	1,357	0%	0	0%	B.B.A., National Chung Hsing University	None	None	None	None
					6,000		0%	0	0%	0	0%					
Senior VP	R.O.C.	Chang-Chao Liao	2009/04/06	M	7,718		0%	0	0%	0	0%	LL.B., National Chengchi University	None	None	None	None
					0		0%	0	0%	0	0%					
Senior VP	R.O.C.	Shao-Ling Weng	2013/11/12	F	0		0%	0	0%	0	0%	M.B.A., National Cheng Kung University	None	None	None	None
					6,000		0%	0	0%	0	0%					
Senior VP	R.O.C.	Gwang-Ying She	2014/04/01	F	1,110		0%	0	0%	0	0%	M.B.A., Oregon State University, USA	None	None	None	None
					1,000		0%	0	0%	0	0%					
Senior VP	R.O.C.	Sheng-Hsiung Tsai	2015/02/07	M	0		0%	0	0%	0	0%	M.B.A., National Taiwan University	None	None	None	None
					0		0%	20,000	0.001%	0	0%					
Senior VP	R.O.C.	Chin-Chi Chen	2015/02/07	M	0		0%	0	0%	0	0%	M.A. Economics, National Taiwan University	None	None	None	None
					0		0%	0	0%	0	0%					
Senior VP	R.O.C.	Hua-Hsin Yang	2016/07/26	M	0		0%	0	0%	0	0%	M.B.A.,Rutgers University, USA	None	None	None	None
					3,000		0%	0	0%	0	0%					

Title (Note 1)	Nationality	Name	On-Board Date	Gender	Number of shares held			Shares held by spouses, minor children		Shares held in the name of others		Education and selected past positions (Note 2)	Concurrent positions at other companies	Managers who are spouses or relatives within the second degree of kinship		
					Common stock	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding			Title	Name	Relationship
					Preferred shares	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding					
Senior VP	R.O.C.	Chin-Tang, Lu	2018/04/27	M	0		0%	0	0%	0	0%	M.B.A, Yuan Ze University	None	None	None	None
					0		0%	0	0%	0	0%					
Senior VP	R.O.C.	Yao-Te Wang	2018/05/02	M	0		0%	0	0%	0	0%	Master of Computer Science, University of Southern California	Senior Vice President, Cathay United Bank	None	None	None
					0		0%	0	0%	0	0%					
Senior VP	R.O.C	Wan-Yu, Ho	2019/04/09	F	6,834		0%	0	0%	0	0%	M.B.A., National Taiwan University of Science and Technology	None	None	None	None
					0		0%	0	0%	0	0%					

Note1: This should include all Presidents, Executive Vice Presidents, Senior Vice Presidents, and those who hold the equivalent positions (regardless the job titles), as well as, key managers from each department and branch entity, must be disclosed.

Note2: Experiences related with current position. Detailed job title and the working responsibilities should be described if previously worked for the auditing accounting firm or its affiliated company.

Note3: Shareholding data was accurate as at April 16, 2019 (the book closure date). The number and percentage of preferred shares include both Class A and Class B.

(III) Compensation for retired chairmen and presidents of the Company or related companies re-hired as consultants: disclose name, gender, nationality, title, institution and title before retirement, date of retirement, date appointed as consultant, purpose of hire, and responsibilities (Appendix 1-4): None

III. Remuneration Paid to directors (including independent directors), presidents, vice presidents and employees in the latest fiscal year

(I) Remuneration Paid to Directors (including independent directors) (Table 1-2)

Remuneration to directors (including independent directors) (collective disclosure by name and range of remuneration)

December 31, 2018; Unit: NT\$ thousand

Title	Name	Remuneration Paid to Directors								Sum of A, B, C and D as percentage of Net Income (%) (Note 10)		Relevant Remuneration Received by Directors Who are Also Employees								Sum of A, B, C ,D, E, F and G as percentage of Net Income (Note 10)		Compensation Received by Directors from Affiliates not under the Group (Note 11)
		Compensation (A) (Note 2)		Pension upon retirement (B)		Remuneration (C) (Note 3)		Service Expenses (D) (Note 4)				Base Compensation, Bonuses, and Allowances (E) (Note 5)		Pension upon retirement (F)		Employee remuneration (G) (Note 6)						
		Cathay Financial Holdings	Consolidated subsidiaries (Note 7)	Cathay Financial Holdings	Consolidated subsidiaries (Note 7)	Cathay Financial Holdings	Consolidated subsidiaries (Note 7)	Cathay Financial Holdings	Consolidated subsidiaries (Note 7)	Cathay Financial Holdings	Consolidated subsidiaries (Note 7)	Cathay Financial Holdings	Consolidated subsidiaries (Note 7)	Cathay Financial Holdings	Consolidated subsidiaries (Note 7)	Cathay Financial Holdings		Consolidated subsidiaries (Note 7)		Cathay Financial Holdings	Consolidated subsidiaries (Note 7)	
																Cash Amount	Stock Amount	Cash Amount	Stock Amount			
Chairman	Hong-Tu Tsai	46,482	133,077	0	0	2,700	2,700	3,150	11,318	0.10%	0.29%	36,574	36,574	0	0	16	0	16	0	0.17%	0.36%	618
Vice Chairman	Cathay Medical Care Corporate Representative: Tsu-Pei Chen																					
Director	Cathay Medical Care Corporate Representative: Cheng-Ta Tsai																					
Director	Chen-Sheng Industrial Co., Ltd. Representative: Cheng-Chiu, Tsai																					
Director	Cathay Life Employees' Welfare Committee: Representative: Chang-Ken Lee																					
Director	Cathay Life Employees' Welfare Committee: Representative: Tiao-Kuei Huang																					
Director	Cathay Life Employees' Welfare Committee: Representative: Ming-Ho Hsiung																					
Director	Chia Yi Capital Co., Ltd. Representative: Chi-Wei Joong																					
Director	Chia Yi Capital Co., Ltd. Representative: Andrew Ming-Jian Kuo																					
Independent Director	Edward Yung Do Way																					
Independent Director	Tsing-Yuan Hwang																					
Independent Director	Feng-Chiang Miao																					
Former representative of Chia Yi Capital Co., Ltd.: Peter V. Kwok had resigned on 2018.2.1																						
*Apart from the aforementioned disclosure, the remunerations for directors of the Company providing services (such as serving as a consultant that is not an employee) to consolidated subsidiaries: None																						

*Apart from the aforementioned disclosure, the remunerations for directors of the Company providing services (such as serving as a consultant that is not an employee) to consolidated subsidiaries: None

Remuneration Range

Remuneration Paid to Directors by Range	Director Name			
	Total Remuneration from (A+B+C+D)		Total Remuneration from (A+B+C+D+E+F+G)	
	Cathay Financial Holdings (Note 8)	Consolidated subsidiaries (Note 9)H	Cathay Financial Holdings (Note 8)	Consolidated subsidiaries (Note 9)I
Under NT\$2,000,000	Hong-Tu Tsai, Cheng-Ta Tsai, Cheng-Chiu Tsai, Chang-Ken Lee, Tiao-Kuei Huang, Ming-Ho Hsiung, Andrew Ming-Jian Kuo, Peter V. Kwok	Hong-Tu Tsai, Cheng-Ta Tsai, Chang-Ken Lee, Peter V. Kwok	Hong-Tu Tsai, Cheng-Ta Tsai, Cheng-Chiu Tsai, Tiao-Kuei Huang, Ming-Ho Hsiung, Andrew Ming-Jian Kuo, Peter V. Kwok	Hong-Tu Tsai, Cheng-Ta Tsai, Peter V. Kwok
NT\$2,000,000 ~ NT\$5,000,000	Chi-Wei Joong, Edward Yung Do Way	Chi-Wei Joong, Edward Yung Do Way	Chi-Wei Joong, Edward Yung Do Way	Chi-Wei Joong, Edward Yung Do Way
NT\$5,000,000 ~ NT\$10,000,000	Tsing-Yuan Hwang, Feng-Chiang Miao	Cheng-Chiu Tsai, Tsing-Yuan Hwang, Feng-Chiang Miao	Tsing-Yuan Hwang, Feng-Chiang Miao	Cheng-Chiu Tsai, Tsing-Yuan Hwang, Feng-Chiang Miao
NT\$10,000,000 ~ NT\$15,000,000	None	None	None	None
NT\$15,000,000 ~ NT\$30,000,000	Tsu-Pei Chen	Tsu-Pei Chen, Andrew Ming-Jian Kuo	Tsu-Pei Chen	Tsu-Pei Chen, Andrew Ming-Jian Kuo
NT\$30,000,000 ~ NT\$50,000,000	None	Tiao-Kuei Huang, Ming-Ho Hsiung	Chang-Ken Lee	Tiao-Kuei Huang, Ming-Ho Hsiung, Chang-Ken Lee
NT\$50,000,000 ~ NT\$100,000,000	None	None	None	None
Over NT\$100,000,000	None	None	None	None
Total	13	13	13	13

Note1: Directors name must be shown separately (for institutional directors, both the institution and the representative are required). All compensation paid must be added together. For directors who are also presidents or executive vice presidents at the Company or the subsidiaries, Chart (3-1) or (3-2) below must be filled in.

Note2: This includes salary, compensation for professional services, severance pay, and all bonus and bounties paid to the director during the year.

Note3: This refers to filling in director's profit sharing of the latest fiscal year proposed and resolved by the Board.

Note4: Payments to the director to cover business expenses (including travel expenditures, allowances, reimbursements, accommodation, company cars, in-kind supplies, etc.) If residences, cars (or other transportations) or personal expenses are provided, information about the assets (including classification, cost, actual or fair market values of the rent, gasoline expenses, other perks) must be disclosed but not included in the remuneration. Compensation paid to personal drivers must be noted, when applicable, but not accumulated under the remuneration received. Total compensation paid to the pertinent drivers by the Group companies in the consolidated statement was NT\$ 2,930 thousand for the period.

Note5: Payments to the director, who is also a president, executive vice president, manager, or employee, to cover business expenses (including travel expenditures, allowances, reimbursements, accommodation, company cars, in-kind supplies, etc.) If residences, cars (or other transportations) or personal expenses are provided, information about the assets (including classification, cost, actual or fair market values of the rent, gasoline expenses, other perks) must be disclosed but not included in the remuneration. Compensation paid to personal drivers must be noted, when applicable, but not accumulated under the

remuneration received. Total compensation paid to the pertinent drivers by the Group companies in the consolidated statement was NT\$ 524 thousand for the period. Salary expenses recognized in accordance with IFRS 2 “Share-based Payment” include acquisition of employee stock warrants, new restricted employee shares, and participation in capital increases by cash subscription, which shall all be calculated as remuneration.

Note6: A person receiving employee remuneration (stock and cash bonus) to the director, (including concurrently serving as a president, executive vice president, other manager, or employee) shall disclose the rewarding amount proposed and resolved by the Board (If cannot be estimated, the distribution amount of this year shall be determined by the actual distribution ratio of last year). Table 1-3 shall be filled in.

Note7: Total remuneration paid by the Group companies (including the Company) in the consolidated report to the director.

Note8: Disclose remuneration paid by the Company to the director under the suitable range. Name of the receiver must be shown under the suitable range.

Note9: Disclose remuneration paid by the Group companies (including the Company) in the consolidated report to the director under the suitable range. Name of the receiver must be shown under the suitable range.

Note10: Net income disclosed from the latest financial statement of each company.

Note11:

a. Remuneration amount received by directors from Non-group affiliates.

b. For remuneration received by Company directors from non-group subsidiaries, the amount must be shown in the Column I under the Remuneration Range Table. The Column must be renamed to “All Investment Businesses”.

c. Remuneration refers to compensation, remuneration (including remuneration to employees, directors and managers), and rewards related to business execution expenses received by directors of the Company serving as directors of non-group subsidiaries investment business.

* Remuneration shown under the chart is for disclosure purpose. It is not subject to “income” under the Income Tax Act, and thereby is not taxable.

(III) Remuneration Paid to Presidents and Executive Vice Presidents

Remuneration to the President and Vice Presidents (collective disclosure by name and range of remuneration)

December 31, 2018; Unit: NT\$ thousand

Title	Name (Note 1)	Salary (A) (Note 2)		Pension upon retirement (B)		Bonuses & Allowance Paid (C) (Note 3)		Amount of Employee remuneration (D) (Note 4)				Sum of A, B, C and D as percentage of Net Income (%) (Note 8)		Compensation Received by Directors from Affiliates not under the Group (Note 9)
		Cathay Financial Holdings	Consolidated subsidiaries (Note 5)	Cathay Financial Holdings	Consolidated subsidiaries (Note 5)	Cathay Financial Holdings	Consolidated subsidiaries (Note 5)	Cathay Financial Holdings		Consolidated subsidiaries (Note 5)		Cathay Financial Holdings	Consolidated subsidiaries (Note 5)	
								Cash Amount	Cash Amount	Cash Amount	Cash Amount			
President	Chang-Ken Lee	74,018	108,626	0	0	96,146	141,986	320	0	320	0	0.33%	0.49%	557
Chief Auditor	Chih-Jung Kung													
Chief Financial Officer	Grace Chen													
Senior Executive VP	David P. Sun													
Chief Investment Officer	Sophia Cheng													
Senior Executive VP	Chung-Yi Teng													
Chief Information Officer	Chia-Sheng Chang													
Chief Risk Officer	Ching-Lu Huang													
Senior Executive VP	Tsung-Hsien Tsai													
Senior Executive VP	Jian-Hsing Wu													
Executive VP	Deh-Yen Weng													
Executive VP	Shu-Ying Wu													
Executive VP	Judie Hsu													
Executive VP	Ching-Yuan Kung													
Executive VP	Ta-Ching Hung													
Executive VP	Hsiang-Hsin Tsai													
Executive VP	Xu-Jie Yao													
Executive VP	Chen-Tung Chang													
Executive VP	Yu-Mei Lee													
Executive VP	Fu-Min Wang													
Former Chief Risk Officer Po-Tsang Hsieh resigned on September 14, 2018														
Former Executive Vice President Francis Peng resigned on January 31, 2018														

* All personnel who hold positions equivalent to president or executive vice president (such as chairman, executive, business director, etc) must be disclosed.

Remuneration Range

Remuneration to president and vice presidents (NT\$) Remuneration Range	President & Executive Vice President Name	
	Cathay Financial Holdings (Note 6)	Consolidated subsidiaries (Note 7)
Under NT\$2,000,000	Ching-Lu Huang, Ta-Ching Hung, Hsiang-Hsin Tsai, Chen-Tung Chang, Fu-Min Wan, Po-Tsang Hsieh, Francis Peng	None
NT\$2,000,000 ~ NT\$5,000,000	Ching-Yuan Kung, Yu-Mei Lee	Fu-Min Wang
NT\$5,000,000 ~ NT\$10,000,000	Ching-Yuan, Kung, Chia-Sheng Chang, Jian-Hsing Wu, Deh-Yen Weng, Shu-Ying Wu, Judie Hsu, Xu-Jie Yao	Ching-Yuan, Kung, Chia-Sheng Chang, Ching-Lu Huang, Deh-Yen Weng, Judie Hsu, Ching-Yuan Kung, Ta-Ching Hung, Hsiang-Hsin Tsai, Yu-Mei Lee, Xu-Jie Yao, Chen-Tung Chang, Po-Tsang Hsieh, Francis Peng
NT\$10,000,000 ~ NT\$15,000,000	Grace Chen, Chung-Yi Teng, Tsung-Hsien Tsai	Grace Chen, Tsung-Hsien Tsai, Shu-Ying Wu
NT\$15,000,000 ~ NT\$30,000,000	David P. Sun, Sophia Cheng	David P. Sun, Sophia Cheng, Chung-Yi Teng, Jian-Hsing Wu
NT\$30,000,000 ~ NT\$50,000,000	Chang-Ken Lee	Chang-Ken Lee
NT\$50,000,000 ~ NT\$100,000,000	None	None
Over NT\$100,000,000	None	None
Total	22	22

Note1: Names of the presidents and executive vice presidents must be shown separately. For directors who are also presidents or executive vice presidents at the Company or the subsidiaries, Chart (1-1) or (1-2) above must be filled in.

Note2: His includes salary, compensation for professional services, severance pay, and all bonus and bounties paid to the director during the year.

Note3: Payments to presidents or executive vice presidents to reward or cover business expenses (including travel expenditures, allowances, reimbursements, accommodation, company cars, in-kind supplies, etc.) If residences, cars (or other transportations) or personal expenses are provided, information about the assets (including classification, cost, actual or fair market values of the rent, gasoline expenses, other perks) must be disclosed but not included in the remuneration. Compensation paid to personal drivers must be noted, when applicable, but not accumulated under the remuneration received. Total compensation paid to the pertinent drivers by the Group companies in the consolidated statement was NT\$ 4,643 thousand for the period. Salary expenses recognized in accordance with IFRS 2 "Share-based Payment" include acquisition of employee stock warrants, new restricted employee shares, and participation in capital increases by cash subscription, which shall all be calculated as remuneration.

Note4: Employee remuneration amount (stock and cash; if cannot be estimated, the distribution amount of this year shall be determined by the actual distribution ratio of last year) to the president or the executive vice president. The rewarding amount is proposed and resolved by the Board of the fiscal years. Table 1-3 shall be filled in.

Note5: Aggregated amount of individual compensation paid by the Group companies (including the Company) in the consolidated statement to the president or executive vice president.

Note6: Aggregated amount of individual compensation paid by the Company to the president or executive vice president. Names of the receivers must be shown under the suitable range.

Note7: Aggregated amount of individual compensation paid by the Group companies (including the Company) in the consolidated statement to the president or executive vice president. Names of the receivers must be shown under the suitable range.

Note8: Net income disclosed from the latest financial statement of each company.

Note9:

- Remuneration amount received by the president or executive vice president from affiliates of the subsidiaries.
- For remuneration received by the president or executive vice president from affiliates of the subsidiaries, the amount must be shown in the Column E under the Remuneration Range Table. The Column must be renamed to "All Investee Companies".
- Remuneration refers to compensation, remuneration (including remuneration to employees, directors and supervisors), and rewards related to business execution expenses received by Presidents and Executive Vice Presidents of the Company serving as directors, supervisors, or managers of non-group subsidiaries investment business.

* Remuneration shown under the chart is for disclosure purpose. It is not subject to "income" under the Income Tax Act, and thereby is not taxable.

(V) Employee Remuneration Distributed to Managers and Distribution Situation (Table 1-3)

December 31, 2018; Unit: NT\$ thousand

	Title (Note 1)	Name (Note 1)	Stock Amount (Note 2)	Cash Amount (Note 2)	Total	Total as a Percentage of Net Income (%)
Manager (Note 3)	President	Chang-Ken Lee	0	480	480	0.0009%
	Chief Auditor	Chih-Jung Kung				
	Chief Financial Officer	Grace Chen				
	Senior Executive VP	David P. Sun				
	Chief Investment Officer	Sophia Cheng				
	Senior Executive VP	Chung-Yi Teng				
	Chief Information Officer	Chia-Sheng Chang				
	Senior Executive VP	Tsung-Hsien Tsai				
	Senior Executive VP	Jian-Hsing Wu				
	Chief Risk Officer	Ching-Lu Huang				
	Executive VP	Deh-Yen Weng				
	Executive VP	Shu-Ying Wu				
	Executive VP	Judie Hsu				
	Executive VP	Ching-Yuan Kung				
	Executive VP	Ta-Ching Hung				
	Executive VP	Hsiang-Hsin Tsai				
	Executive VP	Yu-Mei Lee				
	Executive VP	Xu-Jie Yao				
	Executive VP	Chen-Tung Chang				
	Executive VP	Fu-Min Wang				
	Senior VP	Chang-Chao Liao				
	Senior VP	Shan-Chih Liu				
	Senior VP	Sheng-Hsiung Tsai				
	Senior VP	Huan-Chen Chang				
	Senior VP	Chin-Chi Chen				
	Senior VP	Hua-Hsin Yang				
	Senior VP	Yao-Te Wang				
	Senior VP	Chin-Tang , Lu				
	Senior VP	Gwang-Ying She				
	Senior VP	Shao-Ling Weng				

Note1: Individual name and title must be disclosed, but the profit sharing awarded may be shown as an aggregated number.

Note2: Employee remuneration amount (stock and cash) to managers. The rewarding amount is proposed and resolved by the Board of the fiscal years. If cannot be estimated, the distribution amount of this year shall be determined by the actual distribution ratio of last year. Net income disclosed from the latest financial statement of each company.

Note3: Managers subject to the rewarding (according to per March 27, 2003 Letter No. Securities and Futures Bureaus-III-0920001301 of the Financial Supervisory Commission, Executive Yuan of the Taiwan Stock Exchange Corporation) are:

(1) president or their equivalents; (2) executive vice president or their equivalents; (3) Division Head or their equivalents; (4) chief financial officer; (5) chief accounting officer; and (6) other persons authorized to manage affairs and sign documents on behalf of a company.

Note4: For directors, presidents, and executive vice presidents who received Employee remuneration (including stock and cash bonus), Table 1-2 must be filled in other than this chart.

- (VI) **A Company that has had an insufficient director shareholding percentage for 3 consecutive months or longer during the most recent fiscal year shall disclose the remuneration of individual directors:**
None.
- (VII) **A Company that has had an average ratio of share pledging by director supervisors in excess of 50 percent in any 3 months during the most recent fiscal year shall disclose the remuneration paid to each individual director supervisor having a ratio of pledged shares in excess of 50 percent for each such month:**
None.
- (VIII) **If the total amount of remuneration received by all of the directors and supervisors in their capacity as directors or supervisors of all of the companies listed in the financial reports exceeds 2 percent of the net income after tax, and the remuneration received by any individual director or supervisor exceeds NT\$15 million, the Company shall disclose the remuneration paid to that individual director or supervisor:**
None.
- (IX) **Compare respectively the ratio of the total amount of the remuneration paid to directors (including independent directors), general manager and vice general managers of the Company and all companies covered in the consolidated financial statements in the past two years to after-tax net income shown through the individual or respective financial statements along with explanations of the policies, standards and composition for remuneration payment, procedures to fix remunerations and the interrelationship between the business performance and future risks**
1. Total remuneration paid to directors, general managers and vice general managers by the Company and all entities included in the consolidated financial statements amounted to NT\$397,687 thousand dollars in 2018 and NT\$359,021 thousand dollars in 2017, representing 0.77% of 0.64% of net income in the respective years.
 2. Remuneration policies, standards, packages and procedures, and association with future risks and business performance
 - (1) Directors', General Manager's and deputy general managers' remuneration are determined according to the Company's "Director Compensation Guidelines" and "Manager Compensation Guidelines" based on an overall assessment of directors' and managers' duties, the market level, their individual contributions, performance assessments, and expected or actual risks.
 - (2) In the "Director Compensation Guidelines" (referred to as the "Guidelines" below), a director's compensation includes fees, remuneration, and traffic and other allowances.
 - A. Fees: The Company's independent directors, external directors, and directors involved in business administration (e.g., the Chairman/Vice Chairman) may be paid a fixed monthly fee. The amount of which is determined by the Remuneration Committee and the board of directors based on the level of individual directors' participation and contribution to the Company's operations, and the usual peer level. Directors who are directly involved in business administration are paid additional bonuses using the same standards as managers. This performance bonus is linked to the Company's overall performance and the performance of individual subjects during the year.
 - B. Remuneration: Director remuneration is determined according to the Company's Articles of Incorporation, which states that up to 0.05% of annual profit may be allocated and distributed at the percentages outlined in the Guidelines. Independent directors and external directors that are being paid monthly fees are not entitled to receive director remuneration.
 - C. Transportation and other allowances are paid at the standards stated in the Guidelines.
 3. According to the Company's "Manager Compensation Guidelines," managers' compensation includes monthly salary, performance bonus, and retirement benefit, etc. Managers' monthly salaries are determined based on their responsibilities, performances, competence, and the industry compensation benchmark. Salaries are proposed by the Chairman and effected with the consent of Remuneration Committee members and the board of directors.

IV. Implementation of Corporate Governance

(I) Functionality of the board of directors (Attachment 2)

The 6th board of directors (data range: 2018.1.1-2018.12.31)

A total of 7 meetings (A) were held in the last year; below are directors' and supervisors' attendance records:

Title	Name (Note 1)	Actual attendance (B)	Attendance by proxy	Actual attendance rate (%) (B/A) (Note 2)	Remarks
Chairman	Hong-Tu Tsai	7	0	100%	—
Vice Chairman	Cathay Medical Care Corporate Representative: Tsu-Pei Chen	7	0	100%	—
Director	Cathay Medical Care Corporate Representative: Cheng-Ta Tsai	0	7	0%	—
Director	Chen-Sheng Industrial Co., Ltd. Representative: Cheng-Chiu, Tsai	6	1	86%	—
Director	Chia Yi Capital Co., Ltd. Representative: Peter V. Kwok	—	—	—	Resigned on 2018.2.1; required attendance: 0 session(s)
Director	Chia Yi Capital Co., Ltd. Representative: Chi-Wei Joong	7	0	100%	—
Director	Chia Yi Capital Co., Ltd. Representative: Andrew Ming-Jian Kuo	7	0	100%	—
Director	Cathay Life Insurance Co., Ltd. Employees' Welfare Committee Representative: Tiao-Kuei Huang	7	0	100%	—
Director	Cathay Life Insurance Co., Ltd. Employees' Welfare Committee Representative: Ming-Ho Hsiung	7	0	100%	—
Director	Cathay Life Insurance Co., Ltd. Employees' Welfare Committee Representative: Chang-Ken Lee	7	0	100%	—
Independent Director	Tsing-Yuan Hwang	7	0	100%	—
Independent Director	Feng-Chiang Miao	5	2	71%	—
Independent Director	Edward Yung Do Way	7	0	100%	—

Note1: Where directors and supervisors are corporate entities, the names of corporate shareholders and their representatives are stated.

Note2:

- (1) The date of resignation is specified for directors or supervisors who had resigned prior to the close of the financial year. The percentage of actual attendance (%) is calculated based on the number of board of directors meetings held and the number of actual attendance during active duty.
- (2) If a re-election of directors or supervisors had taken place prior to the close of the financial year, directors/supervisors of both the previous and the current term are listed; in which case, the remarks column would specify the re-election date and whether the director/supervisor was elected in the previous term, the new term, or both. Actual attendance rate (%) was calculated on the basis of the number of board meetings held during each director's term and the number of meetings actually attended by that director.

Attendance of independent directors at board of directors meetings in 2018:

✓: In person; ☆: By proxy; ✕: Absent

2018	1 th	2 th	3 th	4 th	5 th	6 th	7 th	Remarks
Tsing-Yuan Hwang	✓	✓	✓	✓	✓	✓	✓	—
Feng-Chiang Miao	✓	✓	✓	☆	✓	☆	✓	—
Edward Yung Do Way	✓	✓	✓	✓	✓	✓	✓	—

Directors' and supervisors' ongoing education in 2018:

Title	Name	Course date		Exam Administrator	Course name	Course hours	Remarks
		From	To				
Chairman	Hong-Tu Tsai	2018/07/27	2018/07/27	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Global AML and CTF Trends	3.0	—
		2018/11/23	2018/11/23	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Information Security Trends and Corporate Response	3.0	
Vice Chairman	Tsu-Pei Chen	2018/04/20	2018/04/20	Taiwan Corporate Governance Association	AML/CTF Trends and Key Regulations	3.0	—
		2018/07/13	2018/07/13	Taiwan Corporate Governance Association	Directors' "Duty of Loyalty" (Including Case Studies and Best Practices)	3.0	
		2018/07/27	2018/07/27	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Global AML and CTF Trends	3.0	
		2018/11/23	2018/11/23	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Information Security Trends and Corporate Response	3.0	
Director	Cheng-Ta Tsai	2018/12/12	2018/12/12	Taiwan Academy of Banking and Finance	Corporate Governance Forum - AML and CTF Regulations	2.0	—
		2018/12/12	2018/12/12	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Overview and Impact of Common Report Standard (CRS)	2.0	
		2018/12/12	2018/12/12	Cathay Financial Holding Co., Ltd.	Impacts of The Company Act Amendments on Directors/Board of Directors	2.0	

Title	Name	Course date		Exam Administrator	Course name	Course hours	Remarks
		From	To				
Director	Cheng-Chiu Tsai	2018/07/27	2018/07/27	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Global AML and CTF Trends	3.0	—
		2018/11/23	2018/11/23	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Information Security Trends and Corporate Response	3.0	
Director	Chi-Wei Joong	2018/01/10	2018/01/10	Internal Training of Cathay Financial Holdings organized by Taiwan Academy of Banking and Finance	Best Board Practice and Corporate governance Workshop - AML/CTF Training	3.0	—
		2018/08/17	2018/08/17	Taiwan Corporate Governance Association	The Last Defense of Corporate Governance - Director and Supervisor Liability Insurance	3.0	
		2018/10/26	2018/10/26	Taiwan Corporate Governance Association	Board Functionality and Responsibilities	3.0	
Director	Andrew Ming-Jian Kuo	2018/03/29	2018/03/29	Chinese National Association of Industry and Commerce, Taiwan (CNAIC)	Corporate Governance and Social Responsibility Trends and Best Practices	3.0	—
		2018/07/27	2018/07/27	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Global AML and CTF Trends	3.0	
		2018/11/23	2018/11/23	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Information Security Trends and Corporate Response	3.0	
Director	Tiao-Kuei Huang	2018/01/18	2018/01/18	Securities and Futures Institute	Anti-money Laundering and Compliance	3.0	—
		2018/02/08	2018/02/08	Securities and Futures Institute	Case Studies on Directors'/Supervisors' Breach of Trust and Special Breach of Trust	3.0	
		2018/07/27	2018/07/27	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Global AML and CTF Trends	3.0	
		2018/11/23	2018/11/23	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Information Security Trends and Corporate Response	3.0	
Director	Ming-Ho Hsiung	2018/07/27	2018/07/27	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Global AML and CTF Trends	3.0	—
		2018/11/23	2018/11/23	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Information Security Trends and Corporate Response	3.0	

Title	Name	Course date		Exam Administrator	Course name	Course hours	Remarks
		From	To				
Director	Chang-Ken Lee	2018/01/24	2018/01/24	Taiwan Corporate Governance Association	Cathay Financial Holdings Corporate Governance System Counseling	3.0	—
		2018/01/25	2018/01/25	Center for Corporate Sustainability (CCS)	Global Trend Analysis and Sustainable and Innovative Banking in Taiwan	2.5	
		2018/01/26	2018/01/26	Taiwan Academy of Banking and Finance	Machine Learning and Keys to AI Banking	1.5	
		2018/01/30	2018/01/30	KPMG	[Sustainability - Financial Industry ESG Risks and Green Industry Transformation] Forum	3.5	
		2018/03/05	2018/03/05	Taiwan Stock Exchange Corporation (TWSE)	Electronic Voting and Corporate Value Improvement Forum	6.0	
		2018/03/30	2018/03/30	Taiwan Stock Exchange Corporation (TWSE), etc.	Taiwan Sustainability Index Publication and Sustainable Investment Forum	3.0	
		2018/05/08	2018/05/08	Taiwan Stock Exchange Corporation (TWSE)	Summit forum for new corporate governance roadmap for TWSE-listed companies	3.0	
		2018/07/27	2018/07/27	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Global AML and CTF Trends	3.0	
		2018/11/23	2018/11/23	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Information Security Trends and Corporate Response	3.0	
Independent Director	Tsing-Yuan Hwang	2018/01/24	2018/01/24	Taiwan Corporate Governance Association	Cathay Financial Holdings Corporate Governance System Counseling	3.0	—
		2018/01/25	2018/01/25	Taiwan Corporate Governance Association	Cathay United Bank Corporate Governance System Counseling	3.0	
		2018/01/26	2018/01/26	Taiwan Corporate Governance Association	Cathay Life Corporate Governance System Counseling	3.0	
		2018/05/17	2018/05/17	Chinese National Association of Industry and Commerce, Taiwan (CNAIC)	Corporate Challenges and Responses of AML	3.0	
Independent Director	Feng-Chiang Miao	2018/05/28	2018/05/28	Taiwan Corporate Governance Association	The Age of AI and Reverse Commerce	3.0	—
		2018/07/27	2018/07/27	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Global AML and CTF Trends	3.0	
		2018/11/23	2018/11/23	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Information Security Trends and Corporate Response	3.0	

Title	Name	Course date		Exam Administrator	Course name	Course hours	Remarks
		From	To				
Independent Director	Edward Yung Do Way	2018/05/09	2018/05/09	Taiwan Academy of Banking and Finance	Risk-based AML System for Banks	3.0	—
		2018/05/23	2018/05/23	Taiwan Academy of Banking and Finance	Information Security Risk and Governance under the Wave of Financial Technology	3.0	
		2018/05/25	2018/05/25	Taiwan Corporate Governance Association	Global Trend Analysis - Risks and Opportunities	3.0	
		2018/05/28	2018/05/28	Taiwan Corporate Governance Association	The Age of AI and Reverse Commerce	3.0	
		2018/06/26	2018/06/26	Taiwan Corporate Governance Association	Introduction to new corporate governance roadmap	1.0	
		2018/09/06	2018/09/06	Securities and Futures Institute	Focuses of the Latest Company Act Amendment and Practical Implications	3.0	
		2018/09/19	2018/09/19	Taiwan Corporate Governance Association	(Summit) The 14 th Term Corporate Governance International Summit Forum	6.0	
		2018/09/26	2018/09/26	Taiwan Stock Exchange Corporation (TWSE)	2018 ESG Investment Forum	3.2	
		2018/11/23	2018/11/23	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Information Security Trends and Corporate Response	3.0	

Other items to be stated:

- Where the operation of the Board of Directors meets any of the following circumstances, the minutes concerned shall clearly state the meeting date, term, contents of motions, opinions of all independent directors and the Company's resolution of said opinions:
 - Conditions described in Article 14-3 of the Securities and Exchange Act: According to Article 14-5 of the Securities and Exchange Act, Article 14-3 does not apply to the Company.
 - Any other resolution(s) passed but with independent directors voicing opposing or qualified opinions on the record or in writing: None.
- In instances where an director recused himself/herself due to a conflict of interest, the minutes shall clearly state the director's name, contents of the motion and resolution thereof, reason for not voting and actual voting counts:

Directors	Motion	Reasons for avoiding conflict of interest	Participation in voting process
Tsu-Pei Chen, Chang-Ken Lee	Distribution of annual performance bonus and talent retention bonus for managers of department head and above and directors involved in actual business decisions	The motion concerned the interest of directors listed on the left	Disassociated from discussion and voting

Directors	Motion	Reasons for avoiding conflict of interest	Participation in voting process
Hong-Tu Tsai, Tsu-Pei Chen, Cheng-Ta Tsai, Cheng-Chiu Tsai, Chi-Wei Joong, Andrew Ming-Jian Kuo, Tiao-Kuei Huang, Ming-Ho Hsiung, Chang-Ken Lee	Employee and directors' remuneration	The motion concerned the interests of corporate entities represented by Director Hong-Tu Tsai and directors listed on the left	Disassociated from discussion and voting
Andrew Ming-Jian Kuo, Tsing-Yuan Hwang, Feng-Chiang Miao	Removal of restrictions imposed against the Company's directors for involving in competing businesses	The motion concerned the interest of directors listed on the left	Disassociated from discussion and voting
Tsu-Pei Chen, Chang-Ken Lee	Adjustment of managers' salary	The motion concerned the interest of directors listed on the left	Disassociated from discussion and voting
Chang-Ken Lee	Allocation of cash issue subscription quota for the Company's managers	The motion concerned the interest of directors listed on the left	Disassociated from discussion and voting
Chang-Ken Lee	Regular review of managers' compensation	The motion concerned the interest of directors listed on the left	Disassociated from discussion and voting
Hong-Tu Tsai, Cheng-Ta Tsai	The party is a designated subscriber for the cash issue of the Company's Class B preferred shares	The motion did not concern the interests of the directors listed on the left in any substantial or direct manner. These directors were not required to recuse by law, but they had voluntarily recused out of respect for the highest corporate governance standard	Disassociated from discussion and voting
Edward Yung Do Way	To appoint Deloitte Taiwan for financial and taxation certification affairs since 2019	The motion did not concern the interests of the directors listed on the left in any substantial or direct manner. These directors were not required to recuse by law, but they had voluntarily recused out of respect for the highest corporate governance standard	Disassociated from discussion and voting

3. Enhancements to the functionality of the board of directors in the current and the most recent year (e.g. establishment of an Audit Committee, improvement of information transparency etc), and the progress of such enhancements:

■ **Enhancement of board functionality**

The Company adopts the “candidate nomination system” where all board candidates are nominated through the “Corporate Governance and Nomination Committee”. After the board reaches a resolution, the list is sent to the shareholders’ meeting for election. The board consists of over ten directors, each with extensive experience and expertise in the fields of finance, commerce, and management. Starting from the 5th board meeting, additional external director seats were included. Through the involvement of external directors and the Company’s board, in addition to providing valuable advice on the Company’s long-term development strategies, the directors also play the role of objective supervision and monitoring based on past experience, thus contributing to the Company’s enhanced corporate governance effectiveness. In addition, at the 6th board meeting, Chairman Miao Feng-Chiang of MiTAC Holdings Corporation and Former CEO Edward Yung Do Way of Deloitte Taiwan were elected as independent directors to strengthen the board’s independence. Additionally, the Company’s board directors are characterized by diversity. For pertinent information, refer to “Differences between Corporate Governance and Operation Situation and Financial Holdings Corporate Governance Code as well as the reasons and assessment items; 6. Whether financial holding companies hold other important information contributing to insights into corporate governance operation situations/operational situations/summary descriptions (10)”. In addition, in order to strengthen the board’s professional functions and connect with the world, the Company has set up the “Audit Committee”, the “Remuneration Committee”, and the “Corporate Governance and Nomination Committee”. Among them, the “Audit Committee” has assisted the company board in making a number of important decisions through professional division of labor and impartiality and independence. The “Remuneration Committee” has provided professional opinions and has reached important resolutions on the Company directors and managers’ performance assessment and remuneration standard setting and revision, and remunerations for directors and managers, which are expected to contribute to the effective establishment the directors and managers’ remunerations and performance assessment system in the company, thereby enhancing the Company’s operational performance. Furthermore, through the “Corporate Governance and Nomination Committee”, the functions of the nominating board candidates, constructing the organizational frameworks of respective functional committees, and reviewing board operation related regulations have been performed, in the hope of enhancing board effectiveness. Since the establishment of the said committee, the following mechanisms regarding board operations have been added: “The Company shall arrange initial employment seminars for the board of directors taking up the post for the first time”, the inclusion of “The Assessment of Committee Performance”, the setup of “Corporate Governance Supervisors”, and the addition of “Standard Operating Procedures for Handling of Board Requirements”.

In 2018, the board of directors passed a resolution to create the position of “Corporate Governance Officer” to further enforce the corporate governance framework, and the position is assumed by the head of Administration Division (vice president grade). In January 2019, the board of directors resolved to adjust prerequisites for the “Company Secretary,” limiting the role only to those qualified as head of legal affairs, shareholder service, meeting, general administration or corporate governance for at least three years in a finance-related institution or public company. Main responsibilities of the Company Secretary include: “handling of board meeting and shareholder meeting affairs,” “preparation of board meeting and shareholder minute,” “assisting directors with duty and ongoing

education,” “providing directors with the information needed to execute duty,” “assisting directors with compliance affairs,” and “other matters specified by law, the Articles of Incorporation or contracts.” In March 2019, the board of directors passed “Standard Operating Procedures for Resolving Directors’ Requests” to support directors with their duties and improve efficiency of the board. Progress of the Company’s 2018 corporate governance efforts is explained below:

In addition to appointing a “Company Secretary” for supervising corporate governance affairs on the group level, each department is also required to assign “corporate governance personnel” to oversee corporate governance-related matters within each unit:

- (1) Responsibilities with regards to “handling of board meeting and shareholder meeting affairs (including minutes preparation), assisting directors with duty and ongoing education, and providing directors with the information needed to execute duty” are assisted by personnel of the “Legal Department, Administration Division,” who perform the following duties:
 - Notify all meeting participants of the agenda and related information 7 days before a board of directors/Audit Committee/Remuneration Committee meeting or 3 days before a Corporate Governance and Nomination Committee meeting; and arrange to have meeting minutes signed/sealed by the chairperson and minute taker before distributing them to all participants within 20 days after the meeting, and kept as a major corporate file thereafter.
 - Conduct orientation for first-time directors to introduce them to the Company’s business activities, organization and other important issues; provide newly elected directors with a “Director Manual” that guides them through their duties and compliance requirements; and assist directors in the completion of yearly education as needed by the Company and individual directors.
 - Provide directors with the requested information and maintain communication between directors and various department heads; assist in independent directors’ duties by arranging communication with the chief internal auditor, the financial statement auditor, other internal departments.
 - Amend corporate governance policies in line with the Company’s business activities and the latest regulations, and present them for resolution by the board of directors.
 - Renew “liability insurance for directors and key staff” within the group, and register the required corporate information or changes thereof with the authority before deadline.
- (2) With regards to “shareholder meeting affairs (including preparation of minutes),” personnel of the “Share Administration Section, Administration Department, Administration Division,” have been assigned to perform the following:
 - Prepare and convene shareholder meetings, produce minutes, oversee share administration affairs, and provide adequate information to shareholders to ensure that their interests are soundly protected.
 - Responsible of checking major announcements for compliance and accuracy, and ensuring information symmetry for investors.

The corporate governance supervise training situation for 2019 is as follows:

Date of Training		Organizing agency	Course name	Course hours	Total number of training hours for the current year
From	To				
2019.03.22	2019.03.22	Taiwan Corporate Governance Association	Causes of Corporate Fraud and Legal Responsibilities of Directors and Supervisors-A Case Study	3.0	9.0 [Note]
2019.04.22	2019.04.22	Corporate Operation Association of the Republic of China(Taiwan)	“2019 Shareholders’ Meetings Know-how” Seminar Series”	3.0	
2019.04.29	2019.04.29	Cathay Financial Holdings	Cathay Financial Holdings Co., Ltd. Law Compliance Sharing School (2) "Industrial transformation! How the financial industry integrates with technology"	3.0	

Note : From January to April 2019,the total number of training hours was 9.0 hours; the complete training information for 2019 is disclosed on the company website. (<http://www.cathayholdings.com>)

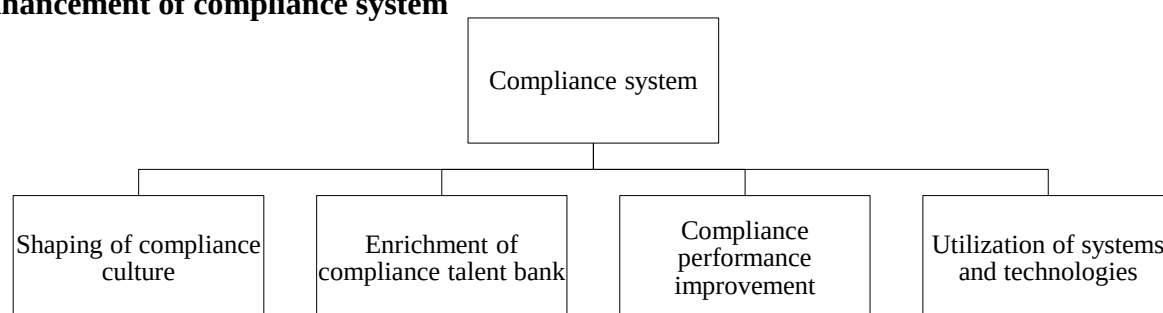
Since June 15, 2007, the Company has been purchasing liability insurance to protect itself against the liabilities of directors, supervisors and key staff of the Company and subsidiaries over the course of their duties. Terms of this insurance policy are reviewed on a yearly basis, and since 2017, main details such as the sum assured, the scope of coverage and premium rate are reported to the upcoming board meeting after annual renewal. This insurance exists to reduce the amount of risk borne by directors, supervisors and the Company, as well as to enforce the corporate governance system.

In order to implement corporate governance and enhance board effectiveness, the performance goals have been established to strengthen board operations. In reference to the “Financial Holdings Corporate Governance Code” and the “TAIEX Listed and OTC Listed Corporate Governance Code”, the Company’s “the Board Performance Evaluation Policy” was set up on November 5, 2015, which was revised into “the Board and Functional Committee Performance Evaluation Policy” on April 26, 2018. Each year, the Board of Directors, functional committees (including the Audit Committee, the Remuneration Committee, the Corporate Governance and Nomination Committee) members and the board meeting units shall carry out a board and functional committee internal performance assessment for the current year on five aspects (including: degree of participation in company operations, improvement of board (functional committee) decision-making quality, board (functional committee) makeup and structure, board (functional committee member) election, further training, and internal control). The assessment results can be divided into three classes: exceeding the standard, in line with the standard, and requiring improvement. Concerning the Company’s 2018 Board of Directors, Audit Committee, Remuneration Committee, Corporate Governance Nomination Committee internal performance assessment operations, the “qualitative measurement indicators” were completed through self-assessment by all the directors and functional committee members. The “quantitative measurement indicators” were computed through the quantitative indicator data by the meeting units, and the achievement rate of all the measurement indicators were tallied by the meeting units. The internal performance assessment results are: “exceeding the standard” and without aspects of items requiring improvement, an indication of the Company’s board and functional committee effectiveness strengthening results. The aforementioned internal performance assessment results were discussed and passed by the board on January 30, 2019. In addition, in order to strengthen the independence and effectiveness of board performance assessments external independent professional agency, experts, or scholars shall be commissioned to

perform a board external performance assessment every three years from 2017. Assessment measurement indicators, assessment procedures, achievement rate standards, and assessment results shall be planned and conducted by the Company’s commissioned external independent professional agency, experts, or scholars. In 2019, the Company is expected to commission an external independent professional agency to implement the Company’s 2018 board external performance assessment in order to prefect the corporate governance system.

The Company has “the Board and Functional Committee Performance Evaluation Policy” in place to supervise the directors in fulfilling their duties, and in doing so improves overall performance and achieves sustainable business management. The evaluation involves the use of multiple indicators on directors’ duty (e.g.: supervision over business execution, finance, operation, internal audit and internal control) and other aspects (e.g.: corporate credit rating, corporate social responsibilities etc). Outcome of the evaluation is determined after taking into account directors’ self-assessment and assessment of each other’s performance. The Chairman, on the other hand, is evaluated individually based on the findings of more than half of independent directors.

■ Enhancement of compliance system



Cathay Financial Holdings has had a Compliance Department established since 2015 to enforce compliance system within the Group. The department is dedicated to enhancing the compliance culture by organizing relevant training and checking compliance in business conducts. The department also reports to the board of directors and the Audit Committee every six months on the Group’s compliance progress. Cathay Financial Holdings has placed great emphasis on enhancing compliance awareness and knowledge among employees to shape a compliance culture capable of reacting to the rapid changes in the global financial environment. The Company organizes a broad variety of compliance training for different employees that cover basic knowledge, business-specific topics and the latest local/foreign financial supervisory trends.

In response to the AML/CTF trends around the world, Cathay Financial Holdings has adopted a “risk-based” approach towards enhancing its AML/CTF system, and continues to align practices with the rest of the world through overseas offices. All subsidiaries of the group have begun assigning dedicated departments and committees to enforce ML/TF risk management since 2015. Cathay Financial Holdings works with the authority in establishing important regulations, and arranges to have group directors, supervisors and senior officers undergo AML/CTF training. By shaping a compliance culture from the top down, the Group aims to escalate its AML/CTF efforts and enforce consensus and common understanding across employees. Through diverse training, timely update of laws and regular review of current affairs, the Company aims to promote proper AML/CTF awareness.

In addition, the Company continues to supervise the Group’s compliance with the Foreign Account Tax Compliance Act (FATCA) and Common Report Standard (CRS), and makes amendments according to Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries. A Whistleblower System has been implemented along with a compliance risk assessment framework and methodology. Today, the Company continues to

supervise the group in the implementation of sound compliance systems according to laws and requirements of the authority.

■ **Enforcement of corporate governance**

The Company has been actively making and amending policies to more effectively support corporate governance efforts, including:

Amendments to the “Board Election Policy” that outline the procedures needed to be taken to accommodate the Company’s transition into the candidate nomination system.

The Company has implemented “Business Integrity Code of Conduct,” “Ethical Behavior Guidelines” and “Employee Code of Conduct” to serve as standards for employees’ ethical behavior and to provide stakeholders with a better understanding of the Company’s ethical standards, and thereby ensure the sustainability of future businesses. These codes of conduct specifically require employees to comply with laws and integrity principles, avoid conflict of interest, and refrain from bribery and illicit personal gains when performing business activities.

The Company was the first financial holding company to implement a group-wide whistleblower system that supports business ethics, integrity and sustainability by encouraging employees to report any conducts that are illegal or in violation of Ethical Behavior Guidelines or Business Integrity Code of Conduct. “Cathay Group Whistleblower System” and the Company’s “Unethical and Dishonest Conduct Reporting Policy” have been implemented to create whistleblower channels that insiders and outsiders may use to uncover illicit conducts without compromising their legal rights. Person-in-charge and employees of the Company may report to the board of directors, the Audit Committee, the audit unit, the compliance unit and personnel of appropriate department upon discovering any act of corruption or bribery. The Company also has the responsibility to maintain secrecy over the informant’s identity and details of the misconduct report. All reported cases shall be thoroughly investigated by the audit unit; any established cases of misconduct shall be referred to the Administration Department and disciplined according to the Company’s policies. Meanwhile, relevant details are to be disclosed over the Company’s Intranet. The Company organized multiple training on integrity-related issues in 2018 (e.g.: annual training and orientation training on Employee Code of Conduct, compliance officer conference, and AML/CFT seminars). These sessions received a total of 610 enrollments and delivered 2,089 man-hours of training.

For better protection of investors’ interest, the Company and subsidiaries have revised their “Trade Suspension and Resumption Procedures,” “Trade Suspension and Resumption Rules,” “Material Information Announcement Rules,” “Material Information Press Conference Rules,” and “Material Information Announcement and Management Guidelines” to outline management practices for the various operations in place, and in doing so improve the timeliness of information disclosed and the overall corporate governance system.

■ **Improvement of information transparency**

The Company has “Investors,” “Corporate Governance,” and “Corporate Sustainability” sections created on its website to improve information transparency by providing financial, business and corporate governance-related information in both Chinese and English.

Furthermore, the Company has an “Investor Relations Department” in place to enhance investors’ appreciation of the Company’s values and establish communication with investors. The department holds regular investor seminars to address investors’ queries and enforce their rights to the Company’s financial and business information. The Company has been rated A++ (the highest rating) on many occasions in recent year’s “Information Disclosure Evaluation for TWSE/TPEX Listed Companies.” During the 12th “Information Disclosure Evaluation for TWSE/TPEX Listed

Companies” held in 2015, the Company once again received the A++ rating, which serves as a testament to the progress it has made to enforcing open information practices.

Furthermore, the Company and its subsidiaries - “Cathay Life” and “Cathay United Bank” made their first participation in the “CG6011 Corporate Governance Assessment” organized by Taiwan Corporate Governance Association, and were awarded the highest “Exceptional” rating. The Company was also selected a composition of “TWSE Corporate Governance 100 Index” and “Taiwan Sustainability Index,” which served as a testament to the Group’s exceptional performance in terms of information transparency, corporate governance and sustainability.

■ **Enhancement of communication channels with stakeholders (including: investors/shareholders, employees, customers and suppliers)**

The Company has a “Stakeholders” section created on its webpage to serve as a communication channel with stakeholders. It is a transparent and effective means for the Company to communicate with stakeholders and is critical for corporate sustainability.

(II) Functionality of the Audit Committee (Attachment 2-1)

The Company’s Audit Committee consists entirely of independent directors, whose responsibilities are to assist the board with corporate governance, including:

- (1) Establishment or amendment of internal control system and procedures for asset acquisition/disposal, derivative trading and major financial/business activities, and evaluation of the internal control system.
- (2) Matters involving directors’ personal interests.
- (3) Major transaction of assets or derivatives.
- (4) Offering, issuance, or private placement of securities with equity characteristics.
- (5) Appointment, dismissal and remuneration of financial statement auditor; appointment and dismissal of financial, accounting and internal audit officers.
- (6) Annual and semi-annual financial reports.
- (7) Other issues deemed material by the Company or the authority.

The Audit Committee convenes meetings on a quarterly basis, and has been empowered to request for the presence of any managerial staff, internal auditor, CPA, legal advisor, or any personnel deemed relevant to provide the necessary information.

The Company’s Audit Committee convened 8 meetings in 2018. The main reviewed matters are as follows:

- (1) 2017 “final financial statement” and “Internal Control System Declaration”.
- (2) 2018 “first quarter, first half of the year, and the first three quarters financial statement” and “Class B special shares issued through capital increase and specific persons”.
- (3) 2019 “Audit Plan” and “commissioned Deloitte Taiwan to conduct financial and taxation undertakings”.
- (4) Set up the “Cathay Financial Group Reporting System” and the “Cathay Financial Holding Regulatory Compliance Education Training Implementation Criteria” and related planning.
- (5) Revised the “Accounting Policy”, “Internal Control System”, “Internal Audit System and Implementation Rules”, and “Regulatory Compliance Implementation Criteria”.
- (6) “Planning of long-term fundraising”, “senior corporate bond issuance”, and “lifting of on board non-compete restrictions”.
- (7) “Participation in Cathay Life Insurance privately raised cash increase and issuance of new shares”, “Office lease renewal with subsidiary Cathay Life Insurance”, and “Commissioning

subsidiary Cathay Securities Corporation” and “Cathay United Bank as the Company’s senior corporate underwriters”.

- (8) The Company and nine subsidiaries including Cathay Life Insurance share information resources and jointly sign the “Agreement for Sharing of Information System Equipment among Cathay Financial Holdings and its Subsidiaries”.
- (9) In cooperation with subsidiary Cathay Life Insurance, conditions for the issuance of privately raised regular shares have been revised. The Company has increased the number of subscribed shares and subscriptions in dollar amounts.

■ Financial Report Review

The financial statements of Cathay Financial Holdings covering the period from January 1 to December 31, 2017, and the business report and earning distribution plan have been prepared and submitted by the Board of Directors of the Company. The financial statements were audited by Bob Chang, CPA, and James Huang, CPA, of Ernst and Young, who issued an auditors’ report. In accordance with Article 14-4 of Securities Trading Act and Article 219 of Corporate Act, the preceding disclosed business reports, financial statements, and surplus distribution cases have been commissioned by the Company’s Audit Committee to CPA Fu Wen-Fang from Ernst & Young Taiwan for inspection, and no inappropriateness was found. After passing the review by the Company’s Audit Committee on April 26, 2018, the Audit Committee’s inspection report was presented according to provisions and was submitted to the 2018 annual shareholders’ meeting.

■ The assessment of the effectiveness of the internal control system

The Company’s Audit Committee passed the 2017 “Internal Control System Declaration” on March 14, 2018. The design and implementation of the overall internal control system of the Company and its subsidiaries were deemed by the Audit Committee to be valid after assessment. The Audit Committee assessed the effectiveness of the Company’s internal control system policies and procedures (including finance, operations, risk management, information security, regulatory compliance, and other control measures) and reviewed the periodic reports (including risk management and regulatory compliance) proposed by certifying CPAs, audit departments, and other managerial departments. The Audit Committee deemed the Company had adopted all necessary control mechanisms to monitor and correct violations.

■ Commissioning of the certifying CPA

In order to ensure the independence, eligibility, and professionalism of the Company’s certifying CPAs, the Audit Committee and Board shall assess the independence of certifying accountants in accordance with Paragraph 1 and Paragraph 2 of Article 47 of the “Certified Public Accountant Act”, as well as reviewing the “Impartiality and Independence Declaration” presented by certifying CPAs in order to confirm the provisions in The Norm of Professional Ethics for Certified public Accountant of the Republic of China No. 10 Bulletin-“Integrity, Fairness, Objectivity, and Independence” are not violated, and there are no other financial interests and business relations. Further, the resumes (including relevant experience, professional qualifications, and main clients) and shareholding situation of CPAs shall be examined. The Audit Committee (November 1, 2018) and the Board (November 2, 2018) passed commissioning Deloitte Taiwan to handle the Company’s financial and tax compliance audit starting 2019, with CPAs Kuo Cheng-Hung and Chen Li-Chih serving as certifying CPAs. After an assessment, both CPAs were found to be qualified in terms of independence, eligibility, and professionalism

The 4th Audit Committee (data range: 2018.1.1-2018.12.31)

A total of 8 Audit Committee meetings (A) were held in the last year; independent directors' attendance records are summarized below:

Title	Name	Actual attendance (B)	Attendance by proxy	Actual attendance rate (%) (B/A) (Note)	Remarks
Independent Director (Convener of Audit Committee)	Tsing-Yuan Hwang	8	0	100%	—
Independent Director (Members of Audit Committee)	Feng-Chiang Miao	6	2	75%	—
Independent Director (Members of Audit Committee)	Edward Yung Do Way	8	0	100%	—

Note:

- (1) Where a specific independent director may be relieved from duties before the end of the fiscal year, specify the date of discharge in the "Remark" section. Actual attendance rate (%) was calculated based on the number of board meetings held during each director's term and the number of meetings actually attended by that director.
- (2) Where a reelection may be held for filling the vacancies of independent directors before the end of the fiscal year, list out both the new and the discharged independent directors, and specify if they are the former independent directors, or newly elected, re-elected and the date of the reelection in the "Remark" section. Actual attendance rate (%) was calculated on the basis of the number of meetings held by the audit committee during each independent director's term and the number of meetings actually attended by that independent director.

※ Other items to be stated:

1. Where the operation of the audit committee meets any of the following circumstances, the minutes concerned shall clearly state the meeting date, term, contents of motions, audit committee's resolution and the Company's resolution of audit committee's opinions:

(1) Explanation to matters listed in Article 14-5 of the Securities and Exchange Act:

Board of Directors	Board of directors meeting motion	The circumstances referred to in Article 14-5 of the Securities and Exchange Act	Resolutions unapproved by the Audit Committee but passed by more than two-thirds of directors
12th extraordinary meeting of the 6th board 2018.2.9	1. Issue Series B Preferred Share in a Cash Capital Increase in 2018.	✓	✗
	2. Participation in the private cash issue of subsidiary - "Cathay Life."	✓	✗
	Audit Committee resolution (February 9, 2018): Motion was passed as proposed by all members of the Audit Committee.		
	Company's response to Audit Committees' opinions: Motion was passed as proposed by all attending directors.		
The 7th meeting of the 6th board dated 2018.3.15	1. Review of 2017 final financial statements.	✓	✗
	2. Amendments to the Company's "accounting policy."	✓	✗
	3. Presentation of the Company's 2017 "Declaration of Internal Control System."	✓	✗
The 7th meeting of the 6th board dated 2018.3.15	4. 9 companies within the Group, including "Cathay Life," share information resources, for which they have jointly signed "Cathay Financial Holdings and Subsidiaries Information System Equipment and Personnel Sharing Agreement."	✓	✗
	Audit Committee resolution (March 14, 2018): Motion was passed as proposed by all members of the Audit Committee.		
	Company's response to Audit Committees' opinions: Motion was passed as proposed by all attending directors.		

Board of Directors	Board of directors meeting motion	The circumstances referred to in Article 14-5 of the Securities and Exchange Act	Resolutions unapproved by the Audit Committee but passed by more than two-thirds of directors
8th meeting of the 6th board 2018.4.26	1. Review of 2018 first-quarter financial statements.	✓	✗
	2. Proposal of the Company's long-term funding plan.	✓	✗
	3. Proposal to increase the number and amount of share subscription to accommodate the change in terms of private common share placement by subsidiary - "Cathay Life."	✓	✗
	4. Amendments to the Company's "Internal Control System."	✓	✗
	5. Amendments to the Company's "Internal Audit System and Implementation Rules."	✓	✗
	6. Removal of restrictions imposed against the Company's directors for involving in competing businesses.	✓	✗
	Audit Committee resolution (April 25, 2018): ■ Motions 1~5 were passed as proposed by all members of the Audit Committee. ■ With the exception of Independent Directors Tsing-Yuan Hwang and Feng-Chiang Miao who had recused from the motion, motion 6 was passed as proposed by the remaining Independent Director - Edward Yung Do Way Company's response to Audit Committee's opinions: ■ Motions 1~5 were passed as proposed by all attending directors. ■ With the exception of Director Andrew Ming-Jian Kuo, Independent Director Tsing-Yuan Hwang and Independent Director Feng-Chiang Miao who had recused from the motion, motion 6 was passed as proposed by all other attending directors.		
13th extraordinary meeting of the 6th board 2018.6.8	1. To designate subscriber for the 2018 cash issue of the Company's Class B preferred shares.	✓	✗
	Audit Committee resolution (June 8, 2018): ■ Motion 1 was passed as proposed by all members of the Audit Committee.		
	Company's response to Audit Committee's opinions: ■ Except for the recusal of Chairman Hong-Tu Tsai, motion 1 was passed as proposed by all other attending directors without Chairman Hong-Tu Tsai voting on behalf of Cheng-Ta Tsai.		
9th meeting of the 6th board 2018.8.16	1. Review of the 2018 first-half financial statements	✓	✗
	2. Establishment of "Cathay Group Whistleblower System," "Cathay Financial Holdings Compliance Training Guidelines" and related plans, and amendment of "Cathay Financial Holdings Compliance System Implementation Guidelines."	✓	✗
	Audit Committee resolution (August 15, 2018): Motion was passed as proposed by all members of the Audit Committee.		
	Company's response to Audit Committees' opinions: Motion was passed as proposed by all attending directors.		
14th extraordinary meeting of the 6th board 2018.9.17	1. Issuance of senior corporate bond.	✓	✗
	Audit Committee resolution (September 17, 2018): Motion was passed as proposed by all members of the Audit Committee.		
	Company's response to Audit Committees' opinions: Motion was passed as proposed by all attending directors.		
10th meeting of the 6th board 2018.11.2	1. Review of 2018 three-quarter financial statements.	✓	✗
	2. To appoint Deloitte Taiwan for financial and taxation certification affairs since 2019.	✓	✗
	3. To appoint subsidiaries - "Cathay Securities" and "Cathay United Bank" as underwriters for the Company's senior corporate bond issue.	✓	✗
	4. To renew office lease with subsidiary - "Cathay Life."	✓	✗
	5. Presentation of "2019 audit plan."	✓	✗

Board of Directors	Board of directors meeting motion	The circumstances referred to in Article 14-5 of the Securities and Exchange Act	Resolutions unapproved by the Audit Committee but passed by more than two-thirds of directors
	Audit Committee resolution (November 1, 2018): ■ Motions 1 and 3~5 were passed as proposed by all members of the Audit Committee. ■ Except for the recusal of Independent Director Edward Yung Do Way, motion 2 was passed as proposed by all other attending independent directors. Company's response to Audit Committee's opinions: ■ Motions 1 and 3~5 were passed as proposed by all directors of the board. ■ Except for the recusal of Independent Director Edward Yung Do Way, motion 2 was passed as proposed by all other attending directors.		

(2) Aside from said circumstances, resolution(s) not passed by the audit committee but receiving the consent of two thirds of the Board of Directors: None.

2. In instances where an independent director recused himself/herself due to a conflict of interest, the minutes shall clearly state the director's name, contents of the motion and resolution thereof, reason for not voting and actual voting counts:

Independent Director Name	Motion	Reasons for avoiding conflict of interest	Participation in voting process
Tsing-Yuan Hwang, Feng-Chiang Miao	Removal of restrictions imposed against the Company's directors for involving in competing businesses	The motion concerned the interest of independent directors listed on the left	Disassociated from discussion and voting
Edward Yung Do Way	To appoint Deloitte Taiwan for financial and taxation certification affairs since 2019	The motion did not concern the interests of the independent directors listed on the left in any substantial or direct manner. These directors were not required to recuse by law, but they had voluntarily recused out of respect for the highest corporate governance standard	Disassociated from discussion and voting

3. Communication between independent directors and internal/external auditors (e.g. discussions concerning the Company's financial and business affairs, the method of communication used, and the outcome):

■ Communication between independent directors and external auditors:

- (1) The Company's Audit Committee comprises entirely of independent directors. The committee convenes regular meetings, during which the CPAs are invited to attend to communicate and discuss on various issues concerning the Company's financial and business performance.
- (2) The Audit Committee follows "Audit Committee Organizational Principles" and engages independent CPAs to audit various reports (e.g. business report, financial statements and earnings appropriation report) that the board of directors has prepared for the shareholder meeting, to which the Audit Committee issues its own audit report.

■ Communication between independent directors and internal auditors:

- (1) Effectiveness of the Company's internal control system is reviewed (with Declaration of Internal Control System issued) by the Audit Committee. The outcome of which is submitted to the board of directors for the final resolution.

- (2) Consolidation of the Company's "Internal Control System" policy was first approved by the Audit Committee and proposed to the board of directors for the final resolution.
- (3) Establishment and amendment of the Company's "internal audit system and implementation rules" were first approved by the Audit Committee and proposed to the board of directors for the final resolution.
- (4) The Company has an Audit Division established directly under the board of directors to oversee organization and responsibilities of the internal audit system. A chief auditor has been assigned to oversee audit tasks and make quarterly reports to the Audit Committee and the board of directors on the audit progress.
- (5) The Company's Audit Division regularly presents internal audit reports prepared by the Company and subsidiaries to independent directors for review.
- (6) The Company's Audit Division constantly keeps track of findings or weaknesses raised by the financial supervisory authority, the CPAs, the internal audit unit and internal departments, as well as improvements prompted in the declaration of internal control system. Any progress made on such findings are reported to the Audit Committee and the board of directors in writing.
- (7) At the end of each financial year, the Company's Audit Division prepares audit plans for the upcoming year and submits them for approval by the Audit Committee, followed by the board's resolution.
- (8) The Audit Division follows Article 7 of "Corporate Governance Best-Practice Principles for Financial Holding Companies" and convenes "internal control system defect review seminars" once a year or whenever deemed necessary, where independent directors are invited to discuss with internal auditors about defects within the internal control system. Detailed minutes are recorded and presented to the board of directors during meetings.
- (9) Any extraordinary event of material nature encountered by the Company or subsidiaries is notified to all independent directors simultaneously via e-mail as a sound corporate governance practice.
- (10) Any penalty imposed by the authority against the Company or subsidiaries is notified to all independent directors immediately via e-mail as a sound corporate governance practice.

(III) Items disclosed in accordance with the Corporate Governance Best-Practice Principles for Financial Holding Companies

1. Please visit: The Company's website (<http://www.cathayholdings.com>) and the Market Observation Post System.
2. Functionality of the Corporate Governance and Nomination Committee

■ **Responsibilities**

The Company's Corporate Governance and Nomination Committee comprises 3 directors (including 2 independent directors). The purpose of the committee is to enhance corporate governance and board performance, and its responsibilities include:

- (1) Nomination of director candidates and verification of candidates' eligibility.
- (2) Review of establishments/amendments made to board of directors policies.
- (3) Design of organizational structure and review of establishments/amendments made to functional committee policies.
- (4) Review of establishments/amendments made to the Company's Corporate Governance Code of Conduct.
- (5) Any other tasks instructed by the board of directors.

The Corporate Governance and Nomination Committee may convene meetings whenever deemed necessary, and is entitled to approach attorney, CPAs or any other experts for consultation on matters pertaining to its responsibilities.

■ Composition

Members of the first Corporate Governance and Nomination Committee (term of service: 2017.12.22-2019.06.07)

Title	Name	Academic background	Career highlights
Director (Convener of Corporate Governance and Nomination Committee)	Ming-Ho Hsiung	M.S., University of Iowa, USA	Vice Chairman of Cathay Life Insurance Former President of Cathay Life Insurance
Independent Director (Member of Corporate Governance and Nomination Committee)	Tsing-Yuan Hwang	Ph.D. Candidate, Business Graduate School, Nihon University, Japan	Director of Hon Hai Precision Industry Co., Ltd.
Independent Director (Member of Corporate Governance and Nomination Committee)	Edward Yung Do Way	M.B.A., University of Georgia, USA	Chairman of YCSY Co., Ltd. Former CEO of Deloitte Taiwan

For details on committee meetings and attendance records of each member, please check the Company's annual reports or access the "Market Observation Post System"

(http://mops.twse.com.tw/mops/web/t100sb03_1 stock ID: 2882).

■ Functionality information

The first Corporate Governance and Nomination Committee (data range: 20181.1.1-2018.12.31)

A total of 2 Corporate Governance and Nomination Committee meetings (A) were held in the last year; directors' attendance records are summarized below:

Title	Name	Actual attendance (B)	Attendance by proxy	Actual attendance rate (%) (B/A) (Note)	Remarks
Director (Convener of Corporate Governance and Nomination Committee)	Ming-Ho Hsiung	2	0	100%	—
Independent Director (Member of Corporate Governance and Nomination Committee)	Tsing-Yuan Hwang	2	0	100%	—
Independent Director (Member of Corporate Governance and Nomination Committee)	Edward Yung Do Way	2	0	100%	—

Note:

- (1) The date of resignation is specified for directors who had resigned prior to the close of the financial year. The percentage of actual attendance (%) is calculated based on the the number of Corporate Governance and Nomination Committee meetings held and the number of meetings actually attended during active duty.
- (2) Where a reelection may be held for filling the vacancies of directors before the end of the fiscal year, list both the new and the discharged directors, and specify if they are the former directors, or newly elected, re-elected and the date of the reelection in the "Remark" section. The percentage of actual attendance (%) is calculated based on the number of Corporate Governance and Nomination Committee meetings held and the number of meetings actually attended during active duty.

The Corporate Governance and Nomination Committee introduced the following measures in 2018 as means to enhance board of directors functionality: "orientation for all first-time directors," addition of "functional committee performance evaluation" and appointment of "Company Secretary."

(IV) Status of corporate governance, departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and reasons for such departures (Table 2-2)

Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
I. Equity structure and shareholders' rights of financial holding company (I) Whether the financial holding company has defined some internal operating procedure to deal with suggestions, questions, disputes and legal actions from shareholders, and implemented the procedure? (II) Whether the financial holding company controls the financial holding company's major shareholders and who are their ultimate owners? (III) Whether the financial holding company establishes or implements some risk control and firewall mechanisms between the Company and its affiliates?	✓		(I) The Company's website discloses information such as spokesperson, investor service contact and link to the "Contact Us" mailbox. Shareholders may express opinions through e-mail, telephone or fax, and the Company assigns dedicated employees to handle shareholders' recommendations, queries, disputes and litigations according to "Cathay Financial Holding Co., Ltd. Shareholder Recommendation, Query, Dispute and Litigation Handling Policy." (II) The Company reports changes in share ownership of major shareholders on a monthly basis, and compares details of the shareholder registry on every book closure date for timely monitoring of major shareholders' ownership position. (III) The Company had already established "Cathay Financial Holding Co., Ltd. and Subsidiaries Firewall Policy" in June 2006 to prevent conflict of interest arising from business transactions, joint marketing activities, information exchange, share of operating equipment, premise or personnel, or internal referral of financial products or services between the Company, its subsidiaries and members of the Group. This policy helps protect the rights of customers and consumers in general.	No significant difference
II. Composition and responsibilities of board of directors (I) Is the financial holding company, in addition to establishing the remuneration committee and audit committee, pursuant to laws, willing to voluntarily establish any other functional committees?	✓		(I) The Company has assembled a "Corporate Governance and Nomination Committee" to enhance corporate governance and board functionality. The committee comprises three directors (including two independent directors), whose responsibilities are to: nominate director candidates, verify candidates' eligibility, review establishment and amendment of board-related policies, develop structures for functional committees, establish/amend Organizational Principles for functional committees, review establishment and amendment of Corporate Governance Code of Conduct, and perform other tasks instructed by the board of directors. The committee may convene meetings whenever deemed necessary, and is entitled to approach attorney, CPAs or any other experts for consultation on matters pertaining to its responsibilities. For related information, please refer to: "Disclosures required under Corporate Governance Best-Practice Principles for Financial Holding Companies: 2. Functionality of Corporate Governance and Nomination Committee."	No significant difference

Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
(II) Does the financial holding company conduct regular assessments regarding the independence of its financial statement auditors?	✓		(II) Appointment of financial statement auditor is renewed once a year. Auditor's independence, competence and professionalism are assessed by the Audit Committee and the board of directors on an annual basis, and the findings are taken into consideration when renewing or remunerating auditor's service. The Company requires its financial statement auditor to produce a "statement of independence" each year to clear the accounting firm of other financial interests or business relationships with the Company. This statement is reviewed by the Audit Committee and the board of directors. Copies of CPAs' personal background (including career history, professional qualification and main customers) and declarations of CPAs' shareholding and independence (and compliance with Norm of Professional Ethics for Certified Public Accountants No. 10) are submitted to the Audit Committee and the board of directors to serve as reference when discussing CPAs' independence and service renewal.	No significant difference
III. Where the financial holding company is a TWSE/TPEX-Listed company, has the company designated a department or personnel that specializes (or is involved) in corporate governance affairs (including but not limited to providing directors/supervisors with the information needed to perform their duties, convention of board meetings and shareholder meetings, company registration and changes, preparation of board meeting and shareholder meeting minutes, etc)?	✓		In 2018, the board of directors passed a resolution to create the position of "Corporate Governance Officer" to further enforce the corporate governance framework, and the position is assumed by the head of Administration Division (vice president grade). In January 2019, the board of directors resolved to adjust prerequisites for the "Company Secretary," limiting the role only to those qualified as head of legal affairs, shareholder service, meeting, general administration or corporate governance for at least three years in a finance-related institution or public company. Main responsibilities of the Company Secretary include: "handling of board meeting and shareholder meeting affairs," "preparation of board meeting and shareholder minute," "assisting directors with duty and ongoing education," "providing directors with the information needed to execute duty," "assisting directors with compliance affairs," and "other matters specified by law, the Articles of Incorporation or contracts." In March 2019, the board of directors passed "Standard Operating Procedures for Resolving Directors' Requests" to support directors with their duties and improve efficiency of the board. Progress of the Company's 2018 corporate governance efforts is explained below: In addition to appointing a "Company Secretary" for supervising corporate governance affairs on the group level, each department is also required to assign "corporate governance personnel" to oversee corporate governance-related matters within each unit: (1) Responsibilities with regards to "handling of board meeting and shareholder meeting affairs (including minutes preparation), assisting directors with duty and ongoing education, and providing directors with the information needed to execute duty" are assisted by personnel of the "Legal Department, Administration Division," who perform the following duties:	No significant difference

Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
III. Where the financial holding company is a TWSE/TPEX-Listed company, has the company designated a department or personnel that specializes (or is involved) in corporate governance affairs (including but not limited to providing directors/supervisors with the information needed to perform their duties, convention of board meetings and shareholder meetings, company registration and changes, preparation of board meeting and shareholder meeting minutes, etc)?	✓		● Notify all meeting participants of the agenda and related information 7 days before a board of directors/Audit Committee/Remuneration Committee meeting or 3 days before a Corporate Governance and Nomination Committee meeting; and arrange to have meeting minutes signed/sealed by the chairperson and minute taker before distributing them to all participants within 20 days after the meeting, and kept as a major corporate file thereafter. ● Conduct orientation for first-time directors to introduce them to the Company's business activities, organization and other important issues; provide newly elected directors with a "Director Manual" that guides them through their duties and compliance requirements; and assist directors in the completion of yearly education as needed by the Company and individual directors. ● Provide directors with the requested information and maintain communication between directors and various department heads; assist in independent directors' duties by arranging communication with the chief internal auditor, the financial statement auditor, other internal departments. ● Amend corporate governance policies in line with the Company's business activities and the latest regulations, and present them for resolution by the board of directors. ● Renew "liability insurance for directors and key staff" within the group, and register the required corporate information or changes thereof with the authority before deadline. (2) With regards to "shareholder meeting affairs (including preparation of minutes)," personnel of the "Share Administration Section, Administration Department, Administration Division," have been assigned to perform the following: ● Prepare and convene shareholder meetings, produce minutes, oversee share administration affairs, and provide adequate information to shareholders to ensure that their interests are soundly protected. The Company actively supports electronic voting and candidate nomination system in director/supervisor election as a means to empower and make voting more convenient for its shareholders. The candidate nomination system has been adopted since the 2016 director re-election, and the percentage of votes executed in electronic form has increased progressively since to 89% in 2017 and 91% in 2018. ● Responsible of checking major announcements for compliance and accuracy, and ensuring information symmetry for investors. Concerning the corporate governance training situation in 2019, refer to the "Corporate Governance Operation Situation/Objectives of Strengthening Board Functions for the Current Year/Most Recent Year (Such as Setting up the Audit Committee, Enhancing Information Transparency, etc.) and Explanation of Implementation Situation Assessments/Strengthening of Board Functions".	No significant difference

Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
IV. Does the financial holding company have any means to communicate with stakeholders (including but not limited to shareholders, employees, customers etc)?	✓		In addition to spokesperson and deputy spokesperson, the Company also has investor relations, share administration and customer service departments available to facilitate two-way communication with shareholders, customers and stakeholders. “Stakeholders,” “Investor Relation” and “Corporate Sustainability” sections have been created on the Company’s website to deliver important information and communicate with the outside world, whereas “Chairman’s Mailbox” and “Internal Communication Network” have been made available on the Intranet for use between employees and line managers.	No significant difference
V. Information Disclosure (I) Establishment of a corporate website to disclose information concerning financial affairs and corporate governance? (II) Has the financial holding company adopted other means to disclose information (e.g. English website, assignment of specific personnel to collect and disclose corporate information, implementation of a spokesperson system, broadcasting of investor conferences via the company website)?	✓		(I) A. The Company’s website has a section called “Introduction to Cathay Financial Holdings” that discloses the Company’s history, business strategies, competitive advantages, organization, affiliates and awards. The “Corporate Sustainability” and “Corporate Governance” sections disclose the Company’s philosophy and progress on the respective topics. The “Investor Relations” section discloses activity information relevant to investors as well as annual reports, financial statements and finance/business-related information of the Company and subsidiaries. The website also has a “Shareholder Services” section that discloses information relating to shareholder meetings, dividends etc. Furthermore, in light of the ever-expanding range of products and services offered by subsidiaries, investors may even use the portal to link to subsidiaries’ websites for more detailed information. B. The Company announces “material information” through “Market Observation Post System” according to policy, and in doing so keeps investors up to date about the Company’s operations and financial position. (II) A. The Company has set up an English website, implemented a spokesperson/deputy spokesperson system, and established Public Relations Department, Investor Relations Department ,etc that are responsible for ensuring timely and accurate disclosure of material information within the Company. B. The Company convenes analyst meeting regularly to disclose information about its operations and to enable closer interaction with domestic and foreign investors. All Chinese and English materials used during analyst meeting are disclosed on the Company’s website and at “Market Observation Post System.” C. The Company simultaneously discloses material information in Chinese and English on “Market Observation Post System” to keep local and foreign investors up-to-date on the Company. D. In addition, with more domestic and foreign long-term investors focusing on ESG(Environmental, Social, Governance) issues in recent years, the Company has set up the Chinese and English version of the "Corporate Sustainability" section on our official website in order to effectively convey non-financial performance of the Company and its subsidiaries.	No significant difference

Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
VI. Other important information enabling a better understanding of the company's corporate governance (including but not limited to employee rights and interests, employee care, investor relations, stakeholders' rights and interests, continuing education of directors and supervisors, implementation of risk management policies and risk measurement criteria, implementation of customer policy, purchase of liability insurance by the company for directors and supervisors, and donations to political parties, interested parties and public welfare groups)?	✓		(1) Employees' rights and care to employees: Please refer to page 169: "8. (1) Employee benefit programs, retirement system, related agreements and rights protection." (2) Investor relations: Please refer to sections "1. (1) Handling of shareholder suggestions and disputes" and "5. Information transparency" of this report. (3) Stakeholders' interests: Please refer to section "4. Communication channel with stakeholders." (4) Directors' and supervisors' ongoing education: Disclosures have been made on the Company's website (http://www.cathayholdings.com) and "Market Observation Post System." (5) Implementation of risk management policy and risk measurement criteria: Please refer to page 187: "6. Evaluation of consolidated financial and business performance and risk management practices for the last year up till the publication date of annual report." (6) Implementation of customer policy: When engaging in business activities, the Company and subsidiaries are required not only to comply with industry regulations and consumer protection laws, but are also bound by the following internal policies implemented with the goal of protecting customers' interests: A. Cathay Financial Holding Co., Ltd. Subsidiaries Joint Marketing Policy B. Cathay Financial Holding Co., Ltd. Confidentiality Agreement on Business Dealing with Subsidiaries and Customers' Data C. Cathay Financial Holding Co., Ltd. and Subsidiaries Confidentiality Joint Statement D. Cathay Financial Holding Co., Ltd. Data Warehousing Guidelines E. Cathay Financial Holding Co., Ltd. Marketing Planning Division's Monitoring of Subsidiary Marketing Activities F. Cathay Financial Holding Co., Ltd. and Subsidiaries Firewall Policy G. Cathay Financial Holding Co., Ltd. Personal Information Gathering, Processing and Utilization Policy H. Cathay Financial Holding Co., Ltd. Human Rights Execution Policy for Personal Information Owners I. Cathay Financial Holding Co., Ltd. Personal Information Infringement Management Policy J. Cathay Financial Holding Co., Ltd. Personal Information Security Management Policy	No significant difference

Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
VI. Other important information enabling a better understanding of the company's corporate governance (including but not limited to employee rights and interests, employee care, investor relations, stakeholders' rights and interests, continuing education of directors and supervisors, implementation of risk management policies and risk measurement criteria, implementation of customer policy, purchase of liability insurance by the company for directors and supervisors, and donations to political parties, interested parties and public welfare groups)?	✓		K. Cathay Financial Holding Co., Ltd. Personal Information Security Plan and Data Disposal upon Service Termination Employees of the group are required to sign confidentiality agreements before engaging in any business activity that would expose them to customers' information. Employees are also instructed to place customers' interests at the top of their priority in joint marketing. (7) Financial holding company's insurance against directors' and supervisors' liabilities: Since June 15, 2007, the Company has been purchasing liability insurance to protect itself against the liabilities of directors, supervisors and key staff of the Company and subsidiaries over the course of their duties. Terms of this insurance policy are reviewed on a yearly basis, and since 2017, main details such as the sum assured, the scope of coverage and premium rate are reported to the upcoming board meeting after annual renewal. This insurance exists to reduce the amount of risk borne by directors, supervisors and the Company, as well as to enforce the corporate governance system. (8) Donation to political parties, stakeholders, and charities: Cathay Financial Holdings had been active in supporting charities in 2018. For details on donations, please refer to the Company's website https://www.cathayholdings.com/holdings/-/media/543c292a1b114336909fa4343d19d834 (9) The Company set up "the Board and Performance Evaluation Policy" on November 15, 2015 and revised it into "the Board and Functional Committee Performance Evaluation Policy" on April 26, 2018. Each year, the board, functional committees (including the Audit Committee, the Remuneration Committee, and the Corporate Governance and Nomination Committee) members as well as Board meeting units conducted a board and functional committee internal performance assessment for the current year targeting five dimensions (including the degree of involvement in Company operations, enhancing board (functional committee) decision-making quality, board (functional Committee) makeup and structure, board director (functional Committee member) selection and continuing education and internal control). The assessment results consist of three classes: exceeding the standard, in line with the standards, and requiring improvement. Regarding the 2018 company board, Audit Committee, Remuneration Committee, Corporate Governance and nomination Committee internal performance assessment operations, the "qualitative measurement indicators" were completed by all the directors and functional Committee members through a self-assessment. The "quantitative indicators" were computed by the meeting units based on the quantitative indicator data. After the meeting units talked the achievement rates of all the measure to indicators, the internal performance assessment result was "exceeding the standards" and "without dimensions and items requiring improvement", an indication of the Company's effectiveness in strengthening the board and functional committees. The aforementioned internal performance results were passed by the board after discussion on January 30, 2019. In addition, in order to strengthen the independence and effectiveness of board performance assessments external independent	No significant difference

Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
VI. Other important information enabling a better understanding of the company's corporate governance (including but not limited to employee rights and interests, employee care, investor relations, stakeholders' rights and interests, continuing education of directors and supervisors, implementation of risk management policies and risk measurement criteria, implementation of customer policy, purchase of liability insurance by the company for directors and supervisors, and donations to political parties, interested parties and public welfare groups)?	✓		professional agency, experts, or scholars shall be commissioned to perform a board external performance assessment every three years from 2017. Assessment measurement indicators, assessment procedures, achievement rate standards, and assessment results shall be planned and conducted by the Company's commissioned external independent professional agency, experts, or scholars. In 2019, the Company is expected to commission an external independent professional agency to implement the Company's 2018 board external performance assessment in order to prefect the corporate governance system. (10) The Company adopts the "Candidate Nomination System". All the board candidates are nominated through the "Corporate Governance and Nomination Committee". After reaching a board resolution, the list is sent to the shareholders' meeting for election. According to Paragraph 3, Article 30 of the "Corporate Governance Code", the board should possess general knowledge, skills, and literacy required for performing job tasks. In order to achieve the ideal goal of corporate governance, the board as a whole should possess the following competencies: I. Operational judgment competency. II. Accounting and financial analysis ability. III. Business management ability (including ability to manage subsidiaries). IV. Crisis management ability. V. Knowledge of the industry. VI. An international market perspective. VII. Leadership ability. VIII. Decision-making ability. IX. Risk management knowledge and ability. The Company board members shall possess diversity, including different ages, industrial experiences, professional knowledge, and competencies. In order to strengthen corporate governance and facilitate the sound development of the board makeup and structure, in Paragraph 2, Article 30 of the "Corporate Governance Code", the policy of "board member diversification" points out that the board ought to take into consideration the company operational framework, business development direction, future development trends, and various needs, as well as evaluating various diversified dimensions such as basic makeup (i.e., gender, age, nationality, race, etc.), professional experience (i.e., financial holdings, banks, insurance, securities, industries, technology etc.), and professional knowledge and skills (i.e., commerce, finance, accounting, law, marketing, digital technology, etc.). The Company's 6th board consists of 12 directors, including 8 non-executive directors, 3 independent director, and 1 executive director (GM Chang-Ken Lee). The members expose extensive experiences and expertise in finance, payments, information technology, commerce, overseas markets, mergers and acquisitions, and amendment fields. The board members' diversified policy implementation situation is as follows: The Company's directors with employee status (GM Chang-Ken Lee) comprises 8%, and independent directors comprises 25%. The average term in office of the three independent directors is five years (two independent directors with the term in office for less than three years, and one independent director with the term in office for more than nine years. However, at the time of the independent directors taking office, the regulatory provision of "independent directors shall not hold more than three consecutive terms in	No significant difference

Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
			office” had not yet become available. The 7th board election in 2019 will be conducted in accordance with the latest provision.) Three directors are 71-76 years old, six directors are 61-70 years old, and three directors are 51-60 years old.	
VII. Please specify the status of the correction based on the corporate governance assessment report released by the Corporate Governance Center of TWSE in the most recent year, and the priority corrective actions and measures against the remaining deficiencies.	✓		A summary description has been provided in the following table (Improvement or Priority Enhancement Measures Made in Response to the 2018 4th Corporate Governance Evaluation).	No significant difference

Note 1: Regardless “Yes” or “No”, the status shall be stated in the Remarks section.

Implementation of board diversity policy at Cathay Financial Holdings

Directors	Diversity Core Item	Basic composition								Industry experience							Professional knowledge/skills								
		Nationality/place of registration	Gender	Concurrent positions in our company	Age			Tenure of Independent Director			Financial Holding	Bank	Insurance	Securities	Asset Management	Payment service	Information/Technology/Others	Commerce	Finance / Accounting	Legal	Financial	Mathematics/actuarial science	IT	Overseas markets/M&A	Risk management
					51 to 60	61 to 70	71 to 76	3 years and below	3 to 9 years	9 years and above															
	Hong-Tu Tsai	R.O.C.	M		✓					✓		✓					✓		✓	✓			✓		
	Tsu-Pei Chen	R.O.C.	M			✓				✓	✓						✓			✓			✓		
	Cheng-Ta Tsai	R.O.C.	M		✓					✓		✓					✓			✓					
	Cheng-Chiu Tsai	R.O.C.	M		✓					✓		✓					✓	✓		✓			✓		
	Chi-Wei Joong	R.O.C.	M			✓				✓	✓		✓		✓		✓	✓		✓			✓		
	Andrew Ming-Jian Kuo	R.O.C.	M		✓					✓	✓	✓	✓	✓		✓	✓	✓		✓			✓		
	Tiao-Kuei Huang	R.O.C.	M			✓				✓		✓					✓			✓	✓		✓		
	Ming-Ho Hsiung	R.O.C.	M			✓				✓		✓					✓	✓		✓	✓		✓		
	Chang-Ken Lee	R.O.C.	M	✓	✓					✓	✓	✓	✓	✓			✓	✓		✓			✓	✓	
	Tsing-Yuan Hwang	R.O.C.	M			✓			✓ Note	✓	✓	✓	✓	✓		✓	✓	✓		✓			✓	✓	
	Feng-Chiang Miao	R.O.C.	M				✓	✓		✓	✓	✓	✓			✓	✓	✓				✓	✓		
	Edward Yung Do Way	R.O.C.	M				✓	✓		✓	✓					✓	✓	✓							

Note: When the independent director takes office, the regulation does not stipulate that the independent director shall not serve more than three consecutive terms. The company will follow the latest regulations during the election of the 7th director in 2019.

Improvement or Priority Enhancement Measures Made in Response to the 2018 5th Corporate Governance Evaluation			
No.	Evaluation indicator	Improved	Priority Enhancement Measures
Extra question	Has the company exhibited exceptional performance in corporate governance, or derived actual yields from corporate governance?	—	- In 2018, the Company and its subsidiaries - “Cathay Life” and “Cathay United Bank” made their first participation in the “CG6011 Corporate Governance Assessment” organized by Taiwan Corporate Governance Association, and were awarded the highest “Outstanding” rating. - The Company has been taking the initiative to participate in “DJSI” assessments (the assessment covers corporate governance aspect as well) for several years. In 2018, the Company was selected a composition of DJSI - World.

(V) Describe the composition, duties and operations of the remuneration committee established by the Company, if any:

The Company assembled its Remuneration Committee on April 29, 2011 and vested it the responsibility to: set and review performance evaluation and compensation policies, systems, standards, and structures applicable to directors and managers, and regularly assess and determine directors’ and managers’ compensation. The Remuneration Committee held 4 meetings in 2018 to discuss issues including: 2017 employee/director remuneration, managers’ bonus, allocation of cash issue subscription quota to managers, regular review/adjustment of managers’ compensation, and amendments to Director and Manager Compensation Guidelines. Presence of the Remuneration Committee has proven helpful in enhancing board functionality.

1. Information about remuneration committee members (Table 2-2-1)

Position Title (Note 1)	Criteria Name	Has at least five years of relevant working experience and the following professional qualifications			Independence Criteria (Note 2)								Number of positions as a Remuneration Committee Member in other public listed companies	Remarks
		Lecturer (or above) of commerce, law, finance, accounting, or any subject relevant to the Company’s operations in a public or private tertiary institution	Certified judge, attorney, lawyer, accountant, or holder of professional qualification relevant to the Company’s operations	Commercial, legal, financial, accounting or other work experience required to perform the assigned duties	1	2	3	4	5	6	7	8		
Independent Director	Tsing-Yuan Hwang			✓	✓	✓	✓	✓	✓	✓	✓	✓	1	—
Independent Director	Feng-Chiang Miau			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	—
Independent Director	Edward Yung Do Way		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	4	Note 3

Note1: Please specify director, independent director or others.

Note2: “✓” is marked in the space beneath a condition number when a member has met that condition during the two years prior to election and during his or her period of service. The conditions are as follows:

- (1) Not an employee of the company or an affiliate.
- (2) Not a director or supervisor of the company or an affiliate. However, when the person is an independent director appointed by the company, its parent company, or a subsidiary pursuant to Securities and Exchange Act or the local laws and regulations.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person’s spouse, minor children, or held by the person under others’ names in an aggregate amount of 1% or more than the total outstanding shares of the Company or ranked in the top-10 holdings.
- (4) Not a spouse, relative within the second degree of kinship, or direct blood relative within the third degree of kinship of a person listed in the three foregoing paragraphs.
- (5) Not a director, supervisor, or employee of an institutional shareholder that directly holds 5% or more of the

total outstanding shares of the Company or that holds shares ranked in the top-five holdings.

- (6) Not a director, supervisor, officer, or shareholder holding 5% or more of the total outstanding shares of a specified company or institution that has a financial or business relationship with the Company.
- (7) Is not a professional providing business, legal, financial, accounting, or consulting services to the company or an affiliate, nor an owner, partner, director, supervisor, or manager, or the spouse of any of the foregoing, of a sole proprietorship, partnership, company, or organization providing such services to the company or an affiliate. This does not include members from a remuneration committee who exercises his/her power based on Article 7 of Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded over the Counter.
- (8) Not been a person of any conditions defined in Article 30 of the Company Act.

Note3: The party's concurrent roles in 2 companies (Teapo, FET) were non-independent and normal directorship.

Note4: Data baseline date: 04/16/2019.

2. Information concerning the remuneration committee

The Company's Remuneration Committee had 3 members in the most recent year.

Term of the 3rd committee members: from June 8, 2016 to June 7, 2019. The Remuneration Committee held 4 meetings (A) in the last year (2018.1.1-2018.12.31); members' eligibility and attendance records are as follows:

Title	Name	Actual attendance (B)	Attendance by proxy	Actual attendance rate (%) (B/A) (Note)	Remarks
Convener	Edward Yung Do Way	4	0	100%	—
Member	Tsing-Yuan Hwang	4	0	100%	—
Member	Feng-Chiang Miau	3	1	75%	—

Other items to be stated:

- I. If the Board of Directors does not adopt or amend the remuneration committee's suggestions, please specify the meeting date, term, contents of motion, resolution of the Board of Directors, and the company's handling of the remuneration committee's opinions (if the remuneration approved by the Board of Directors is superior than that suggested by the remuneration committee, please specify the deviation and reason): None.
- II. For resolution(s) made by the remuneration committee with the committee members voicing opposing or qualified opinions on the record or in writing, please state the meeting date, term, contents of motion, opinions of all members and the company's handling of the said opinions: None.

Note:

- (1) The date of resignation is specified for members of the Remuneration Committee who had resigned prior to the close of the financial year. The percentage of actual attendance (%) is calculated based on the number of Remuneration Committee meetings held and the number of meetings actually attended during active duty.
- (2) If a re-election of Remuneration Committee members had taken place prior to the close of the financial year, members of both the previous and the current Remuneration Committee are listed; in which case, the remarks column would specify whether the committee member was elected in the previous board, the new board, or both. The percentage of actual attendance (%) is calculated based on the number of Remuneration Committee meetings held and the number of meetings actually attended during active duty.

Remuneration Committee	Motion and follow-up	Resolution	The Company's handling of the Remuneration Committee members' opinion
8 th of 3 rd term 2018.2.9	1. Revision of the Company's "Director Remuneration Payment Criteria" and "Remuneration Payment Criteria for Managers". 2. Approval and Distribution of Performance Bonuses and Talent Retention Bonuses to Managers and Directors Actually Involved in Business Undertakings in 2017	The Remuneration Committee members unanimously consent to passing the case.	■ The first case was submitted to the board; all the attending directors unanimously consented to passing the case. ■ The second case was submitted to the board. Other than Vice Chairman Tsu-Pei Chen and President Chang-Ken Lee who were in conflict of interest, the rest of the attending directors unanimously consented to passing the case.
9 th of 3 rd term 2018.3.14	Remuneration Distribution to Employees and Board of Directors in 2017	The Remuneration Committee members unanimously consent to passing the case.	■ In the proposal to the board, other than Hong-Tu Tsai, Tsu-Pei Chen, Cheng-Chiu Tsai, Chi-Wei Joong, Andrew Ming-Jian Kuo, Tiao-Kuei Huang, Ming-Ho, Hsiung, and President Chang-Ken Lee had a conflict of interest, as well as Hong-Tu Tsai who did not take part in the resolution on behalf of Cheng-Ta Tsai, the rest of the attending independent directors unanimously consented to passing the case.
10 th of 3 rd term 2018.4.25	Salary Adjustments for Company Managers	The Remuneration Committee members unanimously consent to passing the case.	■ In the proposal to the board, other than Vice Chairman Tsu-Pei Chen and President Chang-Ken Lee who had a conflict of interest, the rest of the attending directors unanimously consented to passing the case.
11 th of 3 rd term 2018.6.8	1. Capital Increase and Distribution of Subscription Shares to Company Managers in 2018 2. Regular Review of Remunerations for the Company Managers	The Remuneration Committee members unanimously consent to passing the case.	■ The first and second case shall be submitted to the board. Other than President Chang-Ken Lee who had a conflict of interest, the rest of the attending directors unanimously consented to passing the case.

※ Other items to be stated:

The board's rejection or amendment to suggestions proposed by the Remuneration Committee, which was resolved with the presence of more than two-thirds of the board and supported by half of those present at the meeting, except for the above matters: None.

(VI) Implementation of corporate social responsibility (CSR): The systems, measures and implementation by the Company toward environmental protection, community engagement, social contribution, social service, public welfare, consumer interest, human rights, safety & health affairs and other corporate social responsibility issues. (Table 2-2-2)

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
I. Exercising Corporate Governance (I) Whether the Company has defined corporate social responsibility policies within the Company; the progress and effectiveness of such policies? (II) Whether the Company holds corporate social responsibility (CSR) education training periodically?	✓		(I) A. In order to implement CSR and promote the balance and sustainable development for economy, society and ecology, the Company established “Cathay Financial Holdings Corporate Social Responsibility Committee” in 2011. In order to cope with the CSR issue that is increasingly important in the world, the Company transformed the aforementioned Committee into “Cathay Financial Holdings Corporate Sustainability Committee” after approved by the Chairman in 2014 and by the board in 2015. Meanwhile, the Company also amended the organizational regulations of the Committee and “Principles Governing Corporate Sustainability of Cathay Financial Holdings” pursuant to the latest version of “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” for the Company and businesses run by each subsidiary and overall operation to follow. B. In order to improve the planning and management of corporate sustainability, the corporate sustainability committee of the Company is under the board after adjustment, and the performance of corporate sustainability will be reviewed periodically in the board. Our Chairman assigned the Presidents of Cathay Financial Holding Co., Ltd. and its subsidiaries to serve as the Committee members of the Corporate Sustainability Committee. The Committee convenes quarterly meetings to discuss sustainability policies and monitor execution by each subsidiary. (II) The Company holds internal and external CSR trainings. Internal training is held at quarterly CSR Committee meetings, during which experts from outside the organization are invited to host speeches on sustainability-related topics, which employees are invited to participate. Additionally, The Company also has a CS (Corporate Secretary) unit that holds internal ESG training on a regular basis. Training sessions are held in the form of seminar or workshop, during which experts and representatives of professional institutions from outside the Company are invited to deliver speeches or workshop on sustainability trends and ESG-related issues. For external training, the Company has dedicated units to keep track of training information, such as courses organized by Center for Corporate Sustainability, which representatives of key departments are assigned to participate.	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
(III) Whether the Company establishes a dedicated unit (concurrently engaged in) to promote corporate social responsibility under supervision by the high-rank management authorized by the Board of Directors who shall be responsible for reporting the status thereof to the Board of Directors?	✓		(III) A. “Cathay Financial Holdings Corporate Sustainability Committee” has established “Organizational Principles Governing Corporate Sustainability Committee” pursuant to Article 4 of “Corporate Sustainability Principles.” The Committee operates under the board, and has one chief committee position assumed by the Company’s President. Members of the Committee comprise presidents of various subsidiaries. The Committee reports its resolution, significant matters and subsequent progress to the board once every six months. B. To carry out the work, the Committee established “secretariat” in each subsidiary, which is responsible for corporate sustainability business. In addition, six working groups, covering “Responsible Investment”, “Sustainable Governance”, “Responsible Products and Services”, “Employee Happiness”, “Green Operation”, and “Social Prosperity”, were formed by staff from the Company and all subsidiaries. The Committee held four meetings in 2018 to supervise the progress of ESG issues.	No significant difference
(IV) Whether the Company sets reasonable salary remuneration policy, combines employee performance evaluation system with the corporate CSR policy, and establishes clear and effective reward and punishment system?			(IV) The Company stipulates that the “Regulations Governing Employee Salary and Remuneration Payment”, “Regulations Governing Employee Performance Management and Development”, and “Regulations Governing Rewards and Punishments to Employees.” The company will also inspect the salary of individual employee every year in accordance with the performance and external market situation. In order to encourage colleagues of all companies to promote corporate sustainability, “Cathay Financial Holdings Corporate Sustainability Committee” established reward mechanism to praise colleagues who are meritorious in implementing corporate sustainability. The reward is to add points to the performance evaluation. In addition, the Committee also assigns dedicated department in each company, in which the business of corporate sustainability will be included into the functions of the department..	

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
II. Fostering a Sustainable Environment (I) Does the Company endeavor to upgrade the efficient use of available resources, and the use of environmental-friendly materials?	✓		(I) 1. Actively coping with the “Regulation of Self-Governance Statutes Governing Energy Saving and Carbon Deduction Counseling and Management of Industry and Business in Taipei”, the Company maintains the average temperature of the air-conditioner in the office above 26°C. 2. During working days, the lighting Control System automatically turns off the lights in 12:30-13:00 and in after hours. Specialized personnel are in charge of controlling elevators in office hours and lunch break to reduce electricity consumption. 3. Promote paperless office, adopting electronic official document system and e-mail to handle business connections and reduce paper usage. 4. Comprehensively procure FSC certified copy papers, use soy inks to print important publications as well as to promote double-sided printing, use recycled paper to print general documents, discarded documents are sent to professional paper plants, and destroyed in order to provide recycled paper pulp. 5. Procurement of energy saving products and equipment with eco labels is the first priority. For 9 consecutive years (2010~2018), the Company has received Green Purchasing Enterprise Commendation from Taipei City Department of Environmental Protection and Environmental Protection Administration. 6. The Company has been increasing its solar power capacity on a yearly basis since 2013 in support of the government’s policies. In 2018, installation of solar panels was expanded to Taichung Wuri Logistics Park and Cathay United Bank Ruihu Branch. 7. In 2014, the Company was awarded the 23rd “ROC Enterprises Environmental Protection Award – Bronze Prize” by the Environmental Protection Administration (the first financial institution who wins the award). Later in 2017, Cathay Life Insurance was also awarded the 26th “ROC Enterprises Environmental Protection Award – Bronze Prize” (making it the first life insurance Company in Taiwan to win this award). Furthermore, Cathay United Bank was awarded the “27th ROC Enterprises Environmental Protection Award - Bronze Prize” in 2018.	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
(I) Does the Company endeavor to upgrade the efficient use of available resources, and the use of environmental-friendly materials?	✓		8. In 2015, the newly constructed Cathay Landmark adopted green building design, and the Company was awarded “Gold Certification” by the Ministry of the Interior and “Gold Certification” by Leadership in Energy and Environment Design (LEED) of U.S. Green Building Council. New green building certifications were obtained for Yangmei Logistics Park and Minsheng Jianguo Building in 2018. 9. In 2016, Cathay United Bank-Mingchen Branch was awarded Silver Certification of “Kaohsiung City Electro-Optical Smart Building Certification”. 10. Employees encouraged to bring their own reusable containers to meetings, while the supply of disposable cups was discontinued throughout the organization to minimize impacts to the environment. 11. The rainwater recycling system at “Cathay Landmark” commenced operation in 2016, whereas the reclaimed water system at “Cathay Taoyuan Industrial Zone Phase 2” commenced operation at the end of 2017. Meanwhile, a new proprietary building was constructed in Wuri, Taichung, in 2018 with the introduction of reclaimed water system, which is expected to be activated in early 2019. Water Usage Survey has been conducted since 2017, and the organization has obtained external verification for 434 office locations of 9 companies including the financial holding parent and its 1st-tier and 2nd-tier subsidiaries.	No significant difference
(II) Has the Company established environmental policies suitable for the Company’s industrial characteristics?			(II) 1. The Company stipulated “Regulations Governing Energy Saving and Carbon Reduction Operation” in 2010, effectively increasing the resource efficiency and reducing impact of the Company’s operation on natural environment. 2. By the end of 2011, the Company established “Cathay Financial Holdings Corporate Social Responsibility Committee”, and the “Environmental Protection Team” is responsible for implementing environmental protection policy. The Company also assigned energy saving and carbon reduction specialized personnel, who is in charge of promoting energy saving and carbon reduction measures. 3. By the end of 2014, “Cathay Financial Holdings Corporate Social Responsibility Committee” is officially renamed “Cathay Financial Holdings Corporate Sustainability Committee”, which is under the board. The “Green Operation Team” is responsible for operation management and supply chain management, and actively participates in external green initiatives. 4. The group began preparing for ISO14001 certification since 2017, and was officially certified in January 2018.	

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
(III) Whether the Company is aware of the impact of climate change to operation activities as well as to implement inspection of greenhouse gas and formulate strategies for energy saving and carbon reduction and greenhouse gas reduction of the Bank?	✓		(III) 1. The Company has been actively responded to Carbon Disclosure Project (CDP) since 2006. The overall quality of its disclosure was rated 85C in 2014, 95C in 2015, Level C in 2016, and Level B in 2017 and 2018. 2. The Company has responded to the “Voluntarily Energy Saving Signing Meeting for Financial, Catering, and Shoe Industry Groups” since 2012, and 5% of energy was saved in three years. The Company promoted total 27 voluntarily energy saving measures and saved 777,239 kWh. 3. In 2013, the Company was the first company in financial industry to sign the “Greenhouse Gas Reduction Management Declaration for Cathay Financial Holdings and all Subsidiaries”, and the Company launched a three-year greenhouse gas inspection and passed British Standards Institution (BSI) ISO14064-1 inspection. 4. All subsidiaries have been introduced in ISO50001 energy management system and ISO14001 environment management system one after another since 2013, setting up the best model of enterprise pole in financial industry as well as implementing energy saving and environment standardized management. 5. Between 2014~2015, the Company set goals to reduce energy consumption by 1.5% on 12 buildings, and passed certification for the energy and environment management system. 6. By the end of 2015, the “Green Operation Team” of Cathay Financial Holdings Corporate Sustainability Committee held a meeting and resolved that “greenhouse gas inspection operation” will be carried out in 46 operation locations of 9 companies of subsidiaries and grandson subsidiaries of Cathay Financial Holdings. 7. In a meeting held by the “Green Operation Team” of Cathay Financial Holdings Corporate Sustainability Committee towards the end of 2016, a decision was made to conduct “Greenhouse Gas Inventory” on all 434 office locations under the financial holding parent and 1st tier and 2nd tier subsidiaries. Scope 1 and Scope 2 emissions were measured at a total of 57,626.13 tons, and the organization has set goals to reduce carbon emission by 5% by 2021, with 2016 emission level as the base year. During a meeting held by the “Green Operation Team” in 2017, a decision was made to adopt the standards set by Science Based Targets initiative, and to revise the Company’s reduction targets to “at least 5% and ideally 10% by 2021, with 2016 emission level as the base year”. The Company will continue following up on the latest developments of this initiative and adopt it for the determination of the Company’s reduction targets	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
(III) Whether the Company is aware of the impact of climate change to operation activities as well as to implement inspection of greenhouse gas and formulate strategies for energy saving and carbon reduction and greenhouse gas reduction of the Bank?	✓		8. In 2017, the Company completed the adoption of ISO50001 - Energy Management System and ISO14001 - Environmental Management System, for which it was recognized as the role model in the financial industry. 9. The Company began development of a climate risk and opportunities matrix in 2017 and aims to use the matrix for guidance as to how the Company should respond to climate change. According to the matrix, a typhoon would be the most significant climate risks over the short-term and medium-term, as the disaster has the potential to cause damages to renewable energy facilities invested or insured by the Company; as for the long term, the most significant climate risk involves adopting low-carbon operations to help keep global warming under 2 °C . Cathay Financial Holdings has a Corporate Sustainability Committee in place to discuss how to respond to risks and opportunities associated with climate change. These issues are being monitored regularly to assess possible impacts in the future.	No significant difference
III. Preserving Public Welfare (I) Whether the Company establishes the related management policies and procedures in accordance with the relevant laws and international human right conventions? (II) Has the Company established any employee complaint mechanism and channel, and takes care of such complaints adequately?	✓		(I) To increase the respect and support from the Company and staff, the Company stipulated “Ethical Behavior Guidelines”, “Employee Code of Conduct”, and “Regulations Governing Reporting Illegal and Unethical or Dishonest Behavior Cases”. The Company also adopted with relevant laws and regulations to amend and publicly announced “Work Rules”. In addition, the content of regulations provided by labor laws is included into the inspection items in the regular law compliance self-assessment operation in order to ensure the compliance of labor laws and international human rights. (II) The Company established complete and clear employee complaint mechanism and channels as well as classified and protected the complainant or personnel participated in investigation to prevent them from receiving unequal treatments or retaliation. The Company stipulated the aforementioned measure in “Ethical Behavior Guidelines”, “Employee Code of Conduct”, and “Regulations Governing Reporting Illegal and Unethical or Dishonest Behavior Cases”, as well as publicly disclosing complaint channels on the Company’s official website and in the annual report.	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
(III) Whether the Company provides the existence of a safe and healthy work environment; regular safety and health training to company employees? (IV) Has the Company established a mechanism for periodic communication with employees, and notification to employees of the circumstances that might materially affect the operation in a reasonable manner? (V) Has the Company established some effective career development training plan for employees? (VI) Whether the Company stipulates policies that protect the interests of consumers and complaint procedures during the procedure of research and development, procurement, production, and service?	✓		(III) To ensure a safe working environment to guarantee employee personal safety, the Group already established the following measures: 1. First-aid personnel are required to take the related professional training. First-aid kits and AEDs are provided in all working locations. 2. Regular tests for illumination and carbon level of working environment. 3. Health checkups and pre-job safety and health training for new hires. 4. Health checkups and safety and health training for employees on a regular basis. (IV) The Company conducts bilateral communication with employees through internal communication net of the Group, employee communication event in regular basis, e-News, employee engagement investigation, official document system, department mailbox, and publishing monthly magazine as well as to respond to employee opinion in time and notify employees with important messages. (V) The Company established competency structure for personnel at all levels and planned training activities in accordance with ability and demand. In accordance with “Regulations Governing Employee Performance Management and Development”, supervisors and employee will jointly discuss career planning of two to three years and individual annual ability development planning, assisting employees to continue to develop abilities through regular inspections and feedbacks. (VI) The Company and all the subsidiaries comply with laws and regulations and provisions related to consumer protection as well as stipulate consumer interest protection policies and complaint procedures as follows pursuant to Financial Holding Company Act, Regulations Governing Cross-selling Among Subsidiaries of Financial Holding Company, and other relevant provisions: 1. Product/service research and development: The principle of product/service design is based on customer needs. The Company stipulates the customer risk assessment system, the product suitability policy and guidelines for products and marketing materials to manage product development process. All application forms and contracts have been drafted to include detailed clauses regarding the product/service offered and customers’ rights and protection with respect to the collecting, processing and use of personal information.	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
(VI) Whether the Company stipulates policies that protect the interests of consumers and complaint procedures during the procedure of research and development, procurement, production, and service?	✓		Meanwhile, the Company also requires all sales agents to possess professional certificates and provide detailed explanations, allowing customers to understand the content of the product, premium collected and risks involved, and assess the transaction rationality for protecting consumers' interests. 2. Procurement: This includes outsourcing matters that involves with personal information. The Company conducts monitor and management activities against suppliers such as the on-site inspection and the retaining records and reports in regular basis in order to ensure that the operation of suppliers complies with the contracts and prevent the leakage of personal information. 3. Operation: The Company established the personal information management committee and stipulated the personal information protection policy to supervise the personal information management and control measures as well as the implementation of the project in order to protect customers' interests. All main subsidiaries have also assembled or participated in "Information Security and Personal Information Management Committee" to plan and implement personal information protection project and establish management system. In order to ensure that all employees implement the information security management system and the law compliance in daily operation, the Company provides with education, training, and regulation promotion courses in regular basis. 4. Service procedure: The Company established the service quality committee to stipulate the service policy and review the service strategy and projects of each subsidiary. The "Service Quality Team", established by each subsidiary, is responsible for planning, promoting and controlling projects that improve service quality. We strive for listening to our customers and embracing the customer-oriented service philosophy and goal. If the customers have any questions, recommendations, or complaints regarding any product or service provided by each company, besides contacting operational units during business hour, they may express their opinions and thoughts through the customer service hotline or the email posted on the website of each subsidiary or through leaving online messages. The Company will assign personnel to serve customers and provide with the fast disposition and response to customers. In order to specifically reflect the voice of customers, Cathay Life	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
(VI) Whether the Company stipulates policies that protect the interests of consumers and complaint procedures during the procedure of research and development, procurement, production, and service? (VII) Does the Company market and label products and services in accordance with the related laws and international practices?	✓		Insurance stipulated the “Resolution Procedures for Consumption Disputes”, and Cathay United Bank stipulated the “Regulations Governing the Disposition of Customer Disputes for Business Units” and standard operation procedures to increase the attention of all units on consumption dispute dispositions and improve the efficiency and quality of consumption dispute resolution. Each company stipulates a policy of treating customers fairly with principles in accordance with the “Principles of Treating Customers Fairly” promulgated by FSC, which is consistent with Cathay Financial Group’s service principles of “Start from the heart, treat customers with integrity, touch customers, and create value”. The Policy shapes a value system and code of conduct for the whole corporation to comply with in order to establish and implement the corporate culture with the core of treating customers fairly. (VII) In accordance with “Principles Governing Corporate Sustainability of Cathay Financial Holdings”, the Company and all subsidiaries shall comply with Consumer Protection Act, Financial Consumer Protection Act, and Fair Trade Act when conducting the product and service marketing and labeling, as well as to meet the international standards. Any activities involving deceiving, misleading or fraud, or any conduct that compromises consumers’ trust or rights is strictly prohibited. All subsidiaries have complied with the Financial Consumer Protection Act and relevant rules of their respective industries with respect to the sale, marketing and labeling of products and services. Cathay Life Insurance, for example, has implemented “Cathay Life Insurance Co., Ltd Business Solicitation Policy and Procedures” and “Cathay Life Insurance Co., Ltd International Business Solicitation Policy and Procedures” based on “Regulations Governing Business Solicitation, Policy Underwriting and Claim Adjusting of Insurance Enterprises” and “Regulations Governing Offshore Insurance Branches” to regulate the referral and solicitation of agents and sales representatives. In addition, “Cathay Life Insurance Co., Ltd Sales and Educational Material Management Policy” was created in accordance with “Self-Regulatory Rules Governing Marketing Advertisements of Insurance Industry” to regulate disclosure of product or service details in sales documents. All subsidiaries have disclosed information to consumers in the utmost integrity, credibility, and protection for financial consumers’ rights; we strive to enrich the content and ensure the authenticity of financial information delivered.	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
(VIII) Does the Company has assessed the supplier's record in environmental protection and society before trading with the supplier? (IX) Does the contract between the Company and its main supplier include the provision stating that where the supplier is suspected of violating its corporate social responsibility policies or renders remarkable effect to the environment and society adversely, the Company may terminate or rescind the contract?	✓		(VIII) Consider the risks to the environment and the society caused by services or products provided by suppliers, as well as to reduce the operation risk caused by supply chain interruption through effective management of suppliers. In 2015, internal procurement team of Cathay Financial Holdings formulated supplier management. Suppliers shall follow the followings regulations for assessment, and violation will cause the loss of contact qualification: 1. Environmental protection regulations 2. Regulations governing occupational safety and health management 3. Labor rights regulations 4. Ethical norms regulations (IX) In August, 2012, the company added CSR clauses in the contracts with suppliers, in which requires suppliers to comply with laws and regulations governing environmental protection, labor conditions, labor safety and health, and labor rights. The Company requires suppliers to jointly fulfill CSR with actual conducts. If a supplier is confirmed violating or failing to meet the norms, the Company may set a period and urge the supplier to fulfill or improve. If the supplier fails to fulfill or improve within that period, the Company may terminate or rescind the contract.	No significant difference
IV. Enhancing Information Disclosure Whether the Company discloses relevant and reliable information relating to corporate social responsibility on its website or Market Observation Post System?	✓		(I) In order to disclose CSR information to the public, the Company sets up "Corporate Sustainability" section" on the official website and has published "CSR Report" every year since 2012. Cathay Charity Foundation started to reveal "Cathay Charity Group Annual Report" from 2009, in which records the implementation of CSR of the Company and charity business of the Foundation. (II) The Company published Chinese and English version of "2017 Cathay Financial Holdings CS Report" in 2018. This report is the seventh CSR Report of the Company, in which comprehensively discloses specific behaviors by Cathay to implement corporate sustainability. This report is also disclosed on the official website (https://www.cathayholdings.com/en/holdings/csr/intro/te/sustainability-disclosure) In 2019, the Company will publish Chinese and English version of "2018 Cathay Financial Holdings CS Report". (III) For international liability investors, the Company also actively collect international questionnaires to communicate with the outside world. (IV) The Company also actively participated in the external invitation of corporate sustainability speeches in 2018, sharing the practical experience of internal corporate sustainability to the outside world in order to raise the awareness of corporate sustainability among industries in Taiwan.	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
V. If the Company has established corporate social responsibility principles based on “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies”, please describe any discrepancy between the principles and their implementation: The practical implementation of the Company’s CSR has no discrepancy with the principles.				
VI. Other significant information that is beneficial to realize the implementation of CSR (such as the system and measures adopted by the Company and the implementation toward environmental protection, communities participation, social contributions, social services, social welfare, consumer interests, human rights, safety & health affairs and others social activities): The Company has long dedicated itself to corporate social responsibilities. Depending on changes in international trends and outcomes of stakeholder engagement, the financial group adjusts its short/medium/long-term sustainability plans and takes steps toward fulfilling goals such as responsible investment, sustainable governance, responsible product, employee welfare, green operations, and mutual social prosperity. Progress of the above efforts is disclosed in compliance with law. In addition, in order to be the best sustainable financial institution in Asia Pacific, the Company implements CSR both inside and out. Internally, the Company implements corporate sustainability governance. Externally, the Company affects suppliers through procurement in upstream as promotes the concept from aspects of loans and investments by using cash flow influence in downstream. The result in 2018 was excellent, and the key excellent performances are as follows: ➢ Cathay Financial Holdings was selected as one of the compositions of TWSE’s “ESG Index - Taiwan Sustainability Index,” and ranked top-10 in terms of market capitalization. ➢ Cathay FHC and its subsidiaries Cathay Life and CUB received the highest rating (Outstanding) in their first participation in the Corporate Governance System Assessment CG6011 organized by the Taiwan Corporate Governance Association. ➢ Cathay Financial Holdings was ranked Top 5% of TWSE Listed Companies in the 4th Corporate Governance Evaluation in 2017. ➢ Cathay Financial Holdings has been selected as a composition of “TWSE RAFI® Taiwan High Compensation 100 Index”. ➢ Cathay Financial Holdings was chosen as a composition of Dow Jones Sustainability Indices (DJSI) - world, and remained a composition of DJSI - Emerging Markets for 4 consecutive years. ➢ Cathay Financial Holdings received a rating of B Level for Carbon Disclosure Project (CDP). ➢ Cathay Financial Holdings won 5th place in the “Commonwealth CSR Award” organized by Commonwealth Magazine. ➢ Cathay Financial Holdings won Role Model Award in the “CSR Grand Survey - Finance Division” organized by Global Views Monthly, whereas subsidiary - Cathay United Bank won awards in both “Environment Friendliness Division” and “Best Employer Division,” making it the first company in history to win awards for outstanding solution in two separate divisions at the same time. ➢ During the “2018 Taiwan Corporate Sustainability Award,” Cathay Financial Holdings won a total of 9 categories including: “Top 50 Corporate Sustainability Awards - Finance and Insurance,” “Corporate Sustainability Report - Finance and Insurance,” “Growth through Innovation Award,” “Social Inclusion Award,” “Talent Development Award,” “Climate Leadership Award” and “Gender Equality Award.” ➢ Cathay Financial Holdings was awarded Best Corporate Governance and Best Investment In People by Enterprise Asia during the “2018 Asia Responsible Enterprise Awards (AREA).” ➢ Cathay Financial Holdings was awarded Excellence in “Best Financial Holding Corporate Social Responsibility” during the 2018 Taiwan Financial Award, whereas subsidiary - Cathay Life was awarded Gold in “Best Life Insurance Image,” “Best Life Insurance Service” and “Best Life Insurance Quality,” and subsidiary - Cathay United Bank was awarded Excellence in “Best Local Bank Image,” “Best Banking Service” and “Best Banking Product.” ➢ Cathay Financial Holdings was once again nominated for Taipei Golden Eagle Micro-movie Festival organized by Taiwan Institute for Sustainable Energy in 2018, during which the short film - “Sustainable Journey of Cathay Life” won “Best Governance” and “Most Popular on Facebook,” whereas Cathay United Bank’s “Taitung Street Documentary” won “Excellence in Social Inclusion.” ➢ Cathay Financial Holdings once again won the “2018 CSR Impact Award” organized by PwC and Cannes Lions, whereas subsidiary - Cathay Century Insurance received Exceptional rating for its Accident-free Rider animation and subsidiary - Cathay Life received Excellent rating for its Campus Anti-drug video. ➢ Cathay Financial Holdings won three major awards during the 2018 Buying Power - Innovative Product and Service Procurement Incentive Program, including: Procurement Grand Award for exerting group influence in charity purchases, and Special Awards by Cathay Life and Cathay United Bank for their “Career Diary” and “Social Enterprise Lending” projects, respectively, which made Cathay the biggest winning financial institution in this award. ➢ Cathay Financial Holdings once again ranked first in the “2018 Financial Holding Performance Evaluation” organized by Taiwan Finance Association and Business Today. ➢ Cathay Financial Holdings has won the “Green Purchasing Enterprise Commendation” from Environmental Protection Administration for 9 consecutive years.				

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
➤ Cathay Life won CSR Initiative of the Year during the “Insurance Asia Awards” organized by Asian Banking & Finance, making it the only Taiwanese business to win this award. ➤ Cathay Life won “Outstanding Company” and “Best Product” during the 15th National Brand Yushan Award. ➤ Cathay Life won “First Place” in Financial Supervisory Commission’s “Performance Excellence Award” and “Best Initiative Award,” and won “Elder-friendly Award” for its micro life insurance product. ➤ Cathay Life Insurance has won “Insurance Company Trade Volume Award - Diamond” from Taiwan Futures Exchange Corporation for 4 consecutive years. ➤ Cathay Life Insurance has won “Sports Sponsorship Award” organized by Sports Administration, Ministry of Education, for 10 consecutive years as a “Sponsor” and “Promoter,” and has been certified for “Long-term Sponsorship” for 6 years. ➤ Cathay Life Insurance won “Gold Award” and “Service Elite Award” in The Best Service in Taiwan organized by Commercial Times. ➤ Cathay Life Insurance has won Next Magazine’s “Top Service Awards” in the Life Insurance category for 14 consecutive years. ➤ Cathay Life Insurance once again won three gold awards in Wealth Magazine’s “Taiwan Financial Award”. ➤ Cathay Life won Asia Insurance Review’s Best Digital and Omnichannel Technologies Award: Technology Award, which makes it the only Taiwanese company to win the award two years in a row. ➤ Cathay Life won “Customer Service & Call Center Awards Team Categories - Gold” during the The Stevie Awards For Sales & Customer Service, making it the only Taiwanese company to win this award. ➤ Cathay Life won “Best Large Contact Center” during the “Global Contact Center Awards” organized by International Customer Management Institute (ICMI), making it the only winning business from Asia in the award’s history. ➤ Cathay United Bank won “National Talent Award - Large Corporations” organized by Association for Talent Development, making it the only financial institution to win this year and the first winning bank in the award’s history. ➤ Cathay United Bank won Best Risk Management - Outstanding, Best Talent Development - Outstanding, Best Green Project Financing - Outstanding, Best Wealth Management - Excellent, and Best Trust Service - Excellent during the “Taiwan Banking and Finance Best Practice Awards” organized by Taiwan Academy of Banking and Finance. ➤ Cathay United Bank won “Best Wealth Management,” “Best Digital Wealth Management,” “Best Service” and “Best Printed Marketing” from Wealth Magazine. ➤ Cathay United Bank won a total of 7 awards including “Best Wealth Management Bank - Outstanding” and “Best Digital Innovation - First Place” from Business Today.” ➤ Cathay United Bank was awarded the “27th ROC Enterprises Environmental Protection Award - Bronze Prize” by the Environmental Protection Administration, Executive Yuan. ➤ Cathay Century Insurance was awarded “Innovative Design of the Year” during Outstanding Enterprise Manager Association’s “14th Golden Torch Award.” ➤ Cathay Securities received the gold award for “Talent Quality Management System” - Corporate Version from Workforce Development Agency, Ministry of Labor, making it the only securities firm to receive this award in Taiwan. ➤ Cathay Securities won Best Management Innovation - Bronze during the 2018 Future Commerce Awards organized by Business Next Magazine for the digital customer management solution adopted at Dunnan Branch. ➤ Cathay SITE was awarded Excellence in “Best Fund Company Image” during the 2018 Taiwan Financial Award. Being able to win this award in the first year of its introduction is indicative of Cathay SITE’s high appeal to the jury and investors.				
VII. If the company’s corporate social responsibility reports have met the assurance standards of relevant certification institutions, they should be stated below: “Cathay Financial Holdings 2017 Corporate Sustainability Report” was entrusted to PwC Taiwan to conduct limited assurance in accordance with Statement of Assurance Principles No. 1 “Audit and Review of Non-financial Information” (stipulated in accordance with International Standard on Assurance Engagements ISAE 3000) promulgated by Accounting Research and Development Foundation. In addition, greenhouse gas emission statistics disclosed in this report has been verified by SGS Taiwan according to ISO14064-1:2006.				

Note 1: Regardless “Yes” or “No”, the status shall be stated in the Remarks section.

Note 2: Where the Company has prepared a Corporate Social Responsibility Report, the summary thereof may not be required only if this report specifies that please refer to the Corporate Social Responsibility Report, or may be replaced by the index page number.

Note 3: Financial Holding Companies that are not listed in the TWSE do not have to fill in “Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s)”

(VII) Integrity policies and practices (Attachment 2-2-3)

Business integrity management

Scope of assessment	Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons (Note 2)
	Yes	No	Summary	
I. Enactment of ethical management policy and program (I) Has the company stated in its Memorandum or external correspondence about the policies and practices it implements to maintain business integrity? Are the board of directors and the management committed in fulfilling this commitment? (II) Does the company have any measures in place against dishonest conducts? Are these measures supported by proper procedures, behavioral guidelines, disciplinary actions and complaint systems? (III) Has the Company taken any preventative measures against the operating activities involving highly unethical conduct under Paragraph 2 of Article 7 of the “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” or within other operating areas?	✓		(I) The Company established a set of “Business Integrity Code of Conduct” on March 16, 2012 based on “Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies” to provide the foundation needed to support business integrity, corporate culture, corporate governance, risk management and a sustainable business environment. This code of conduct was acknowledged during the 2012 annual general meeting. (II) According to the Company’s “Business Integrity Code of Conduct,” the Company is bound to comply with The Company Act, Securities and Exchange Act, Business Entity Accounting Act, Political Donations Act, Anti-Corruption Act, Government Procurement Act, Act on Recusal of Public Servants Due to Conflicts of Interest, and any laws that pertain to business conducts of TSEC/GTSM listed companies. Furthermore, the Company’s directors, managers, employees and controllers are prohibited from offering, committing, requesting or accepting any illegitimate benefits, or involving in any conducts that would be construed as dishonest, illegal or in breach of trust, whether directly or indirectly, while carrying out their duties. All reported cases of violation against business integrity shall be thoroughly investigated by the audit unit; any established cases of misconduct will be referred to the Administration Department and disciplined according to the Company’s policies. (III) According to the Company’s “Business Integrity Code of Conduct,” any violation of business integrity involving the Company’s directors, managers or employees must be reported immediately to the board of directors, the Audit Committee or the audit unit. The Company also has the responsibility to maintain secrecy over the informant’s identity and details of the misconduct report. All reported cases shall be thoroughly investigated by the audit unit; any established cases of misconduct shall be referred to the Administration Department and disciplined according to the Company’s policies. Meanwhile, the name and title of the offender and the date, details and progress of the offense will be disclosed over the Company’s Intranet.	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons (Note 2)
	Yes	No	Summary	
II. Implementation of ethical management (I) Has the Company assessed a trading counterpart’s ethical management record, and expressly states the ethical management clause in the contract to be signed with the trading counterpart? (II) Does the company have a unit that specializes (or is involved) in business integrity? Does this unit report its progress to the board of directors on a regular basis? (III) Has the Company defined any policy against conflict of interest, provides adequate channel thereof, and fulfills the same precisely?	✓		(I) The Company is bound by the “Business Integrity Code of Conduct” to conduct business activities in the utmost fairness and integrity. Prior to commencing business dealings, the Company is required to evaluate the legitimacy and credibility of its counterparties, and thereby avoid dealing with entities that demonstrate poor integrity. The code of conduct also recommends the inclusion of integrity clause in contracts signed with other parties. (II) The Company has assembled a “Corporate Sustainability Committee” directly under the board of directors to oversee corporate governance-related matters such as business integrity, anti-corruption, anti-bribery and compliance. The committee is required to report back to the board of directors every six months on the implementation of the above matters. Furthermore, the “Business Integrity Code of Conduct” is maintained by the Administration Division, and establishment, amendment and abolishment of which is subject to board of directors’ consent. The board of directors of the Company will exercise the duty of care as prudent managers to supervise and prevent dishonest conducts, and ensure that the integrity policy is duly enforced. Furthermore, the Audit Division is required to include compliance with the code of conduct as part of its audits, and report regularly back to the board of directors on any defects found and any steps taken to improve. (III) Directors are expected to exhibit high level of discipline according to the Company’s “Business Integrity Code of Conduct.” If a director, or a corporate entity represented by the director, is in conflicting interest against the Company with respect to a motion proposed in a board of directors meeting, the director shall explain key details of the conflicting interest during the current meeting session and may still express opinions and answer queries but must not participate in the discussion or voting of such motion. In addition, the director may not exercise voting rights on behalf of other directors with respect to the motion. Directors must also exercise self-discipline and refrain from backing up each other in inappropriate ways. Directors and managers of the Company must not exploit their vested authorities for improper gains, whether for themselves or for spouse, parents, children, or any other parties.	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies” and reasons (Note 2)
	Yes	No	Summary	
(IV) Has the Company fulfilled the ethical management by establishing an effective accounting system and internal control system, and had an internal audit unit conduct periodic audits, or appointed an external auditor to conduct audits? (V) Has the Company organized internal/external education training program for ethical management periodically?	✓		(IV) 1. According to the Company’s “accounting policy” and “subsidiary financial supervision policy,” the Finance Division is required to obtain monthly management reports, including operations report, balance sheet, income statement, cash flow statement, accounts receivable aging/quality analysis and overdue receivables statement, from each subsidiary to facilitate analysis. 2. Before the end of each financial year, the Company shall prepare audit plans for the upcoming year and submit them in writing for approval of the Audit Committee and board of directors, with details recorded in meeting minutes. 3. Internal audit units are required to conduct general audits on the Company at least once a year, and special audits on finance, risk management and compliance for the Company and subsidiaries at least once every six months. Half-yearly special audits can be exempted if the general audit already covers the scope of the special audit and no major defect is found. Ad-hoc audits may be conducted at the instruction of the board of directors or authorized persons. (V) Integrity is the Company’s core value. The Company has outlined in its “work rules,” “Ethical Behavior Guidelines,” “Employee Code of Conduct” and management policies the behaviors that employees are bound to obey, and disciplinary systems to enforce such behaviors. Training is organized regularly to promote employees’ awareness towards the Money Laundering Control Act, Sexual Harassment Prevention Act, and the Personal Information Protection Act. The Company organized multiple training on integrity-related issues in 2018 (e.g.: annual training and orientation training on Employee Code of Conduct, compliance officer conference, and AML/CFT seminars). These sessions received a total of 610 enrollments and delivered 2,089 man-hours of training.	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons (Note 2)
	Yes	No	Summary	
III. Status of the Company’s complaint system (I) Has the Company defined a specific complaints and rewards system, and established some convenient complaint channel, and assigned competent dedicated personnel to deal with the situation? (II) Has the Company defined the standard operating procedure and nondisclosure mechanism toward the investigation of complaints as accepted?	✓		(I) According to the Company’s “Business Integrity Code of Conduct,” any violation of business integrity involving the Company’s directors, managers or employees must be reported immediately to the board of directors, the Audit Committee or the audit unit. The Company also has the responsibility to maintain secrecy over the informant’s identity and details of the misconduct report. All reported cases shall be thoroughly investigated by the audit unit; any established cases of misconduct shall be referred to the Administration Department and disciplined according to the Company’s policies. Meanwhile, the name and title of the offender and the date, details and progress of the offense will be disclosed over the Company’s Intranet. Furthermore, according to the Company’s “Employee Discipline and Reward Guidelines”: employees are rewarded credits for uncovering forgery, alteration or impersonation that lead to the prevention or mitigation of losses for the Company or customers; a merit is awarded for reporting fraud or attempting to prevent other harmful acts that lead to the mitigation of losses for the Company; and a major merit is awarded for reporting or assisting in the investigation of crime that lead to the mitigation of losses for the Company. The informant rewards mentioned above are intended to enhance the whistleblower system. In addition, an “Independent Director Mailbox” has been created on the external website to facilitate sound communication between independent directors and the Company’s employees, shareholders and stakeholders for better corporate governance. Meanwhile, a “Chairman’s Mailbox” has been made available on the Company’s Intranet to gather employees’ suggestions with respect to the Company’s management, system and policies. The Company was the first financial holding company to implement a group-wide whistleblower system for insiders as well as outsiders, with defined policies to protect the legal rights of informants and relevant personnel. Details of “Cathay Group Whistleblower System” and the Company’s “Unethical and Dishonest Conduct Reporting Policy” have been disclosed on website (http://www.cathayholdings.com); together, they outline the departments responsible, the reporting channels available, the procedures involved and the disciplinary measures in place. Persons accused of misconduct are given the opportunity to state their opinions or appeal before the final decisions are made. (II) According to the Company’s “Business Integrity Code of Conduct,” any violation of business integrity involving the Company’s directors, managers or employees must be reported immediately to the board of directors, the Audit Committee or the audit unit. The Company also has the responsibility to maintain secrecy over the informant’s identity and details of the misconduct report. All reported cases shall be thoroughly investigated by the audit unit; any established cases of misconduct shall be referred to	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons (Note 2)
	Yes	No	Summary	
(II) Has the Company defined the standard operating procedure and nondisclosure mechanism toward the investigation of complaints as accepted? (III) Has the Company adopted any measures to prevent the complainants from being abused after filing complaints?	✓		the Administration Department and disciplined according to the Company’s policies. Meanwhile, the name and title of the offender and the date, details and progress of the offense will be disclosed over the Company’s Intranet. (III) According to the Company’s “Business Integrity Code of Conduct,” the Company has the responsibility to maintain secrecy over the informant’s identity and details of the misconduct report. The audit unit is required to include compliance with the code of conduct as part of its audits, and report regularly back to the board of directors on any defects found and any steps taken to improve, thereby ensure that the informant is not subjected to improper treatment.	No significant difference
IV. Enhancing Information Disclosure Has the Company has disclosed the Ethical Management Principles and effect of implementation thereof on its website and Market Observation Post System?	✓		The Company has disclosed its “Business Integrity Code of Conduct” and related information on the corporate website (http://www.cathayholdings.com) and on the “Market Observation Post System.” The Company has assigned dedicated personnel to gather, disclose and update information regularly on its website. Website information has been made available in Traditional Chinese and English for enhanced disclosure.	No significant difference
V. If the Company has established ethical management principles based on “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies”, please describe any discrepancy between the principles and their implementation: None.				
VI. Other information material to the understanding of ethical management operation (e.g. discussion of an amendment to the ethical management best practice principles defined by the Bank): Corporate social responsibility clauses have been included in supplier contracts to enforce corporate social responsibility and integrity practices among suppliers.				

Note1: Regardless “Yes” or “No”, the status shall be stated in the Remarks section.

Note2: Non-TWSE and non-TPEX listed financial holding companies need not explain “Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies.”

(VIII) If the Company has established corporate governance principles or other relevant guidelines, references to such principles must be disclosed

Disclosures have been made on the Company's website (<http://www.cathayholdings.com>) and "Market Observation Post System,"

(IX) Other information material to the understanding of corporate governance within the Company (data range: January 2018-December 2018)

1. All directors, managers and insiders are issued a copy of "Notes on Change of Insider Shareholding" upon commencement of duty to prevent insider trading. Each director is given a copy of "Legal Knowledge Manual for Directors and Supervisors of TWSE/TPEX Listed Companies," "Notes on Securities Market Regulations for Directors, Supervisors and Major Shareholders of TWSE Listed Companies" and "Legal Knowledge Manuals for Independent Directors" prepared by Taiwan Stock Exchange Corporation upon commencement of duty. These documents help directors understand more about securities regulations and reporting requirements and legal responsibilities of a public-listed company.
2. The Company has implemented "Material Information Announcement and Management Guidelines/Rules" and "Material Information Press Conference Rules" based on "Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities" to regulate announcement and management of material information within the Company and subsidiaries. All above policies have been disclosed on the legal section of the Company's Intranet to ensure compliance from all employees while avoid violation or occurrence of insider trading.
3. Please refer to "VI. Other important information enabling a better understanding of the company's corporate governance" in "Status of corporate governance, departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and reasons for such departures."
4. Managers' ongoing education

Title	Name	Course name	Course hours
President	Chang-Ken Lee	Cathay Financial Holdings Corporate Governance System Counseling	3
		Global Trend Analysis and Sustainable and Innovative Banking in Taiwan	2.5
		Machine Learning and Keys to AI Banking	1.5
		[Sustainability - Financial Industry ESG Risks and Green Industry Transformation] Forum	3.5
		Electronic Voting and Corporate Value Improvement Forum	6
		Taiwan Sustainability Index Publication and Sustainable Investment Forum	3
		Summit forum for new corporate governance roadmap for TWSE-listed companies	3
		Corporate Governance Forum - Global AML and CTF Trends	3
		Corporate Governance Forum - Information Security Trends and Corporate Response	3
Chief Auditor	Chih-Jung Kung	Audit Manager Workshop (Session 55)	13.5
		Audit Personnel - Workshop for AML/CTF Personnel	7
		Corporate Governance Forum - Global AML and CTF Trends	3
		Internal Audit Symposium	3
		Auditor Workshop - Management of Emerging Risks in the Era of Financial Technology	4
		Corporate Governance Forum - Information Security Trends and Corporate Response	3
Chief Financial Officer	Grace Chen	IFRS17 - Accounting treatment	6.5
		Corporate Governance Forum - Global AML and CTF Trends	3
		IFRS9 - Hedge accounting	1
		Corporate Governance Forum - Information Security Trends and Corporate Response	3

Title	Name	Course name	Course hours
Senior Executive VP	David P. Sun	Corporate Governance Forum - Global AML and CTF Trends	3
		Corporate Governance Forum - Information Security Trends and Corporate Response	3
		LEGG MASON INVESTMENT SYMPOSIUM 2018	8
		Google Cloud - Innovating with Cloud Technology in the Financial Industry	0.5
		2018 SEA Forum: Industry, Opportunities and Creation	2
		Gartner Viewpoint- Prepare for the Future Customer, Today	2
		Gartner Symposium_ ITxpo experience	28
		Legg Mason Taiwan _ GIS event	3.5
Chief Investment Officer	Sophia Cheng	6th Investor Relations Summit	8
		CACTIA Themed Seminar - January	3
		“Leading Executive Apex Program (LEAP)”	1.5
		Embracing 2018 - Global Economics Forum	3
		Corporate Operation Association - Topic: 2018 Global Financial Trends	2.5
		Vietnamese Senior Officers’ Training in Taiwan - Financial Management Class	2
		[Sustainability - Financial Industry ESG Risks and Green Industry Transformation] Forum	4
		HK AsianInvestor	12
		National Central University ESG Investment Forum	4
		2018 “Chung-Hua Institution for Economic Research” Event	2
		The Fulbright Conference	3
		2018 4th Taiwan Sustainability Report Publication Conference	8
		Bloomberg Invest Asia, HK	12
		2018 European Industry Sustainability and Innovation Trend Study	4
		2018 Masters Forum	6
		2018 Cathay SITE Responsible Investment	2
		NTU Finance Talk	3
		2018 ITRI ICT TechDay	8
		Financial Innovation and National Development Talk	2.5
		Milken Institute Asia Summit	8
		Rotary Club of Taipei - Opportunities in Asset Management	2
		2019 Global Economic and Investment Prospect	2.5
		2018 Schroders Investment Forum	4.5
		Global Corporate Sustainability Forum (GCSF)	2
		Corporate Governance Forum - Information Security Trends and Corporate Response	3
		“Potential Risks of the Chinese Financial Market and China-USA Money War” conference	2
		Climate Change Forum	4.5
		FPCC Climate Action 100+ Initiatives Conference	3
		2018 Corporate Sustainability (CS) Members Conference (6/27, 9/26)	4
Senior Executive VP	Chung-Yi Teng	Business Management Conference	8
		Key Banking Talent Development Program for Asia Expansion: Asia Expansion Forum	3.5
		Corporate Governance Forum - Global AML and CTF Trends	3
		Global Economic and Exchange Rate Prospect Conference	1.5

Title	Name	Course name	Course hours
Senior Executive VP	Chung-Yi Teng	OWF Pricing, Competition and Opportunities of Local OWF Development	1.5
		Corporate Governance Forum - Information Security Trends and Corporate Response	3
		Impacts of China-USA Trade War and Practical Response for Taiwanese Enterprises in Vietnam	3
Chief Risk Officer	Ching-Lu Huang	2018 CommonWealth Economic Forum - Winter Session	17.5
		Industrial Revolution Involving AI	3.5
		The New Retail Era - Digital CRM Conference	3
		2018 Corporate Governance Conference for the Insurance Industry	6
		Corporate Governance Forum - Global AML and CTF Trends	3
		Internal Information Security System - A Corporate Governance Perspective	3
		14th Annual Conference (Taiwan) by JPMorgan Chase Investor Service Department	6.5
		2018 PARINA Resilience Management Forum	3
		Insurance Industry Risk Self-assessment and Financial Institution Recovery and Exit Plan	3.5
		Corporate Governance Forum - Information Security Trends and Corporate Response	3
		Insurance Industry Sustainability Strategy - Impact of IFRS17 on Insurance Operations	3
		Climate Change Forum	4
Chief Information Officer	Chia-Sheng Chang	Machine Learning and Keys to AI Banking	2
		AI Outlook - "Infinite Possibilities of AI"	5.5
		Digital Transformation and Innovation	2.5
		Corporate Governance Forum - Global AML and CTF Trends	3
		Virtual Currency and Financial Regulation	2
		Corporate Governance Forum - Information Security Trends and Corporate Response	3
		International Financial Technology Forum - Innovative Applications of AI	3
		New Industries (Finance X Manufacturing) Digital Transformation Conference	2.5
		[2018 Broad Thinking Forum] AI Economy and Cloud Application	3
		Gartner 2019 Strategy and Trend Prediction (AI, Digitalization and Grid Computing)	3
		Financial Holding Skills Course - Innovation Management (8/17)	7
Senior Executive VP	Tsung-Hsien Tsai	Corporate Governance Forum - Global AML and CTF Trends	3
		Corporate Governance Forum - Information Security Trends and Corporate Response	3
Senior Executive VP	Jian-Hsing Wu	Business Management Conference	8
		Cathay United Bank Corporate Governance System Counseling	3
		Business Management Conference	8
		Corporate Governance Forum - Global AML and CTF Trends	3
		Criss-Strait Finance Conference	7.9
		The Corporate Blue Ocean Shift	2.5
		Israeli FinTech and Information Security Trend Forum	3.5
		Corporate Governance Forum - Information Security Trends and Corporate Response	3
Executive VP	Deh-Yen Weng	Legal Issues of Instant Messaging	3
		Theoretical and Practical Implications of The Company Act Amendments: Corporate Funding and Accounting Issues	3
		Corporate Governance Support - Roles of the Corporate Secretary	3
		Summit Seminar - Travel Insurance	2
		Corporate Governance Forum - Global AML and CTF Trends	3

Title	Name	Course name	Course hours
Executive VP	Deh-Yen Weng	[DTT Legal Forum] Shortcut to Corporate Governance: Corporate Governance Officer	3
		The 12th Taipei Corporate Governance Forum	3
		Corporate Governance Seminar (25th) - Directors' Duty of Loyalty and Case Study	3
		Corporate Governance Forum - Information Security Trends and Corporate Response	3
		Telling Story through Pictures - Event Photography, Framing and Concepts	2
Executive VP	Hsiang-Hsin Tsai	Business Management Conference	8
		Big data & analytics innovation summit (Singapore)	12
		Business Management Conference	8
		Corporate Governance Forum - Global AML and CTF Trends	3
		Hong Kong Fintech Festival	12
		Corporate Governance Forum - Information Security Trends and Corporate Response	3
Executive VP	Shu-Ying Wu	Business Management Conference	8
		"Financial Process Optimization - Robotic Process Automation and Application"	2.5
		Asia Pacific Fintech Development and Application Case Study	2.5
		2018 MJ & Deloitte Taiwan Technology Trend Forum - [Industrial Revolution Involving AI]	4
		2018 Deloitte Taiwan Media Trend Forum [Age of New Media: Strategies and Trends of Taiwanese OTT Industry]	3
		How Directors Should Fulfill "Duty of Care" and "Duty of Loyalty"	3
		Corporate Governance Forum - Global AML and CTF Trends	3
		Corporate Governance Forum - Information Security Trends and Corporate Response	3
		Insurance Industry Sustainability Strategy - Impact of IFRS 17 on Insurance Operations	3
Executive VP	Ta-Ching Hung	IFRS17 - Accounting treatment	6.5
		Insurance Supervision and Regulation in Response to Financial Environment Changes	1.5
		Business Management and Recommendations for Sustainable Economic Development in Taiwan	1.5
		Corporate Governance Forum - Global AML and CTF Trends	3
		IFRS9 - Hedge accounting	1
		Corporate Governance Forum - Information Security Trends and Corporate Response	3
		Insurance Industry Sustainability Strategy - Impact of IFRS 17 on Insurance Operations	3
Executive VP	Judie Hsu	9th Hong Kong AML Conference by Association of Certified Money Laundering Specialists (ACAMS)	7
		"Digital Data Analysis and Information Security Forensics" conference	2.5
		"PwC Taxation and Compliance Forum for Vietnamese Financial Industry"	2
		"When Laws Meet Technology - A Practical Approach towards LegalTech"	3.5
		Announcement of Preliminary Conclusion for National Risk Assessment	3.5
		Indonesia APG's Current AML Evaluation Practices and Experience	2
		2018 Money Trail Investigation and Criminal Pattern Conference	6
		Private Sector National Simulation Evaluation (4/25 - Insurance/Securities/Futures)(4/26 - Banking)	12
		Global Market - Opportunities and Challenges of GDPR	3
		Cross-Strait AML and CTF Conference	7
		Insurance AML and CTF Conference for Insurance Industry - Phase 3	7
		Corporate Governance Forum - Global AML and CTF Trends	3
		"Establishment and Execution of Whistleblower System"	3
		Financial Examination Bureau Internal Audit Conference	2.5
		3rd round of Mutual Evaluation Reports by Asia/Pacific Group on Money Laundering	3

Title	Name	Course name	Course hours
Executive VP	Judie Hsu	APG Current Evaluations	4
		Bank ML/TF Risk Awareness Enhancement	3
		AML/CTF Compliance Forum for the Financial Industry	4
		Notes on APG Current Evaluations - November 2018	2
		Corporate Governance Forum - Information Security Trends and Corporate Response	3
		16th Information Security Trend Forum (2019)	7
		Digital Transformation Strategy and IT Modernization	3.5
Executive VP	Ching-Yuan Kung	Business Management Conference	8
		2018 Masters Forum - Global Climate Change and Uprise of Green Economy	5
		3 Lines of Internal Control Defense and Practices for Banks	5
		Business Management Conference	8
		Corporate Governance Forum - Global AML and CTF Trends	3
		Information Security Risk and Corporate Governance	3
		Local Bank TLAC and Capital Provision Calculation for Equity Securities	3.5
		SAS Financial Risk Management Round Table	2
		OWF Pricing, Competition and Risks and Opportunities of Local OWF Development	1.5
		Major Financial Crime and Corporate Governance	3
		2018 Asian Financial Supervisors Summit Forum	4
		Corporate Governance Forum - Information Security Trends and Corporate Response	3
Executive VP	Fu-Min Wang	2018 Commonwealth Economic Forum - Winter Session - Technology, Globalization and Future of Humanity - 10th Anniversary of the Financial Crisis	6
		Regtech Global Development and Case Study	4
		Financial Regulatory Sandbox, Open Banking and Intellectual Property Rights of Financial Technology - An International Experience	7
		Corporate Governance Forum - Global AML and CTF Trends	3
		Corporate Governance Forum - Information Security Trends and Corporate Response	3
		Impact of IFRS17 on Insurance Operations	3
Executive VP	Yu-Mei Lee	Announcement of Preliminary Conclusion for National Risk Assessment on Securities, Futures and Investment Trust/Consultant Industries	3
		Corporate Governance Forum - Whistleblower System	3
		AML and CTF Back-training	12
		Pre-job Training for Investment Trust Personnel	12
		Pre-job Training for Securities Specialist (Senior)	12
		Corporate Governance Forum - Global AML and CTF Trends	3
		Corporate Governance Forum - Information Security Trends and Corporate Response	3
		2018 On-job Training for Securities and Futures Compliance Officers	3
Executive VP	Chen-Tung Chang	Business Management Conference	8
		Trust Supervisors (Including In-service Personnel) Workshop (592nd)	3
		Business Management Conference	8
		Corporate Governance Forum - Global AML and CTF Trends	3
		Corporate Governance Forum - Information Security Trends and Corporate Response	3
Executive VP	Xu-Jie Yao	Business Management Conference	8
		IBM Think 2018 3/19-3/22	20
		SAS Global Forum 4/8-4/11	18
		IRCE 6/5-6/8	24
		Thomson Reuters Conference	3
		Omniscience AI Workshop 9/20-9/21	7
		TeraData Executive Session	3
		Corporate Governance Forum - Information Security Trends and Corporate Response	3

Title	Name	Course name	Course hours
Executive VP	Chao-Chi Tsai	Corporate Governance Forum - Global AML and CTF Trends	3
		Internal Information Security System - A Corporate Governance Perspective	3
		Information Security Risk and Corporate Governance	3
		Corporate Governance Forum - Information Security Trends and Corporate Response	3
Senior VP	Huan-Chen Chang	Financial Holding Skills Course - Innovation Management (8/17)	7
		The Accounting Research and Development Foundation-Continuing Education Courses for Issuers, Securities Firms, and Taiwan Stock Exchange Accounting Supervisors.	12
Senior VP	Chang-Chao Liao	Financial Holding Skills Course - Innovation Management (8/17), Commercial Negotiation (10/24)	14
		ESG Tuition (1/23) and 2018 Corporate Sustainability (CS) Members Conference (3/28, 6/27, 9/26)	8
Senior VP	Shan-Chih Liu	Financial Holding Skills Course - Innovation Management (8/17), Strategy Management (9/7), Commercial Negotiation (10/24)	21
Senior VP	Shao-Ling Weng	Path to Sustainability - Silent Uprise: Ocean, Environment and Lifestyle; A Better Self: Gender Role Expectations and Breakthrough	5
		Business Empowerment and Upgrade - Corporate Human Resource Summit	2
		Willis Towers Watson Customer Conference - Diversity X Breakthrough X Evolution	3
		Towards Machine Comprehension (1/9), Intelligent Dialog Robot (4/26), Presentation Course (8/7), Spoken Influence (8/29)	14
		Financial Holding Skills Course - Innovation Management (8/17), Strategy Management (9/7), Commercial Negotiation (10/24)	21
Senior VP	Gwang-Ying She	2018 Compliance ~ Financial Inspection Emphasis Seminar	2.5
		IIA Annual Event - 2018 Conference “Audit Innovation”	12
		Audit Personnel - Workshop for AML/CTF Personnel	7
		Cross-Strait Financial Seminar - Criss-Strait Financial Supervision and Risk Management	3
		Auditor Workshop - IFRS9 - Accounting Treatment for the Latest Financial Products	4
		Internal Audit Symposium	3
		Auditor Workshop - Online Crime Prevention and Case Study	4
		Auditor Workshop - Management of Emerging Risks in the Era of Financial Technology	4
		Financial Holding Skills Course - Innovation Management (8/17), Strategy Management (9/7)	14
Senior VP	Sheng-Hsiung Tsai	Discovering New Investment Value through SRI	3.5
		OWF Development - Project Financing Risk Management and Strategies	3
		Criss-Strait Financial Supervision and Risk Management	7
		OWF Pricing, Competition and Risks and Opportunities of Local OWF Development	1.5
		International Financial Technology Forum - Digital Transformation and Integration of the Financial Service Industry	3.5
		Building SDG Influence through Positive Creativity	3.5
		S&P China Credit Observation Conference	3
		Climate Change Forum	4
		Financial Holding Skills Course - Strategy Management (9/7), Commercial Negotiation (10/24)	14
Senior VP	Chin-Chi Chen	Financial technology	16
		Knowledge Management and Innovation in the Digital Era	8
		Marketing and Sales in the Digital Era	8
		Financial Holding Skills Course - Strategy Management (9/7)	7
Senior VP	Hua-Hsin Yang	Industrial Revolution Involving AI	3
		Regulatory Sandbox - Fintech Innovation Conference	3
		2018 Taiwan Industry Merger and Transformation Forum	4
		2018 Meet Taipei Business Venture Carnival [Service Innovation Trend Forum]	3
		Financial Holding Skills Course - Innovation Management (8/17), Strategy Management (9/7), Commercial Negotiation (10/24)	21

Title	Name	Course name	Course hours
Senior VP	Chin-Tang, Lu	Financial Holding Skills Course - Innovation Management (8/17), Strategy Management (9/7)	14
Senior VP	Yao-Te Wang	Business Management Conference	8
		Hacker Incident and Threat to Taiwan's Financial Institution Network	2.5
		Advanced Leadership	7
		Senior Staff Management	7
		Israeli FinTech and Information Security Trend Forum	3.5
		Corporate Governance Forum - Information Security Trends and Corporate Response	3

(X) Implementation of internal control system

1. Declaration of Internal Control System: Please refer to Attachment 4.
2. If the internal control policy was reviewed by an external auditor, the result of such review must be disclosed: none.

(XI) Penalties imposed against the financial holding company and subsidiaries in the last 2 years up till the publication date of this annual report, including the weaknesses found and the improvements made

1. Indictment of the Company's statutory responsible person or an employee by prosecutors for crimes committed on the job: None.
2. Fines imposed by the Financial Supervisory Commission for violations of laws and regulations:

■ **Cathay Life Insurance Co., Ltd.**

1. The following defects were found during the FSC's general inspection:
 - (1) Inadequate maintenance of stakeholder information was still found during this inspection.
 - (2) For variable-interest annuity policies, increases in policy value due to upward interest rate adjustment were disclosed as "interest credit" on the regular statement, which may cause policyholders to mistaken the insurance policy as a bank deposit.
 - (3) ETNs listed on foreign stock exchange do not offer principal protection and have more than 10 years to maturity, which therefore make them non-compliant investment instruments.
 - (4) With regards to investments in Business Trust listed on foreign stock exchange, the owner of unit trust does not possess ownership over the entrusted properties, which therefore makes the securities a non-compliant investment instrument.
 - (5) With regards to investments in private equity fund, infrastructure fund and hedge fund, the subsidiary either did not implement pre-investment and post-investment procedures or failed to attain externally certified audit.
 - (6) When implementing the automated underwriting system, compliance, risk management and internal audit personnel were not actively involved in the development of internal control system, and there was no mechanism to check system accuracy on a regular basis.
 - (7) Some market risk management practices did not conform with the subsidiary's internal market risk management guidelines.
 - (8) Some real estate valuations were not supported by external valuer reports; as a result, some properties were assigned internal values that were higher than external valuer reports.
 - (9) The procedures taken for transmitting policyholders' information between group subsidiaries were inappropriate.

The Financial Supervisory Commission imposed NT\$1.8 million in fines and issued 7 orders of rectification on January 20, 2017.

Progress: Subsidiary - Cathay Life has rectified the defect.

2. The following defects were found during the FSC's claims inspection:
 - (1) The subsidiary had failed to inform policyholders of their unclaimed benefits when processing new policy subscriptions or policy amendments; furthermore, the subsidiary did not initiate contact with all policyholders that have outstanding, unpaid premiums.
 - (2) No control measure was developed for cross-department or cross-system claims.
 - (3) Out-of-system claims and claims for National Health Insurance-covered treatment were not calculated and paid according to policy terms.
 - (4) Checking mechanism of the claim system was incomplete, as a result, unearned premium was not refunded according to policy terms.
 - (5) When rejecting claims, the subsidiary was found to have notified policyholders using inappropriate methods and details.

The Financial Supervisory Commission imposed NT\$600,000 in fines and issued 2 orders of rectification on August 22, 2017.

Progress: Subsidiary - Cathay Life has rectified the defect.

3. The following defects were found on subsidiary - Cathay Life during FSC's risk management inspection on Cathay Financial Holdings Group.
 - (1) When investing in real estate properties, the information presented to board of directors was deemed incomplete, which prevented the board from gaining insight into actual operations and potential risks of the underlying investment. The subsidiary's pre-investment assessment, analysis and real estate valuation processes were considered inadequate.

- (2) Outsourcing of new construction and maintenance projects was somewhat careless.

The Financial Supervisory Commission imposed NT\$600,000 in fines and issued an order of rectification on April 23, 2018.

Progress: Subsidiary - Cathay Life has rectified the defect.

4. When processing claims, subsidiary - Cathay Life was found to have collected, processed and used personal information outside the scope deemed necessary and consented in writing by the principals, and used information not obtained from principals without notifying them of the source. The above practices did not conform with Paragraphs 1 and 2, Article 6 of the Personal Information Protection Act.

The Financial Supervisory Commission imposed NT\$50,000 in fines to the Company and its representative on October 26, 2018.

Progress: Subsidiary - Cathay Life has rectified the defect.

■ **Cathay United Bank Co., Ltd.**

1. The subsidiary failed to conduct diligent review on customers' board meeting minutes when carrying out derivative service. This practice did not conform with Paragraph 1, Article 45-1 of the Banking Act and indicated a lack or improper execution of internal control system that may disturb the sound operation.

The Financial Supervisory Commission imposed NT\$2 million in fines and issued an order of rectification on June 1, 2017.

Improvement:

- (1) With regards to “absence in reviewing counterparty’s board meeting minutes”: The subsidiary has amended its “Treasury Transaction Control Guidelines” to introduce additional board meeting requirements, such as: mandatory details in board meeting minutes, the number of attending supporting directors needed for the counterparty to pass a resolution (subject to compliance with counterparty’s Articles of Incorporation), submission of board meeting attendance log, and use of counterparty’s common/authorized seal on board resolutions and meeting attendance logs.
- (2) With regards to “inadequate review of customers’ financial information”: To facilitate authenticity checks on customers’ financial information when applying for treasury limits, the subsidiary has amended its “Notes on Application and Assessment of Treasury Transactions” and introduced enhanced financial review practices such as:
 - A. Improved KYC process for assessing customers’ risk tolerance.
 - B. When obtaining financial statements from customers, care should be taken to ensure the accuracy and rationality of statement figures.
 - C. In addition to obtaining consolidated financial statements, the subsidiary should also obtain standalone financial statements from customers to support its credit assessment process. Rationality between consolidated and standalone financial statements should also be reviewed.
 - D. Customers that apply for treasury limit for investment or hedging on the group level should be instructed to provide group financial information and have business performance analyzed at the group level. Proof of treasury limits granted to group members should also be obtained to support limit approval.

■ **Cathay Century Insurance Co., Ltd.**

1. The following defects were found during the FSC’s general inspection:
 - (1) No file was maintained on stakeholder counterparties.
 - (2) The subsidiary does not have regular checks or reminder systems in place to remind policyholders of benefits that are receivable but uncollected when processing subsequent insurance applications.
 - (3) With respect to group accident policies, the individual premium categories used for calculating average premium were found to have exceeded the premium rates submitted for review, whereas some modified insurance policies still had premium rates calculated using the old rates instead of the new rates. With respect to commercial fire policies, premiums were not properly calculated or had relevant elements taken into consideration according to terms and conditions; meanwhile, certain extra premiums added under supplementary terms were not evaluated as adjustments.
 - (4) With respect to accident/health insurance, there were instances where claims were paid without checking whether the policyholder still had unpaid late interest, and without verifying details of the charges listed. Some automobile insurance claims were not paid according to terms and conditions.
 - (5) With respect to the billing of automobile insurance premiums, some policies did not have charges collected in full before the coverage was effected, and where premiums were paid by cheque, some proceeds were collected 15 working days after the coverage was effected; although the subsidiary uses automated system to ensure payment of premiums before providing coverage, some post-payment exceptions were granted for personal accident insurance; during the general audit conducted by the Internal Audit Office, foreign subsidiaries were found to have failed to disclose transactions with

stakeholders; information material to consumers' interest was not announced; some officers were assigned to perform self-audits on the transactions they handled; and internal control was not duly executed in certain areas.

- (6) Some of the large commercial fire insurance exposures ceded non-proportionally through facultative reinsurance did not comply with proper "substandard reinsurance reserve provisioning practices."
- (7) Some mandatory automobile liability insurance policies applied through direct channels were not offered premium discounts.
- (8) With regards to outsourced operations, some mandatory details were excluded from contract.

The Financial Supervisory Commission imposed NT\$4.2 million in fines and issued 4 orders of rectification on February 21, 2017.

Progress: Subsidiary - Cathay Century Insurance has rectified the defect.

2. With regards to optional automobile insurance, there were cases where modifications were not completed within 10 working days and where sales representatives failed to process policyholders' requests after receiving them. Both of which were in violation of "Notes on Optional Automobile Insurance Modification."

The Financial Supervisory Commission imposed NT\$600,000 in fines on January 24, 2018.

Progress: Subsidiary - Cathay Century Insurance has rectified the defect.

■ **Cathay Securities Corporation**

1. Trade executions dated April 2017 contained no authorized price range and failed to completely comply with the internal control system. Furthermore, the proprietary trading department was found to have executed limit orders at prices that deviated from the market level, which compromised the market's pricing mechanism. The above conducts were deemed in violation of Futures Trading Law, for which the Financial Supervisory Commission imposed a fine of NT\$120,000 according to Subparagraph 2, Paragraph 1, Article 119 on September 6, 2017.

Progress: Subsidiary - Cathay Securities has rectified the defect.

3. Rectifications ordered by the FSC:

■ **Cathay Life Insurance Co., Ltd.**

1. The following defects were found during the FSC's AML/CTF inspection:
 - (1) When checking names, the AML risk management system was somewhat inadequate; as a result, policyholders' risk attributes were not reflected in a timely manner.
 - (2) When underwriting insurance policy, the subsidiary exhibited lack of rationality, explanation and proof of revenue in its know-your-customer (KYC) procedures and when establishing customers' source of fund.
 - (3) Enhanced due diligence on high-risk customers was not adequately performed due to improper system design.
 - (4) Prior to introducing new payment system, the subsidiary did not properly assess ML/TF risk.

The Financial Supervisory Commission issued 4 orders of rectification on June 21, 2018.

Progress: Subsidiary - Cathay Life has rectified the defect.

2. The following defects were found during the FSC's AML/CTF and anti-weapon

proliferation inspection:

- (1) With regards to the reporting of suspicious ML/TF transactions, the subsidiary did not implement a tracking and reply system for policyholders that were in need to provide supporting documents.
- (2) The subsidiary did not perform timely review on customers who were reported for suspicious transactions. In addition, their risk grades were not adjusted to facilitate proper reflection and control of transaction risk.

The Financial Supervisory Commission issued 2 orders of rectification on October 26, 2018.

Progress: Subsidiary - Cathay Life has rectified the defect.

■ **Cathay United Bank Co., Ltd.**

1. Branch financial advisors were found to have inappropriately recommended customers to invest into financial products not offered by the subsidiary.

The Financial Supervisory Commission issued an order of rectification on October 6, 2017.

Improvement:

- (1) A list of “Employees’ Prohibited Conducts” has been published and delivered to customers in separate mails. Statements have also been revised to show warnings.
 - (2) The Head Office now performs regular inspections to check whether financial advisors have complied with requirements with respect to their customer visits and due diligence efforts. Enhanced controls have been applied to govern financial advisors’ field conducts. In addition, the head of the financial advisory unit is now being required to accompany in visits to high net worth customers.
 - (3) The subsidiary has listed out improper behaviors for each category of financial product and the corresponding disciplinary actions. Announcements and enhanced training are being taken to promote employees’ awareness toward this issue.
2. The subsidiary exhibited defects in the marketing of structured instruments.
The Financial Supervisory Commission issued an order of rectification on July 17, 2018.

Improvement:

The subsidiary has implemented control measures before, during and after transaction of structured instrument. The risk declaration part is now displayed in bolded text.

3. The misuse of customer’s data for credit card application involving a former bank employee was found to have compromised operational health.
The Financial Supervisory Commission issued an order of rectification on December 6, 2018.

Improvement:

A digital training course has been produced and branch managers are being instructed to convey the underlying knowledge to branch staff, and thereby promote compliance awareness.

■ Cathay Century Insurance Co., Ltd.

1. The following defects were found during the FSC's AML inspection:

- (1) Internal criteria such as: the parties and timing subject to enhanced due diligence (EDD), exemption of EDD on high-risk customers by region or by product type, customer identity verification process, and conditions for rejecting customers' transaction request were not properly established, which compromised the subsidiary's risk assessment, high-risk customer identification and operational health.
- (2) The customer due diligence process was not properly verified, which compromised the subsidiary's AML/CTF efforts and business operations.

The Financial Supervisory Commission issued 2 orders of rectification on August 29, 2018.

Progress: Subsidiary - Cathay Century Insurance has rectified the defect.

■ Cathay Securities Corporation

1. Former head of the settlement department was found to have checked customers' transaction records dated between March 2014 and June 2015, and exploited this information by purchasing the same securities using the account of the younger brother. This conduct was in violation of Subparagraph 1, Paragraph 2, Article 18 of Regulations Governing Responsible Persons and Associated Persons of Securities Firms and Paragraph 2, Article 2 of Regulations Governing Securities Firms, for which the Financial Supervisory Commission had issued an order of rectification on May 19, 2017 in accordance with Article 65 of the Securities and Exchange Act and instructed Cathay Securities to discipline other managers involved at its own discretion.

Progress: Subsidiary - Cathay Securities has rectified the defect.

2. With regards to the underwriting of the 7th secured convertible bond issue of Glotech Industrial Corp. and the 7th unsecured convertible bond issue of Yem Chio Co., Ltd., the subsidiary was found to have engaged the issuers and Far Eastern International Bank Co., Ltd. in book-building. These conducts constituted violations against securities laws, for which the Financial Supervisory Commission had issued a warning on June 14, 2017 according to Subparagraph 1, Article 66 of the Securities and Exchange Act.

Progress: Subsidiary - Cathay Securities has rectified the defect.

■ Cathay Securities Investment Trust Co., Ltd.

1. The following defects were found during the FSC's general inspection:

- (1) Some public fund managers concurrently assumed the role of discretionary investment manager, but the scope of investment or transaction conducted for the discretionary investment account had exceeded the scope of the funds they managed.
- (2) Grading of customers' ML/TF risks was not duly performed according to internal policies; the risk assessment process was considered inadequate.
- (3) Customer due diligence and identification of beneficial owner were not properly carried out. Ongoing monitoring of discretionary investment accounts and transactions was inadequate. The screening criteria used to identify suspicious money laundering transactions was found to be non-compliant and absent in some cases.
- (4) Fund manager was found to have assumed concurrent duty as director for another company, which violated the principle of dedicated duty.

The Financial Supervisory Commission issued an order of rectification on September 6, 2017.

Improvement:

Subsidiary - Cathay SITE has rectified the defect.

4. Penalties imposed by the Financial Supervisory Commission in accordance with Paragraph 1, Article 54 of the Financial Holding Company Act: None.
5. Disclosure of losses exceeding \$50 million incurred during the year, whether individually or in total, as a result of conspiracy, material contingencies (including fraud, theft, misappropriation of assets, fictitious transactions, forgery of documents and securities, kick-backs, natural disasters, external forces, hackers' attacks, theft and leakage of confidential information, disclosure of customers' details or other major events), or accidents arising from failure to comply with Safety and Maintenance Guidelines for Financial Institutions: none.
6. Other disclosures required by the Financial Supervisory Commission: None.

(XII) Shareholder meeting(s) and significant board resolutions during the most recent year and up to the date of publication of this annual report

1. Major resolutions of the 2018 annual general meeting and the execution progress

Major resolutions of the 2018 annual general meeting	Implementation Status
(1) Acknowledgment of 2017 business report and financial statements.	Announced to the public after shareholder meeting resolution.
(2) Acknowledgment of the Company's 2017 earnings appropriation.	July 2, 2018 was set as the baseline date for distribution, whereas July 24, 2018 was determined as the distribution date. (NT\$2.28 cash per preferred share and NT\$2.5 cash per common share)
(3) Amendments to the Company's Articles of Incorporation.	Registered with the approval of the Ministry of Economic Affairs. The amended Articles of Incorporation have been published on the Company's website.
(4) Discussion of the Company's long-term funding plan.	After the assessment, there is no need for processing until the publication of this annual report.
(5) Removal of restrictions imposed against the Company's directors for involving in competing businesses.	Restrictions on directors' competing business involvement have been removed.

2. Major board of directors resolutions made in 2018 and in 2019 up till the publication date of this annual report:

- (1) 12th extraordinary meeting of the 6th board of directors on February 9, 2018

- Passed renewal of the Company's credit limit with Yuanta Bank, CTBC Bank, Bank Sinopac and Yushan Bank.
- Passed the proposal to issue Class B preferred shares for cash.
- Passed the decision to participate in the private cash issue of subsidiary - "Cathay Life."
- Passed Amendments to the Company's "Director Compensation Guidelines" and "Manager Compensation Guidelines."
- Passed distribution of bonus to the Company's managers and directors involved in business decisions.
- Passed personnel assignment of the Company.
- Passed the appointment of supervisor to subsidiary - "Cathay Securities."

- (2) 7th meeting of the 6th board of directors on March 15, 2018
- Passed the 2017 employee and director remuneration.
 - Passed the 2017 business report.
 - Passed review of the 2017 year-end financial statements.
 - Passed the 2018 business target.
 - Passed the Company's 2017 "Declaration of Internal Control System."
 - Passed renewal of the Company's credit limit with Grand Bills Finance, Dah Chung Bills Finance and Ta Ching Bills Finance.
 - Passed amendments to the Company's "accounting policy" and "information security policy."
 - Passed the decision to have subsidiary - "Cathay Life" participate in the cash issue of Rizal Commercial Banking Corporation.
 - Passed the decision to have subsidiary - "Cathay Life" increase capital contribution in Cathay Life (Vietnam).
 - Passed appointment of new director and supervisor for subsidiary - "Cathay Venture."
- (3) 8th meeting of the 6th board of directors on April 26, 2018
- Passed review of the 2018 first-quarter financial statements.
 - Passed review of the 2017 earnings appropriation.
 - Passed the Company's long-term funding plan.
 - Passed renewal of the Company's credit limit with Mega Bills and China Bills Finance.
 - Passed the proposal to increase the number and amount of share subscription, from 300 million shares to 420 million shares and from NT\$30 billion to NT\$42 billion, to accommodate the change in terms of private common share placement by subsidiary - "Cathay Life."
 - Passed the decision to have subsidiary - "Cathay Life" participate in the cash issue of Indonesian bank PT Bank Mayapada Internasional Tbk.
 - Passed amendments to the Company's "Articles of Incorporation," "Organizational Principles," "internal control system," "internal audit system and implementation rules," "Corporate Governance Code of Conduct," "Board of Directors Performance Evaluation Policy," "Corporate Governance and Nomination Committee Organizational Principles," "Credit Risk Management Guidelines" and "Risk Management Indicators List."
 - Passed personnel assignment of the Company.
 - Passed managers' compensation.
 - Passed removal of restrictions imposed against the Company's directors for involving in competing businesses.
 - Passed the appointment of supervisors to subsidiary - "Cathay United Bank."
- (4) 13th extraordinary meeting of the 6th board of directors on June 8, 2018
- Passed senior officer shareholding policy for the Group.
 - Passed regular assessment of managers' compensation.
- (5) 9th meeting of the 6th board of directors on August 16, 2018
- Passed review of the 2018 first-half financial statements.
 - Passed renewal of the Company's credit limit with Taipei Fubon Bank, Union Bank, Taishin Bank and International Bills Finance.
 - Passed the establishment of the group "Whistleblower System," the Company's

“Compliance Training Guidelines” and current year’s training plan, and amendments to the Company’s “Compliance System Implementation Guidelines” and “Ethical Behavior Guidelines.”

- Passed the Company’s 2017 “board of directors and functional committee” internal performance evaluation.
- Passed personnel assignment and appointment of “Corporate Governance Officer.”

(6) 14th extraordinary meeting of the 6th board of directors on September 17, 2018

- Passed the issuance of senior corporate bond.
- Approved the amendments to the Company’s “Articles of Association”.

(7) 10th meeting of the 6th board of directors on November 2, 2018

- Passed review of the 2018 three-quarter financial statements.
- Passed the appointment of Deloitte Taiwan for financial and taxation certification affairs since 2019.
- Passed renewal of the Company’s credit limit with Yuanta Bank, KGI Bank, Hua Nan Bank and Ta Ching Bills Finance.
- Passed amendments to “Foreign Insurance Business Investment Procedures” of the subsidiary “Cathay Life.”
- Passed the decision to have subsidiary - “Cathay Life” participate in the investment of Srisawad Corporation Public Company Limited, a public listed company in Thailand.
- Passed the appointment of directors to subsidiary - “Cathay United Bank” and “Cathay Century Insurance,” and reappoint director for “Cathay SITE.”

(8) 15th extraordinary meeting of the 6th board of directors on January 30, 2019

- Passed renewal of the Company’s credit limit with CTBC Bank, Chang Hwa Bank, First Commercial Bank, Taiwan Cooperative Bank, Dah Chung Bills Finance and Grand Bills Finance.
- Passed the decision to have subsidiary - “Cathay Life” participate in the cash issue of “Cathay Venture.”
- Passed the establishment of “Guidelines for Assisting Employees with Duty-related Litigation” and amendments to the Company’s “Investment Management Guidelines.”
- Passed the Company’s 2018 “board of directors and functional committee” internal performance evaluation.
- Passed distribution of bonus to the Company’s managers and directors involved in business decisions.
- Passed personnel assignment of the Company.
- Passed adjustments to the title and responsibilities of Company’s “Company Secretary.”
- Passed the appointment of supervisors to subsidiary - “Cathay United Bank.”

(XIII) The main contents of important resolutions passed by the Board of Directors regarding in which directors or Supervisors have voiced differing opinions on the record or in writing, during the most recent year and up to the date of publication of this annual report:

None.

(XIV) Summary of resignation or dismissal of personnel (including the Chairman, president, financial manager, accounting manager and internal audit manager) who are involved with the Company's financial statements during the most recent year and up to the date of publication of this annual report (Table 2-3):

Title	Name	Date onboard	Date departed	Reasons for resignation or discharge
Chief Risk Officer	Po-Tsang Hsieh	2013/05/01	2018/09/14	Aged retirement

Note: Relevant personnel shall include Chairman, President, Head of Accounting, Head of Finance, Chief Internal Auditor, Head of R&D etc.

V. Professional Fees to the Independent Auditor

Range of Professional Fees to the Independent Auditor (Table 3-1)

Unit: NT\$ thousand

Accounting firm name	Names of Auditors	Audit Fee	Non-audit Fee					Audit period (Note 1)	Remarks
			Designing regulations	Business registration	Human resources	Others (Note 2)	Subtotal		
Ernst & Young	Bob Chang	7,411	--	--	--	2,080	2,080	2018/1/1~2018/12/31	1. Opinion on the Reasonableness of Expense Allocation 2. Country-by-Country Reporting 3. Translation expenses of regulations
	James Huang								

Note 1: If the CPAs or public accounting firms for the Company were replaced during the year, the duration of their audit engagement should be separately disclosed, and the reason for replacement should be explained in the remark section, and information such as audit and non-audit fees paid should be disclosed in said sequence.

Note 2: Please list non-audit fees according to service categories. If "other fees" of non-audit fees are more than 25% of non-audit fees, the service details should be disclosed in the remarks section.

VI. Information of Independent Auditor replacement (Table 3-2)

(I) Information relating to the former CPA

(2) Information relating to the former CPA

Date of reappointment	Passed during the board of directors meeting dated November 2, 2018		
Reason for reappointment	The decision to reappoint accounting firm and CPAs was made to accommodate the Group’s long-term strategies, internal management, and the world’s corporate governance trends		
Was the termination of audit services initiated by the principal or by the CPA	Parties involved Situation	Certified Public Accountant	Principal
	Service terminated by	-	Cathay Financial Holding Co., Ltd.
	Service no longer accepted (continued) by	-	-
Reasons for issuing opinions other than unqualified opinions in the recent 2 years	None		
Disagreements with the company	Yes	-	Accounting principles or practices
		-	Disclosure of financial report
		-	Scope or steps of audit
		-	Others
	None	✓	
Notes	None		
Other disclosures (Matters that shall be disclosed in Article 10, Subparagraph 6, Item 1, Point 4, of Regulations Governing the Preparation of Financial Reports by Financial Holding Companies)	None		

(II) Information relating to the succeeding CPA

Firm name	Deloitte & Touche
Names of Auditors	Cheng-Hung Ku, Li-Chi Chen
Date of reappointment	During the board of directors meeting dated November 2, 2018, a decision was made to reappoint accounting firm and CPAs starting from 2019
Inquiries and replies relating to the accounting practices or accounting principles of certain transactions, or any audit opinions the auditors were likely to issue on the financial reports prior to reappointment	None
Written disagreements from the succeeding auditor against the opinions made by the former CPA	None

(III) The reply letters on Article 10, Subparagraph 6, Item 1, and Item 2, Point 3, of Regulations Governing the Preparation of Financial Reports by Financial Holding Companies from the previous CPA:

None.

VII. The facts about the Company chairman, president, managerial officer in charge of financial or accounting affairs having served with the CPA Office or the affiliation thereof over the past year

None of the Company chairman, president, and managerial officer in charge of financial or accounting affairs has served with the CPA Office or the affiliation thereof over the past year.

VIII. Facts about the director or supervisor, managerial office, or a same person or a same affiliated enterprise having held the equity of a same financial holding corporation with voting power exceeding the specified ratio which should be declared under Article 11 of the Managerial Regulations: The facts of equity transfer and change in equity pledge (Table 4)

Facts of change in equity which should be declared as required (I)

Title (Note 1)	Name	2018		The year till February 28, 2019	
		Increase (decrease) in shares held	Increase (decrease) in the number of shares pledged	Increase (decrease) in shares held	Increase (decrease) in the number of shares pledged
Chairman	Hong-Tu Tsai	2,270,000 (Preferred Share B)	0	0	0
Vice Chairman	Tsu-Pei Chen	0	0	0	0
Juristic (corporate) person director	Chen-Sheng Industrial Co., Ltd.	0	0	0	0
Juristic (corporate) person director	Chia Yi Capital Co., Ltd.	2,336,790 (Preferred Share B)	0	0	0
Juristic (corporate) person director	Cathay Life Insurance Co., Ltd. Employees' Welfare Committee	0	0	0	0
Juristic (corporate) person director	Cathay Medical Care Corporate	0	0	0	0
Director	Cheng-Ta Tsai	(12,000,000)	2,200,000	0	0
Director	Cheng-Chiu Tsai	0	0	0	0
Director	Chi-Wei Joong	0	0	0	0
Director	Andrew Ming-Jian Kuo	0	0	0	0
Director	Tiao-Kuei Huang	12,300 (Preferred Share B)	0	0	0
Director	Chang-Ken Lee	15,000 (Preferred Share B)	0	0	0
Director	Ming-Ho Hsiung	0	0	0	0
Director	Peter V. Kwok (Discharged from the post on February 1, 2018)	0	0	(Note 3)	(Note 3)
Independent Director	Tsing-Yuan Hwang	0	0	0	0
Independent Director	Feng-Chiang Miao	0	0	0	0
Independent Director	Edward Yung Do Way	0	0	0	0
Major shareholder and the same related party	Wan Pao Development Co., Ltd.	0	(235,000,000)	0	0
Major shareholder and the same related party	Lin Yuan Investment Co., Ltd.	0	(191,000,000)	0	0
The same related party	Chia Yi Capital Co., Ltd.	0	0	0	0
The same related party	Wan Ta Investment Co., Ltd.	0	0	0	0
The same related party	Tung Chi Capital Co., Ltd.	0	0	0	0
The same related party	Lin Chi Industrial Co., Ltd.	0	0	0	0
The same related party	Weng-Chuan Lin	(3,272)	0	0	0
The same related party	Mei-Hui Wang	0	0	0	0
The same related party	Weng-Chin Lin	0	0	0	0
The same related party	Weng-Chen Lin	0	0	0	0

Title (Note 1)	Name	2018		The year till February 28, 2019	
		Increase (decrease) in shares held	Increase (decrease) in the number of shares pledged	Increase (decrease) in shares held	Increase (decrease) in the number of shares pledged
The same related party	Hsiu-Te Lin	0	0	0	0
President	Chang-Ken Lee	15,000 (Preferred Share B)	0	0	0
Chief Auditor	Chih-Jung Kung	17,000	0	0	0
Chief Financial Officer	Grace Chen	0	0	0	0
Senior Executive VP	David P. Sun	10,000 (Preferred Share B)	0	0	0
Chief Investment Officer	Sophia Cheng	6,000 (Preferred Share B)	0	0	0
Senior Executive VP	Chung-Yi Teng	191	0	0	0
Chief Information Officer	Chia-Sheng Chang	15,000 (Preferred Share B)	0	0	0
Senior Executive VP	Jian-Hsing Wu	15,000 (Preferred Share B)	0	0	0
Senior Executive VP	Tsung-Hsien Tsai	15,000 (Preferred Share B)	0	0	0
Vice President & Corporate Governance Officer	Deh-Yen Weng	4,000 (Preferred Share B)	0	0	0
Executive VP	Shu-Ying Wu	4,000 (Preferred Share B)	0	0	0
Executive VP	Ta-Ching Hung	0	0	0	0
Chief Compliance Officer	Judie Hsu	0	0	0	0
Executive VP	Ching-Yuan Kung	0	0	0	0
Executive VP	Hsiang-Hsin Tsai	4,000 (Preferred Share B)	0	0	0
Executive VP	Fu-Min Wang	914 200 (Preferred Share A) 5,000 (Preferred Share B)	0	0	0
Executive VP	Chen-Tung Chang	4,000 (Preferred Share B)	0	0	0
Executive VP	Xu-Jie Yao	3,000 (Preferred Share B)	0	0	0
Executive VP	Yu-Mei Lee	0	0	0	0
Chief Risk Officer	Ching-Lu Huang (Newly appointed on September 14, 2018)	0	0	0	0
Chief Risk Officer	Po-Tsang Hsieh (Discharged from the post on September 14, 2018)	0	0	(Note 3)	(Note 3)
Executive VP	Chao-Chi Tsai (Newly appointed on January 31, 2019)	(Note 3)	(Note 3)	0	0
Executive VP	Francis Peng (Discharged from the post on January 31, 2018)	0	0	(Note 3)	(Note 3)
Senior VP	Shan-Chih Liu	0	0	0	0
Senior VP	Huan-Chen Chang	6,000 (Preferred Share B)	0	0	0
Senior VP	Chang-Chao Liao	(6,000)	0	0	0

Title (Note 1)	Name	2018		The year till February 28, 2019	
		Increase (decrease) in shares held	Increase (decrease) in the number of shares pledged	Increase (decrease) in shares held	Increase (decrease) in the number of shares pledged
Senior VP	Shao-Ling Weng	3,000 (Preferred Share B)	0	0	0
Senior VP	Gwang-Ying She	3,000 (Preferred Share B)	0	1,000	0
Senior VP	Sheng-Hsiung Tsai	0	0	0	0
Senior VP	Chin-Chi Chen	0	0	0	0
Senior VP	Hua-Hsin Yang	3,000 (Preferred Share B)	0	0	0
Senior VP	Chin-Tang , Lu (Newly appointed on April 27, 2018)	0	0	0	0
Senior VP	Yao-Te Wang (Newly appointed on May 2, 2018)	0	0	0	0
Senior VP	Yu-Lung Huang (Discharged from the post on January 10, 2018)	0	0	(Note 3)	(Note 3)

Note 1: Any of the aforementioned personnel who fill up this Table if holding over 1% of the total shares of the financial holding corporation shall be remarked as a major shareholder and shall respectively enumerate such fact.

Note 2: In the event that the opposite party of share transfer or share pledge is a related party, please additionally fill up the following table.

Note 3: Not required to declare information of change in equity.

Note 4: In the event that the changes of shares occurring are preferred stocks, such shares are marked as (Preferred Share A) or (Preferred Share B), and those without a mark are ordinary shares.

Note 5: Since the preferred stocks issued by the Company do not contain voting rights, the changes in equity of the same person or the same concerned person in this Table do not include preferred stocks in accordance with the regulation that the calculation is made based on the total number of outstanding voting shares provided in Article 16 of Financial Holding Company Act.

Information of change in equity (II)

Name (Note 1)	Causes leading to transfer in equity (Note 2)	Date of transaction	Counterparts of transaction	The relationship between the transaction counterparts and the financial holding corporation's director, supervisor and shareholders over 10% in shareholding	Number of shares	Prices of transaction
None						

Note 1: Entries of the names of the financial holding corporation's directors and supervisors, managerial officers and those where the same person or the same related party holds the voting powers of the issued shares which exceed the ratios specified under Article 11 of the Managerial Regulations.

Note 2: Entries of acquirement or disposal.

Information of equity pledge (III)

Name (Note 1)	Causes leading to change in pledge (Note 2)	Date of change	Counterparts of transaction	The relationship between the transaction counterparts and the financial holding corporation's director, supervisor and shareholders over 10% in shareholding	Number of shares	Amount pledged (redeemed)
None						

Note 1: Entries of the names of the financial holding corporation's directors and supervisors, managerial officers and those where the same person or the same related party holds the voting powers of the issued shares which exceed the ratios specified under Article 11 of the Managerial Regulations.

Note 2: Entries of pledge or redemption.

IX. Information of Related Parties of the top ten shareholders (Table 4-1)

Name (Note 1)	Shares held by themselves		Shares held by spouses, minor children		Shareholding using other's name		Names and the relationship among the top ten shareholders in the relationship of related parties or spouses, blood relatives within the second degree of kinship. (Note 3)		Remarks
	Number of shares	Ratio of shareholding (Note 2)	Number of shares	Ratio of shareholding (Note 2)	Number of shares	Ratio of shareholding (Note 2)	Name	Relationship	
Wan Pao Development Co., Ltd. Representative: Weng-Chuan Lin	2,232,827,425	15.84%	0	0%	0	0%	Lin Yuan Investment Co., Ltd.	With the same person as the representative	
Lin Yuan Investment Co., Ltd. Representative: Weng-Chuan Lin	1,949,889,809	13.83%	0	0%	0	0%	Wan Pao Development Co., Ltd.	With the same person as the representative	
Labor Pension Fund Supervisory Committee - Labor Retirement Fund under the new system Representative: Eng-Ching Tsai	340,962,347	2.42%	0	0%	0	0%	(Note 4)		
Shin Kong Life Insurance Co., Ltd Representative: Wu, Tung Chin	267,332,422	1.90%	0	0%	0	0%	None		
Labor Insurance Fund Representative: Eng-Ching Tsai	209,072,899	1.48%	0	0%	0	0%	(Note 4)		
Nan Shan Life Insurance Company, Ltd. Representative: Y.T. Du	208,140,000	1.48%	0	0%	0	0%	None		
TransGlobe Life Insurance Inc. Representative: Teng-Te Peng	190,364,000	1.35%	0	0%	0	0%	None		
Citibank (Taiwan) as Directed Trustee For GIC-Government of Singapore	183,614,848	1.30%	0	0%	0	0%	None		
China Life Insurance Co., Ltd. Representative: Ming-Yang, Wang	159,543,000	1.13%	0	0%	0	0%	None		
Labor Pension Fund Supervisory Committee - Labor Retirement Fund under the old system Representative: Eng-Ching Tsai	145,775,596	1.03%	0	0%	0	0%	(Note 4)		

Note 1: All top ten shareholders should be enumerated in full. In case of juristic (corporate) person shareholders, the names of all such juristic (corporate) person shareholders and their representatives should be enumerated respectively.

Note 2: The shareholding ratios should be calculated based on the own names, names of spouses, minor children respectively.

Note 3: On the aforementioned shareholders, including juristic (corporate) persons and natural persons (individuals), the relationship among them should be disclosed based on the rules for financial statements of the financial holding company.

Note 4: Labor Pension Fund Supervisory Committee - Labor Retirement Fund under the new system and Labor Pension Fund Supervisory Committee - Labor Retirement Fund under the old system are with the same person as the representative.

Note 5: The calculation of the number of shares and shareholding ratio includes ordinary shares, Preferred Share A and Preferred Share B.

X. Invested businesses jointly held between the financial holding company, its directors, supervisors, managers, and enterprises directly or indirectly controlled by the financial holding company; disclose shareholding in aggregate of the above parties (Appendix 5)

Date: February 28, 2019

Unit: thousand shares; %

Invested enterprise (Note)	Held by the Company		Held by Directors, Supervisors, Managers, and Directly/Indirectly Controlled Businesses		Total Investment	
	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding
Cathay Life Insurance Co., Ltd.	5,726,527	100%	0	0	5,726,527	100%
Cathay United Bank Co., Ltd.	9,119,762	100%	0	0	9,119,762	100%
Cathay Century Insurance Co., Ltd.	305,705	100%	0	0	305,705	100%
Cathay Securities Corporation	570,009	100%	0	0	570,009	100%
Cathay Securities Investment Trust Co., Ltd.	150,000	100%	0	0	150,000	100%
Cathay Venture Inc.	335,909	100%	0	0	335,909	100%
Cathay Conning Asset Management Co., Ltd.	46,800	17.15%	226,150	82.85%	272,950	100%
Taiwan Depository and Clearing Corporation	1,499	0.40%	628	0.17%	2,127	0.57%

Note: Investees of Cathay Financial Holding Co., Ltd. and the subsidiaries.

Four. Capital Overview

I. Capital and Shares

(I) Capital Source (Table 6)

Unit: thousand shares; NT\$ thousand

Date	Issue price	Registered Capital		Total Paid-in Capital		Remarks	
		Number of shares	Amount	Number of shares	Amount	Source of Capital	Others
2001/12	None	12,000,000	120,000,000	5,838,615	58,386,157	Share swap with Cathay Life Insurance	None
2002/4	None	12,000,000	120,000,000	6,095,872	60,958,728	Share swap with Cathay Century Insurance and Cathay Bank	
2002/12	None	12,000,000	120,000,000	8,453,163	84,531,631	Share swap with United World Bank	
2003/1	None	12,000,000	120,000,000	8,307,489	83,074,891	De-capitalization due to cancellation of treasury stocks Tai-Cai-Bao-Zi No. 0920005950 (02/24/2003)	
2005/2	54.15	12,000,000	120,000,000	8,318,644	83,186,447	Corporate bond conversion	
2005/4	54.15	12,000,000	120,000,000	8,474,933	84,749,335	Corporate bond conversion	
2005/8	51.94	12,000,000	120,000,000	8,482,094	84,820,937	Corporate bond conversion	
2005/10	51.94	12,000,000	120,000,000	8,524,223	85,242,234	Corporate bond conversion	
2006/4	51.94	12,000,000	120,000,000	8,526,886	85,268,865	Corporate bond conversion	
2006/8	50.84	12,000,000	120,000,000	9,072,936	90,729,366	Corporate bond conversion and capitalization of retained earnings FSC, Jin-Guan-Yin-(6)-Zi No.09500406660 (09/21/2006), Share swap with The Lucky Bank	
2006/10	48.43	12,000,000	120,000,000	9,092,588	90,925,878	Corporate bond conversion	
2007/2	48.43	12,000,000	120,000,000	9,224,080	92,240,796	Corporate bond conversion	
2007/4	48.43	12,000,000	120,000,000	9,277,019	92,770,192	Corporate bond conversion	
2008/8	None	12,000,000	120,000,000	9,737,537	97,375,372	Capitalization of retained earnings FSC, Jin-Guan-Yin-(6)-Zi No.09700330020 (08/27/2008)	
2009/10	None	12,000,000	120,000,000	9,670,877	96,708,774	De-capitalization through cancellation of treasury shares FSC, Jin-Guan-Yin-Kong-Zi No.09800513790 (10/28/2009)	
2010/9	None	12,000,000	120,000,000	10,154,421	101,544,213	Capitalization of retained earnings FSC, Jin-Guan-Yin-Kong-Zi No.09900344130 (09/14/2010)	
2011/8	None	12,000,000	120,000,000	10,357,510	103,575,097	Capitalization of retained earnings FSC, Jin-Guan-Yin-Kong-Zi No.10000293110 (08/25/2011)	
2012/9	None	12,000,000	120,000,000	10,865,385	108,653,850	Capitalization of retained earnings FSC, Jin-Guan-Yin-Kong-Zi No.10100291270 (09/12/2012)	
2013/9	36	12,000,000	120,000,000	11,218,385	112,183,850	Cash capital increase by issuance of common stock FSC, Jin-Guan-Yin-Kong-Zi No. 10200271410 (09/26/2013)	
2013/11	None	12,000,000	120,000,000	11,964,962	119,649,620	Capitalization of retained earnings FSC, Jin-Guan-Yin-Kong-Zi No.10200327950 (11/29/2013)	
2014/8	None	18,000,000	180,000,000	12,563,210	125,632,101	Capitalization of retained earnings FSC, Jin-Guan-Yin-Kong-Zi No.10300240490 (08/20/2014)	
2016/12	60	18,000,000	180,000,000	13,396,510	133,965,101	Cash capital increase by issuance of Series A Preferred Share FSC, Jin-Guan-Zheng-Fa-Zi No.1050041628 (10/25/2016)	
2018/6	60	18,000,000	180,000,000	14,096,510	140,965,101	Cash capital increase by issuance of Series B Preferred Share FSC, Jin-Guan-Zheng-Fa-Zi No.1070313814 (5/10/2018)	

Unit: thousand shares

Share Type	Registered Capital			Remarks
	Outstanding shares	Un-issued shares	Total	
Common stock	12,563,210	3,903,490	18,000,000	Listed stocks
Series A Preferred Share	833,300			
Series B Preferred Share	700,000			

(II) Shareholder structure (Table 7)

1. Common stock

April 16, 2019

Shareholder structure Quantity	Government authorities	Financial institutions	Other juristic (corporate) persons	Individuals	Foreign institutions and juristic (corporate) persons	Total
Number of employees	21	210	1,385	400,486	1,707	403,809
Number of shares held	644,601,217	595,052,810	5,255,525,444	2,890,169,395	3,177,861,262	12,563,210,128
Ratio of shareholding(%)	5.13	4.74	41.83	23.01	25.29	100

2. Series A Preferred shares

April 16, 2019

Shareholder structure Quantity	Government authorities	Financial institutions	Other juristic (corporate) persons	Individuals	Foreign institutions and juristic (corporate) persons	Total
Number of employees	3	39	151	27,066	34	27,293
Number of shares held	59,263,000	577,250,554	154,263,716	42,241,737	280,993	833,300,000
Ratio of shareholding(%)	7.11	69.28	18.51	5.07	0.03	100

3. Series B Preferred shares

April 16, 2019

Shareholder structure Quantity	Government authorities	Financial institutions	Other juristic (corporate) persons	Individuals	Foreign institutions and juristic (corporate) persons	Total
Number of employees	6	41	201	31,622	43	31,913
Number of shares held	188,553,465	324,720,819	130,055,077	55,587,270	1,083,369	700,000,000
Ratio of shareholding(%)	26.94	46.39	18.58	7.94	0.15	100

(III) Fact of equity scattering (Table 8)

1. Common stock

At NT\$10 par value

April 16, 2019

Shareholding levels	Number of shareholders	Number of shares held	Ratio of shareholding(%)
1 to 999	155,884	37,764,101	0.30
1,000 to 5,000	163,774	363,848,798	2.90
5,001 to 10,000	38,730	284,162,324	2.26
10,001 to 15,000	15,181	188,094,560	1.50
15,001 to 20,000	8,015	143,467,339	1.14
20,001 to 30,000	7,834	193,956,994	1.54
30,001 to 50,000	6,071	237,267,116	1.89
50,001 to 100,000	4,409	307,609,761	2.45
100,001 to 200,000	1,904	260,252,509	2.07
200,001 to 400,000	857	239,192,002	1.90
400,001 to 600,000	281	137,368,439	1.09
600,001 to 800,000	151	104,537,981	0.83
800,001 to 1,000,000	88	78,735,772	0.63
Over 1,000,001	630	9,986,952,432	79.50
Total	403,809	12,563,210,128	100

2. Series A Preferred shares

At NT\$10 par value

April 16, 2019

Shareholding levels	Number of shareholders	Number of shares held	Ratio of shareholding(%)
1 to 999	19,843	3,443,888	0.41
1,000 to 5,000	6,381	11,285,184	1.35
5,001 to 10,000	500	3,714,355	0.45
10,001 to 15,000	136	1,721,717	0.21
15,001 to 20,000	94	1,682,579	0.20
20,001 to 30,000	107	2,625,224	0.32
30,001 to 50,000	57	2,326,077	0.27
50,001 to 100,000	58	4,418,823	0.53
100,001 to 200,000	29	4,550,216	0.55
200,001 to 400,000	19	5,646,000	0.68
400,001 to 600,000	10	4,817,582	0.58
600,001 to 800,000	9	6,282,000	0.75
800,001 to 1,000,000	6	5,227,000	0.63
Over 1,000,001	44	775,559,355	93.07
Total	27,293	833,300,000	100

3. Series B Preferred shares

At NT\$10 par value

April 16, 2019

Shareholding levels	Number of shareholders	Number of shares held	Ratio of shareholding(%)
1 to 999	20,515	3,142,805	0.45
1,000 to 5,000	10,527	14,801,842	2.12
5,001 to 10,000	378	2,753,059	0.39
10,001 to 15,000	134	1,696,519	0.24
15,001 to 20,000	64	1,144,916	0.16
20,001 to 30,000	51	1,292,993	0.18
30,001 to 50,000	48	1,956,023	0.28
50,001 to 100,000	69	5,376,434	0.77
100,001 to 200,000	36	5,409,054	0.77
200,001 to 400,000	26	7,500,312	1.07
400,001 to 600,000	9	4,451,992	0.64
600,001 to 800,000	3	2,056,000	0.29
800,001 to 1,000,000	11	9,400,984	1.34
Over 1,000,001	42	639,017,067	91.30
Total	31,913	700,000,000	100

(IV) List of major shareholders (Table 9)

Shares Names of major shareholders	Number of shares held	Ratio of shareholding(%)
Wan Pao Development Co., Ltd.	2,232,827,425	15.84
Lin Yuan Investment Co., Ltd.	1,949,889,809	13.83
Labor Pension Fund Supervisory Committee - Labor Retirement Fund under the new system	340,962,347	2.42
Shin Kong Life Insurance Co., Ltd	267,332,422	1.90
Labor Insurance Fund	209,072,899	1.48
Nan Shan Life Insurance Company, Ltd.	208,140,000	1.48
TransGlobe Life Insurance Inc.	190,364,000	1.35
Citibank (Taiwan) as Directed Trustee For GIC-Government of Singapore	183,614,848	1.30
China Life Insurance Co., Ltd.	159,543,000	1.13
Labor Pension Fund Supervisory Committee - Labor Retirement Fund under the old system	145,775,596	1.03

Note: Listing the names of shareholders with more than a 1% shareholding ratio (the calculation of shareholding ratio includes ordinary shares and preferred shares)

(V) Per share information (including market price, book value, earnings, share dividend) from 2016 to 2017 (Table 10)

Item \ Year		2017	2018	As of 02/28/2019
Market Share Price (Note 1)	Highest	56.20	56.80	47.25
	Lowest	46.05	45.90	43.35
	Average	49.36	52.23	44.43
Share Book Value (Note 2)	Before payout	43.7	34.05	41.37
	After payout	41.2	(Note 8)	(Note 9)
Earnings Per Share	Weighted Average No of Shares		12,563,210 (thousand shares)	12,563,210 (thousand shares)
	Earnings Per Share (Note 3)	Before Adjustment	4.47	3.95
		After Adjustment	4.47	3.95
Per Share Dividend	Cash Dividend		2.5	(Note 8)
	Stock Dividend	From Retained Earnings	0	(Note 8)
		From Special Reserve	0	(Note 8)
	Accumulated Unpaid Dividend (Note 4)		0	0
ROI Analysis	Price/Earnings Ratio (Note 5)		11.04	13.22
	Price/Dividend Ratio (Note 6)		19.74	(Note 8)
	Cash Dividend Yield (Note 7)		5.06	(Note 8)

Note 1: Please list the market share prices, including the highest, lowest and average for the year. Average market share price should be calculated by applying the turnover value and the total turnover volume for the year.

Note 2: Please use the number of the issuing shares in the year end as the base with the distribution decision resolved at the shareholders' meeting held in the following year.

Note 3: For retroactive adjustment made for stock dividends, both before and adjustments earnings per share should be disclosed.

Note 4: For securities issued with terms that entitle the holder to accumulate the unpaid dividend during the current year, for receiving in an earning-generating fiscal year, the accumulated unpaid amount shall also be disclosed.

Note 5: Price/Earnings Ratio = average share market price / earnings per share.

Note 6: Price/Dividend Ratio = average market price / cash dividends per share.

Note 7: Cash Dividend Yield = cash dividends per share / average share market price.

Note 8: Distribution for earnings in 2018 had not yet been resolved by the shareholder's meeting.

Note 9: Not applicable.

(VI) Dividend Policy and Implementation

1. Dividend policies set under the Articles of Incorporation

- (1) In order to continue the business expansion and to enhance the profit earning capability, as well as to reserve the capital needed based on the long-term financial planning for perpetual operation and stabilized development, the Company has adopted a residual dividend policy.
- (2) Surpluses concluded from a financial year are first subject to taxation and reimbursement of previous losses, followed by provision for legal reserve, provision/reversal of special reserve, and distribution of preferred dividends. The remaining balance (referred to as "Current Year Earnings" below) plus undistributed earnings carried from previous periods are available for distribution, for which the board of directors will present an earnings appropriation proposal based on the Company's operational plans and submit for approval during shareholder meeting. Dividends should be primarily paid in shares to preserve liquidity, whereas the remainder can be paid in cash; however, the sum of dividends paid shall not be less than 30% of Current Year Earnings, and the cash portion shall not be less than 10% of total dividends.

2. Distribution of dividend proposed in the current shareholders' meeting: At NT\$1.5 per share as cash dividend.

(VII) Impact to 2018 Business Performance and EPS Resulting from the Proposal of Stock Dividend Distribution Made at the Recent Shareholders' Meeting

Per the Letter of Tai-Cai-Zheng-(I)-Zi No. 00371 (02/01/2000), the Company need not disclose the impact as no 2019 financial forecast was provided.

(VIII) Remuneration of Employees, Directors and Supervisors

1. The percentage or range of remuneration to the employees, directors and supervisors are delineated under the Articles of Incorporation:

0.01% to 0.05% of profit of the current year is distributable as employees' compensation and no higher than 0.05% of profit of the current year is distributable as remuneration to directors. However, the company's accumulated losses shall have been covered.

2. The basis for estimating the amount of employee and director/supervisor remuneration, shall take into account the number of shares to be distributed as stock bonuses, and the accounting treatment of any discrepancy between the actual distributed amount and the estimated figure for the current period:

Employee remuneration was estimated based on the average amount paid in the last 3 years, the current year's profitability and the percentages outlined in the Articles of Incorporation, and accrued on a monthly basis. Meanwhile, director remuneration was estimated based on "Cathay Financial Holdings Co., Ltd., Regulations Governing Remuneration Paid to the Directors" (no provision is made in the case of after-tax loss). The estimated figure shall be accounted as an operation expense for the current fiscal year. Accounting treatment for any discrepancy between the final approved figures from the shareholders' meeting and the estimated figures shall follow the principles under the Statements of Financial Accounting Standards.

3. Remuneration distribution approved by the Board:

- (1) The remuneration amount of employees, directors and supervisors distributed in cash or shares. If there are any discrepancies between the proposed value of the employee cash/stock bonuses, and director/supervisor compensation approved by the board of directors, in relation to the estimated figures in the period where the expenses are recognized, the discrepant value, its reasons, and its status shall be disclosed: As estimated for the current term, the cash remuneration to employees would come to NT\$5,306,933 (the Company had a total of 329 employees, with NT\$ 16,130 distributed to each and every employee) and NT\$2,700,000 as remuneration to directors.
- (2) The remuneration amount of employees distributed in shares and the ratio of such amount accounting for the combined number of individual finance report net income and the total remuneration amount of employees: no remuneration of employees will be distributed in shares this fiscal year.

4. The actual distribution of employee and director/supervisor remuneration for the previous fiscal year (with an indication of the number, value and stock price of the shares distributed) shall be declared. If there is any discrepancy between the actual distribution and the recognized employee bonuses and director/supervisor compensation, the discrepancy, its cause, and its status must also be listed:

- (1) Employee remuneration: NT\$5,812,256, which tallies with the original proposal from the board meeting.
- (2) Board remuneration: NT\$2,700,000, which tallies with the original proposal from the board meeting.

(VI) Share Buyback by the Financial Holdings Company

Our company did not buy back shares of our own company in recent years.

II. Issuance of Corporate Bonds

(I) Corporate bonds outstanding or pending issuance:

Corporate bond type (Note 2)		First unsecured corporate bond for term 108-1 (Note 6)	Second unsecured corporate bond for term 108-1 (Note 6)	Third unsecured corporate bond for term 108-1 (Note 6)
Date issued		2019/5/8		
Face value		NT\$1 million		
Place of issuance and exchange (Note 3)		R.O.C.		
Issue price		100% issuance by denomination		
Total		NT\$4 billion	NT\$4 billion	NT\$12 billion
Interest rate		Fixed interest rate per annum: 0.83%	Fixed interest rate per annum: 0.93%	Fixed interest rate per annum: 1.04%
Duration		Fixed interest rate per annum: 0.83%	Fixed interest rate per annum: 0.93%	Fixed interest rate per annum: 1.04%
Priority of repayment		Senior		
Guaranteeing institution		None		
Trustee		Mega International Commercial Bank Co., Ltd.		
Underwriting institution		Cathay Securities Co., Ltd., Cathay United Bank Co., Ltd., Yuanta Securities		
Certifying attorney		Baker & McKenzie		
Certifying CPA (Note 4)		Ernst & Young		
Repayment method		Repayment of principal on due date		
Outstanding principal balance		None		
Terms for redemption or early repayment		None		
Restriction Clause (Note 5)		None		
Whether included in qualifying capital		No		
Name of credit rating organization, rating date, bond rating results		Taiwan Ratings, September 26, 2017, twAA		
Other rights of bondholders	As of the report printing date, the conversion (exchange or subscription) of regular shares, overseas depository receipts, or other negotiable securities in dollar amounts.	None		
	Issuance and conversion (traded or subscribed) regulations	None		
Possible dilution of equity and impact on equity of existing shareholders due to issuance and conversion, trading or subscription rules, or issuance terms		None		
Name of commissioned custodial institution for objects exchanged		None		

Note 1: Corporate bond handling includes publicly offered and privately raised corporate bonds. Publicly offered corporate bonds undertaken refers to those already taken effect (approved by the board); privately raised corporate bond refer to those that have passed a board resolution.

Note 2: The number of columns are subject to adjustment based on the number of actual undertakings or applications for approval.

Note 3: To be filled for those falling under overseas corporate bonds.

Note 4: Refers to the corporate bond issuance in accordance with the relevant laws and regulations and verification by a CPA that there are no CPAs involved in events listed in related regulations.

Note 5: Such as restrictions on the distribution of cash dividends, external investments, or requirement to maintain a specific asset ratio.

Note 6: For private offerings, please indicate in highlight.

Note 7: Those falling under conversion of corporate bonds, exchange of corporate bonds, general declaration of

corporate bond issuance, or bonds with attached warrant shall disclose in tabulated form conversion corporate bond data, exchange corporate bond data, general declaration of corporate bond issuance, and bonds with attached warrant.

Note 8: The balance of the corporate bonds outstanding period (terms) shall be summarized in accordance with the same approval number of the competent authority.

- (II) Corporate bonds maturing within one year: None.
- (III) Issuance of convertible bonds, exchangeable bonds or bonds with warrant that are convertible/exchangeable into common shares, global depository receipts or other securities: None.
- (IV) Offering and issuance of ordinary corporate bonds subject to aggregate reporting: None.
- (V) Private placement of corporate bonds in the last 3 years: None.

III. Issuance of Preferred Shares (Table 13)

Issuing (transaction) date		2017/1/17	
Item		(Publicly Offered Series A Preferred Share) (Note 3)	
Face value		NT\$10	
Issue price		At NT\$60 par value	
Number of shares		833,300 thousand shares	
Total		NT\$49,998,000,000	
Rights and obligations	Distribution of dividends and bonuses	Annual Interest rate of 3.8% (7-year IRS rate 1.06%+2.74% , non-accumulated)	
	Distribution of the residual property	Prior to common shares but shall not exceed the issuance amount.	
	Exercise of voting rights	Shareholders of preferred shares do not have the right to vote and to be elected, but they have the right to vote in the shareholders' meeting for preferred shares or in the shareholders' meeting that involves with the rights and obligations of shareholders of preferred shares.	
	Others	1. The Company has discretion over the dividend distribution of preferred shares. The Company may decide not to distribute dividends of preferred shares if there are no earnings in the annual accounts or the earnings are insufficient to distribute dividends of preferred shares, or the distribution of dividends of preferred shares will cause the capital adequacy ratio to be lower than the minimum requirement by laws or competent authority or other necessary consideration. The shareholders of preferred shares may not object to the decision. 2. 7-year IRS interest rate will be reset on the next day of maturity and in every seven years. The interest rate reset pricing base date is the business day of Taipei financial industry two days prior to the reset date. The interest rate index for 7-year IRS is the arithmetic mean of the 7-year interest rate exchange pricing provided by "PYTWDFIX" and "COSMOS3" of Reuters at 11:00 a.m. of the Taipei financial industry business day of the interest rate pricing base date. If the said pricing is not available on the pricing base date, the issuance institutions may determine the pricing based of the principles of good faith and reasonable market price. 3. Where the Company issues new shares for cash, shareholders of preferred stocks and common shares enjoy equal pre-emptive rights.	
Outstanding preferred shares	The number recovered or converted shares	0	
	The balance of not recovered or not converted shares	NT\$49,998,000,000	
Outstanding preferred shares	Terms for recovery or conversion	The Company may recover all or some preferred shares with the original issuance price on the date after the date of seven full years of issuance.	
Market Share Price	2018	Highest	64.90
		Lowest	61.70
		Average	63.41
	As of 02/28/2019 (Note 4)	Highest	64.00
		Lowest	63.20
		Average	63.55
Other rights of bondholders	Converted or optioned amount as of the publishing date of the annual report	Not applicable	
	Regulations Governing Issuance, Conversion or Option of Shares	Please refer to the Articles of Incorporation of the Company.	
The impact of issuance terms on the equities of shareholders of preferred shares, the possible dilution of equities, and the impact on the equities of current shareholders		None	

Issuing (transaction) date		2018/8/8	
Item		(Publicly Offered Series B Preferred Share) (Note 3)	
Face value		NT\$10	
Issue price		At NT\$60 par value	
Number of shares		700,000 thousand shares	
Total		NT\$42,000,000,000	
Rights and obligations	Distribution of dividends and bonuses	Annual Interest rate of 3.55% (7-year IRS rate 1.1675%+2.3825% , non-accumulated)	
	Distribution of the residual property	Prior to common shares but shall not exceed the issuance amount.	
	Exercise of voting rights	Shareholders of preferred shares do not have the right to vote and to be elected, but they have the right to vote in the shareholders' meeting for preferred shares or in the shareholders' meeting that involves with the rights and obligations of shareholders of preferred shares.	
	Others	1. The Company has discretion over the dividend distribution of preferred shares. The Company may decide not to distribute dividends of preferred shares if there are no earnings in the annual accounts or the earnings are insufficient to distribute dividends of preferred shares, or the distribution of dividends of preferred shares will cause the capital adequacy ratio to be lower than the minimum requirement by laws or competent authority or other necessary consideration. The shareholders of preferred shares may not object to the decision. Series B Preferred Share is non-cumulative, which means that undeclared or under-declared dividends are not accumulated and will not be deferred until the year the Company makes profit. 2. 7-year IRS interest rate will be reset on the next day of maturity and in every seven years. The interest rate reset pricing base date is the business day of Taipei financial industry two days prior to the reset date. The interest rate index for 7-year IRS is the arithmetic mean of the 7-year interest rate exchange pricing provided by "TAIFXIRS" and "COSMOS3" of Reuters at 11:00 a.m. of the Taipei financial industry business day of the interest rate pricing base date. If the said pricing is not available on the pricing base date, the issuance institutions may determine the pricing based of the principles of good faith and reasonable market price. 3. Where the Company issues new shares for cash, shareholders of preferred stocks and common shares enjoy equal pre-emptive rights.	
Outstanding preferred shares	The number recovered or converted shares	0	
	The balance of not recovered or not converted shares	NT\$42,000,000,000	
	Terms for recovery or conversion	The Company may recover all or some preferred shares with the original issuance price on the date after the date of seven full years of issuance.	
Market Share Price	2018	Highest	61.90
		Lowest	60.40
		Average	61.12
Market Share Price	As of 02/28/2019 (Note 4)	Highest	62.20
		Lowest	61.40
		Average	61.71
Other rights of bondholders	Converted or optioned amount as of the publishing date of the annual report	Not applicable	
	Regulations Governing Issuance, Conversion or Option of Shares	Please refer to the Articles of Incorporation of the Company.	
The impact of issuance terms on the equities of shareholders of preferred shares, the possible dilution of equities, and the impact on the equities of current shareholders		None	

Note 1: Status of corporate bonds, including undergoing public offering and private placement of preferred shares. The publicly offered preferred shares are those entered into effect (approved) by Financial Supervisory Commission; the privately offered preferred shares are those approved by the Board.

Note 2: The number of columns is adjusted by the number of issuances or application approvals.

Note 3: If a private offering, please indicate prominently.

Note 4: Data from the current year and before the printout date.

IV. Issuance of Global Depositary Receipts (Table 14)

Issuing (transaction) date		July 29, 2003 (Initial Issuance) (Note 4)	November 9, 2004 (Seasonal Issuance) (Note 4)	Year 2005 to April 30, 2009 (Through ECB conversion) (Note 4)
Item				
Issuance & Listing		Issuance: Europe, Asia, and the U.S.A. Listing: Luxembourg Stock Exchange		
Total Amount		US\$521,605,500	US\$494,528,116	The calculation of the number of units is based on the conversion price, ECB exchange rate, and the GDR unit converted from the ECB
Issue Price Per GDR		US\$11.63	US\$19.4	Based on the conversion price and exchange rate of the ECB
Units Issued		44,850,000 units	25,491,140 units	3,216,324 units
Underlying Securities		Common and treasury shares held by Cathay Life Insurance	Treasury shares of the Company	New common shares issued by the Company
Common Shares Represented		448,500,000 shares	254,911,400 shares	32,163,240 shares
Rights & Obligations of GDR Holders		Same as those of the common shareholders		
Trustee		The Bank of New York Mellon		
Depositary Bank		The Bank of New York Mellon		
Custodian Bank		Trust Department, Mega International Commercial Bank		
Outstanding Balance (Note 5)		7,122,630 units		
Apportionment of Expenses for Issuance & Maintenance		Issuing expenses are paid by Cathay Life Insurance and the Company. Expenses (including the listing fee, information disclosure and other fees) occurred during the listing period are covered by the Company in general.	Borne by the Company	
Terms and Conditions in the Deposit Agreement & Custody Agreement		Based on the relevant laws and regulations of the R.O.C., the GDR holders have the rights and responsibilities that are stipulated in the Deposit Agreement. The rights and responsibilities of the depository and custodian agencies are stipulated under the custody agreement.		
Closing Price Per GDR (Note 3)	2018	Highest	US\$19.16	
		Lowest	US\$14.93	
		Average	US\$17.36	
	As of 02/28/2019	Highest	US\$14.92	
		Lowest	US\$14.10	
		Average	US\$14.40	

Note 1: Corporate bonds include both public and private offerings. The publicly offered bonds are those approved by the Board. The privately offered bonds are those approved by the Board.

Note 2: The number of columns is adjusted by the number of issuances or application approvals.

Note 3: Those who have issued Global Depositary Receipts, the market closing prices for the security in the current year and before the printout date of this Report should be listed. If listed in multiple exchanges, all bourses should be shown.

Note 4: If a private offering, please indicate prominently.

Note 5: Outstanding balance as of 02/28/2019.

V. Issuance of Employee Stock Option Plan

None.

VI. Issuance of New Restricted Employee Shares

None.

VII. Merger and Acquisitions or Transfers of other Financial Institutions

(I) Financial institutions merged or acquired in the last year:

None

(II) Mergers or acquisitions of other financial institutions in the last five years:

None.

(III) Issuance of new shares for merger or acquisition of other financial institutions that the board of directors has approved in the last year, up to publication date of annual report:

None.

VIII. Implementation of the Capital Utilization Plans

(I) The Plan

■ Issue Series B Preferred Share in a Cash Capital Increase in 2018:

1. Planned use of capital: To invest into the 100%-owned subsidiary - Cathay Life Private Equity.
2. Approval date and document: Jin-Guan-Zheng-Fa-Zi No. 1070313814 (5/10/2018).
3. Total capital needed for the plan: NT\$42,000,000,000.
4. Source of Funds: Issuance of 700,000 thousand shares in a domestic cash capital increase with NT\$10 of face value per share and NT\$60 of the issuance price per share. The amount of money raised is NT\$42,000,000 thousand.
5. Planned uses of capital and the planned schedule:

Unit: NT\$ thousand

Plan Item	Planned Completed Date	Total Capital Needed	Planned use of Capital
			2018 second quarter
To invest into common shares privately placed by 100%-owned subsidiary - Cathay Life	2018 second quarter	42,000,000	42,000,000

6. Effects:

- (1) This cash issue of Series B Preferred Shares totaling NT\$42,000,000,000 is expected to strengthen the Company's capital and financial position upon completion. Based on the Company's financial figures at the end of 2017, the additional capital, once received in the second quarter of 2018, should increase group capital adequacy ratio from 141.14% to 150.52%, while at the same time lower the double leverage ratio from 107.88% to 107.37% and debt-to-equity ratio from 8.96% to 8.37%.
- (2) Furthermore, the additional capital will be entirely used to subscribe the private cash issue of common shares by the 100%-owned subsidiary - Cathay Life, which has the benefit of increasing Cathay Life's equity capital and capital adequacy ratio. Based on Cathay Life's capital adequacy ratio of 309.48% in 2017 and an issuance sum of NT\$42,000,000,000, the private cash issue is expected to increase Cathay Life's capital adequacy ratio to 338.08%.

(II) Implementation Status

The NT\$42billion cash issue of Series B Preferred Shares was completed on June 27, 2018. By February 28, 2019, the Company had fully subscribed the NT\$42billion private cash issue of Cathay Life. Execution of the capital plan is explained below:

Plan Item	Implementation Status		As of 02/28/2019	Remarks
To fully subscribe the private placement of common shares by Cathay Life	Amount used (NT\$ thousand)	Planned	42,000,000	The NT\$42billion common share private placement by Cathay Life has been fully subscribed as planned, representing 100.00% completion rate.
		Actual	42,000,000	
	Implementation Status	Planned	100.00%	
		Actual	100.00%	

Five. Overview of Operations

I. The content of business

(I) The scope of business

■ Cathay Financial Holding Co., Ltd.

1. The content of principal business:

The Company is a financial holding company and the scope of its business is limited to investment in and management of enterprises in which it has invested under the Financial Holdings Company Act. Financial holding companies may invest in the following business:

- (1) Financial holdings company
- (2) Banking
- (3) Bills finance
- (4) Credit cards
- (5) Trust
- (6) Insurance
- (7) Securities
- (8) Futures
- (9) Venture capital investment
- (10) Investment in foreign financial institutions at the approval of the competent authority
- (11) Other banking related business as recognized by the competent authority

2. Proportion:

Revenues in 2018		Amount (NT\$1,000)	Proportion (%)
Return on investment recognized under equity method	Cathay Life Insurance	\$28,828,678	53%
	Cathay United Bank	21,037,314	39%
	Cathay Century Insurance	1,509,637	3%
	Cathay Securities Corporation	461,351	1%
	Cathay Venture	187,307	-
	Cathay Securities Investment Trust	641,777	1%
	Conning Asia Pacific Limited	(14,047)	-
	Subtotal	52,652,017	97%
Other revenues		1,826,183	3%
Other expenses and loss		(310,465)	-
Total net revenues		54,167,735	100%

3. New financial products and services under planning

The main business of the Company is investment and management of investees. For information of the development of new financial products and services, please refer to the following parts of the subsidiaries.

■ Cathay Life Insurance Co., Ltd.

1. The content of principal business:

Cathay Life Insurance Co., Ltd. is a life insurer and is engaged in the sales of life insurance policies and related products.

2. Proportion:

Business type	Proportion (%)
Life insurance	65
Accidental injury insurance	2
Health insurance	13
Annuity	0
Investment-linked insurance	20
Total	100

3. New financial products and services under planning:

- (1) Product innovation: An aging population combined with longer life expectancy means that more people are living in an unhealthy state for extended periods of time. In an attempt to encourage self-motivated health management, the Company will continue introducing usage-based policies in 2019 to create a health promotion ecosystem that helps people improve their health conditions and eventually reduce the amount of medical spending to the mutual benefit of the public, the Company and society.
- (2) Customer management: The Company will undertake a series of “Customer Management and Service Enhancements” in 2019 to improve the quality of customer relations. Through data collection, modeling and statistical analysis, the Company aims to provide personalized marketing and services, deliver the ultimate customer experience that would lead to the referral of quality customers, and escalate customer management across all channels.
- (3) Digital development: The Company will continue analyzing internal and external data while at the same time observe customers’ needs so that products and services can be improved to deliver better user experience. Through more intensive digital marketing and channel development, the Company plans to extend its services across industries. More efforts will be invested into developing AI as an enhancement to existing insurance capacity and to facilitate smart applications, thereby enable the Company to provide the most comprehensive “Smart Insurance Service” in the industry.

■ Cathay United Bank Co., Ltd.

1. The content of principal business:

- (1) Consumer banking
- (2) Automatic Channel Business
- (3) Credit card
- (4) Wealth management
- (5) Trust
- (6) Corporate banking
- (7) International banking
- (8) Digital banking services
- (9) Investment and treasury marketing
- (10) Overseas operations

2. Proportion:

Business type	Proportion (%)
Corporate banking	19
Consumer banking	50
Wealth management	27
Investment and other	4
Total	100

3. New financial products and services under planning:

- (1) In light of the government's policy support for TW Pay, the Bank will actively explore innovative payment solutions not only to provide merchants with greater convenience but also to connect more financial service opportunities. In the meantime, the Bank will try to bring innovative banking into people's lifestyle by improving customer experience.
- (2) Automated service channels will have user interface and functionality optimized with biometric identification technology incorporated for better banking experience, cash flow service and overall business performance.
- (3) As for credit card, the Bank will introduce a number of customized and segmented promotional campaigns to create values from digital channels. The Bank will also work with more strategic partners to expand payment scenarios, and develop financial services that are centered on customer experience.
- (4) The Bank will make more extensive use of financial technologies as means to improve customers' experience. Additional attention will be directed towards asset allocation and investment risk management to help diversify income source and protect asset value for customers.
- (5) All overseas offices will escalate localization efforts to raise the Bank's global visibility and explore new market opportunities. For suitable strategic partners, the Bank may collaborate on a higher level through arrangements such as investment, merger and joint venture, so that the Bank may continually improve the range and quality of financial services provided to customers.

■ **Cathay Century Insurance Co., Ltd.**

1. The content of principal business:

Cathay Century Insurance is a property insurer that sells different types of insurance policies (including injury and health) and related products.

2. Proportion:

Business type	Proportion (%)
Automobile insurance	60
Fire insurance	16
Flood insurance	3
Injury health insurance	10
Casualty insurance	11
Total	100

3. New financial products and services under planning

- (1) Personal insurance
- (2) Commercial insurance
- (3) Comprehensive insurance
- (4) Special channel insurance

■ Cathay Securities Corporation

1. Main business activities

- (1) Securities underwriting
- (2) Dealing of securities on central exchange
- (3) Brokerage trading of securities on central exchange
- (4) Dealing of over-the-counter securities
- (5) Brokerage trading of over-the-counter securities
- (6) Margin financing and stock lending
- (7) Registrar and transfer services
- (8) Securities lending (except for book-entry central government bonds)
- (9) Wealth management - financial products advisory or sales services
- (10) Wealth management - conduct asset allocation for customers with trust method
- (11) Brokerage trading of foreign securities – sub-broker
- (12) Introducing futures brokering
- (13) Futures business
- (14) Securities-backed lending
- (15) Unrestricted purpose loans
- (16) Full fiduciary discretionary investment service through mandate
- (17) International securities service
- (18) Money trust, securities trust, non-discretionary money trust management, and special-purpose non-discretionary money trust management
- (19) Other securities-related business approved by the regulator

2. Proportion:

Business type	Proportion (%)
Brokerage	65
Proprietary trade	32
Underwriting	3
Total	100

3. New financial products and services under planning

- (1) Optimize current structure of institutional customers; provide foreign investors with reliable multi-product strategies and transaction services to strengthen the loyalty of institutional customers and establish the company's stature as leading researcher of certain industries.
- (2) Enhance online service experience through development of mobile App and digital branch.
- (3) The Company aims to provide customers with broader diversity of products and services from discretionary investment, unrestricted purpose loan, bilateral securities lending, asset management trust to structured instruments. Efforts will be committed to developing new financial products and services for broadened revenue source.
- (4) Launch customer service improvement measures in line with the group's service quality enhancement plan, and hence raise customers' satisfaction.

■ Cathay Securities Investment Trust Co., Ltd.

1. The content of principal business:

- (1) Securities Investment Trust
- (2) Discretionary investment
- (3) Securities investment consulting
- (4) Futures trust
- (5) Other business approved by Financial Supervisory Commission

2. Proportion:

Business type	Proportion (%)
Management fee income – mutual funds	64
Management fee income – private placement funds	-
Management fee income – futures trust funds	-
Management fee income – discretionary investment	34
Sales commission incomes	1
Service fee incomes – discretion consulting contracts	1
Total	100

3. New financial products and services under planning:

- (1) The Company will continue developing ETFs and related trading strategies that not only conform to market trends and customers' needs, but also offer long-term yields.
- (2) Given the inadequate income substitution rate of public pension schemes and deregulations that enable workers to choose the plans to invest in, the Company will continue developing target date funds that meet customers' retirement needs, and work with distribution partners to introduce investment-linked policy funds or discretionary investment solutions.
- (3) Using new financial technologies, the Company will launch simple and easy-to-understand digital services targeted at addressing the pain points of young customers, which in turn improves satisfaction and loyalty.
- (4) A more convenient and responsive online account opening system will be launched as further deregulations become available.

■ **Cathay Venture Inc.**

1. The content of principal business:

Cathay Venture is a venture capital investment firm that focuses on investing in unlisted companies with growth potential and works with its portfolio companies to help them realize their highest potential and value.

2. Proportion:

Operating income	Proportion (%)
Securities sales and investment income	97.2
Interest and other income	2.8
Total	100.0

(II) Business plan of the year

■ **Cathay Financial Holding Co., Ltd.**

External factors such as the trade war between China and US, UK's exit from EU and volatility of emerging markets have increased uncertainties and risks of the global economy. As the leading financial institution, Cathay Financial Holdings will continue monitoring market developments while maximizing values for shareholders, customers and employees. The Group shall respond to the rapid changes and intensifying competition with reliable business and management strategies. Going forward, we will prudently respond to global political and economic changes and continue to expand regional operations, develop business innovations, optimize organizational structures, and strengthen compliance. Our 2019 business plan is outlined below:

1. Gradually expand regional operations and achieve the vision of being a leading financial institution in the Asia-Pacific region:

Driven by our vision of becoming “The Best Financial Institution in Asia Pacific”, Cathay Financial Holdings will coordinate with regional offices to build a business network that spans from the Greater China Region to ASEAN markets, and bring more comprehensive range of financial services to Taiwanese enterprises and local customers around the world. By combining Taiwan’s successful experience with the support of strategic overseas partners, we aim to engage in new business activities that would bring value and profits to the shareholders.

In order to establish asset management as the third pillar for the group’s growth, the Company will continue making improvements to its product lines and management capacity, while consolidating resources from insurance and banking subsidiaries to support the asset management segment. In doing so, we shall make asset management our third profit engine.

2. New services through Fintech application:

In light of how new technologies such as big data, AI and blockchain are reshaping the financial industry, Cathay Financial Holdings has assembled a team that specializes in digital transformation, Fintech application, and data integration. This team is essential to our goal of creating a more connected and more customer-centric experience. In the meantime, the Group shall engage itself in new innovations through strategic investments, and hence keep up with market trends.

In the future, Cathay Financial Holdings will continue exploring market-leading technologies and cross-industry collaborations to create a smart banking environment that enables more depth and breadth in the services we offer. Starting from customers’ perspective, we shall begin a series of transformation to our front, mid and back-office processes and offer greater diversity, convenience and security for customers.

3. Enhanced corporate value and optimized balance sheet management:

Cathay’s corporate values are built upon the foundation of “Integrity, Accountability and Innovation”. Given the every-tightening regulatory environment, we have taken the initiative to develop a compliance culture by enforcing the compliance system, recruiting compliance personnel, and implementing enhanced compliance training. Only when compliance awareness is prevalent in every employee within the Group may we ensure the legitimacy of our business development efforts. Furthermore, challenges presented by the global political and economic environment have also prompted us to make ongoing optimizations to balance sheet management, which shall provide the foundation we need to support sustainability of Cathay Financial Holdings.

■ Cathay Life Insurance Co., Ltd.

“Digital Innovation and Service Commitment” will be the main theme of the Company’s operations in 2019.

The theme conveys a customer-centric focus, an open mindset, and ongoing innovation to insurance products and services through the use of digital technology. Digital procedures will be implemented to improve employees work efficiency and customer experience, whereas data analysis will be adopted to gain insight into customers’ needs. Driven by a protective and sustainable mindset, the Company aims to provide consultative services of the highest professionalism, efficiency and thoughtfulness.

1. Regulations and laws compliance

Actions will be taken to enhance compliance, internal audit, internal control, risk management and information security for further improvements in S&P’s corporate governance and ERM ratings. These actions will help build a compliance culture within the organization, which serves as a solid foundation for corporate governance and sustainability.

2. Business development

(1) Activate the market, expand customer reach and establish connection with customers.

- (2) Develop digital tools that enable physical channels to connect with online customers and help employees explore market opportunities.
- (3) Expand distribution channels and collaboration with external parties as means to sustain growth.
- (4) Build an inclusive organization that emphasizes on training new talents and transferring knowledge of senior staff.
- (5) Grow existing overseas markets and capitalize on emerging market opportunities, while taking steps toward becoming “The Best Financial Institution in Asia Pacific”.

3. Product development

- (1) Promote protection-oriented products while maintaining sale of investment products. Optimize product portfolio in ways that help accomplish the Company’s financial and operational targets.
- (2) Raise society’s awareness towards aging population and health promotion. Design differentiated products for different customer segments.

4. Customer service

- (1) Predict customers’ needs through data analysis, and explore improvements in service efficiency for service differentiation.
- (2) Expand application of AI-driven customer service; enhance customers’ user and interactive experience for higher referrals.
- (3) Capitalize on customer segmentation; analyze data for more precise marketing leads and product recommendations.

5. Talent development

- (1) Internal: Train talents with the versatility to accomplish multiple fields of expertise; speed up digital transformation and develop a digital business model that delivers optimal performance for the organization.
- (2) External: Develop elite brand specialists that specialize in marketing, financial advisory value-adding, and communication of the organization’s culture of positivity. Direct emphasis towards training and knowledge transfer.

■ Cathay United Bank Co., Ltd.

1. Consumer banking

- (1) Optimize customer structure and increase product penetration for key customers.
- (2) Attract new customers through the use of digital marketing tools. Raise competitiveness and customer satisfaction through broader product variety, campaigns, optimized features and work process.
- (3) Improve digital and mobile functions of existing product lines and provide customers with more convenient mobile payment tools and services in response to changes in the digital banking environment and customers’ habits. Combine digital marketing tools with products and campaigns for optimal customer experience.
- (4) Assemble an SME specialist team to work with branches on satisfying customers’ needs. Adopt a “professional, focused and localized” service model for optimal customer structure and profitability. Increase product penetration rate among customers and create value from banking relationship.
- (5) Capitalize on the extensive distribution channels of Cathay subsidiaries and coordinate group resources into providing all-round financial service for customers. Shift emphasis towards customers of high potential and products of high profit contribution; strengthen banking relationship and product penetration.

2. Automatic Channel Business

- (1) Continue increasing market share in transaction acquisition; explore diverse payment solutions

and support new payment service by collaborating with prominent merchants. Address the needs of different merchants by offering total solutions, while at the same time explore potential opportunities for other financial service.

- (2) Optimize the efficiency, user interface and functionality of automated equipment with customers' experience in mind; cooperate with distribution partners to introduce differentiated service.

3. Credit card

- (1) Utilize big data analysis to predict customers' needs and preferences, and to connect merchants with consumers. Satisfy target customers' lifestyle needs by offering a diverse range of privileges from tourism, dining, shopping, travel, recreation to entertainment, and thereby increase both the amount and market share of credit card spending.
- (2) Adopt audience analysis and decision algorithm for increased data value and better understanding of target customers' needs. Capitalize on event-driven business opportunities and associate banking service with real-life scenarios. Optimize precision marketing for strengthened relationship and loyalty from customers.
- (3) Enhance multi-channel experience and risk-based pricing of interest-bearing products. Monitor and satisfy customers' needs with suitable product combination for increased revenues.
- (4) Connect online/offline payment scenarios and merchant resources through API in light of the digital trend. Develop linked payment services and use them to attract merchants and broaden the Bank's digital customers.
- (5) Incorporate mobile banking service to deliver uninterrupted mobile payment experience, and make Cathay card the preferred brand for mobile device payment.

4. Wealth management

In light of the aging population, the Bank will combine expertise from wealth management and trust services to provide customers with total asset management solutions. The Bank will also incorporate technologies to help its expert team develop innovative digital investment services.

5. Trust

Market children's trust, insurance trust, inheritance trust, share ownership trust and real estate trust combined with other investment products as family wealth transfer solutions, and satisfy customers' needs to transfer wealth across generations.

6. Corporate banking

- (1) Improve asset quality by enhancing corporate credit assessment, increasing disclosure of credit risk; enforcing post-lending management, and enhancing customer risk management.
- (2) Design solutions based on the scale and needs of corporate customers. Integrate products and distribution channels into providing customers with more efficient and suitable service.
- (3) Promote cash management platform that spans across the Greater China Region to capitalize on the close trade relations and future deregulations on cross-border RMB service. Aim to become customers' main funding platform by providing more convenient services to corporate customers.
- (4) Develop complete range of trade financing and cash management products from customers' perspective. Promote transaction-based banking services, particularly import/export trade financing and cash management within the Greater China Region and Southeast Asia, and provide cross-border cash flow services to the needs of customers local and abroad.
- (5) Expand fundamental services such as deposit, loan, trade financing and Internet banking, and explore overseas trade financing and cross-border cash management in line with future financial deregulations. Integrate overseas branches into a cross-border service network that offers innovative, robust, complete and diverse solutions to overseas customers.
- (6) Promote GTS as a corporate banking solution, and thereby entice customers into using Cathay

accounts for daily operations. This control over customers' cash flow enables stronger loyalty and brings consistent income to the Bank.

7. International banking

Actively explore and maintain relationship with local financial peers to capitalize on the growth potentials of Asian markets. Coordinate branches toward promoting financial service, creating new commercial model, and enhancing the Bank's influence in Asia, and take steps to become a regional bank.

Grow overseas markets; enhance communication between domestic and overseas channels and create synergies from invested banks. Connect major markets in the Greater China Region and Southeast Asia; maximize cross-border advantage through product diversity and localization. Provide customers with a convenient and complete cross-border banking platform that supports the Bank's goal of becoming the best financial institution in Asia.

8. Digital banking services

- (1) Improve customers' digital experience and penetration of digital service. Observe customers' needs from a user-centric perspective, and integrate online and offline channels to deliver seamless, optimal experience over the digital platform.
- (2) Create a closely working digital ecosystem and develop whole-channel experience through the use of API.
- (3) Design products and services targeted at customers in the 20-35 age group, and create refreshing, satisfying experiences for the young generation.
- (4) Create digital channels and digital pipelines with a customer-centric focus, and aim to increase the size of customers attracted and their profit contribution.

9. Investment and treasury marketing

Create end-to-end sales coordination system between channels with a customer-centric focus. Refine existing systems and business processes, and offer viable products based on the needs of different customer segments for strengthened relationship.

10. Overseas operations

Coordinate branches throughout the Greater China Region and ASEAN to secure the foundation for overseas development. Extend service through overseas branches and create service platforms through collaboration with local strategic partners. Grow overseas businesses by offering greater product diversity as well as professional, quality and complete financial services to customers.

■ **Cathay Century Insurance Co., Ltd.**

1. Business policy

- (1) Continue digital transformation for personal insurance for more efficient service and business solicitation.
- (2) Promoting commercial insurance and increase overall revenue weight for more balanced portfolio growth.
- (3) Grow insurance agency channels and source quality business opportunities; make continual optimizations to the sales force structure.
- (4) Focus on the development of online insurance platform with optimized digital service tools; actively explore third-party online insurance services for broadened reach to digital customers, and introduce innovative products and services as the market may demand.

2. Risk management and financial investment policy

- (1) Maintain the most suitable RBC level and good repayment capacity; properly arrange reinsurance contracts, increase the volume of reinsurance contracts in order to balance business introduction and risk diversification.

- (2) Improve infrastructure for all service activities; optimize internal control and compliance systems to ensure conformity with the increasingly stringent supervisory requirements, and hence accomplish sustainability goals.
- (3) Keep abreast of political and economic developments around the world; adjust investment strategies and optimize asset allocation where appropriate for higher capital efficiency and investment performance.

3. Insurance service policy

- (1) Monitor the quality and process of services conducted at each service contact point; raise customers' satisfaction towards claims and devote attention to claims service survey results.
- (2) Refine operating procedures; utilize digital, mobile and data technologies to raise efficiency of operations and human resource.
- (3) Continue offering disaster prevention, safety and risk management service as means to increase product added value and brand recognition from customers.
- (4) Continually incorporate environmental, social and governance (ESG) values into the company's operations, and achieve corporate sustainability (CS).

4. International operations policy

- (1) Develop property insurance and reinsurance services for the OIU, which shall open the door to international opportunities and work in favor of expanding the scope of the offshore insurance unit.
- (2) Continually grow presence in the insurance market of Vietnam; expand the size of local business team to secure profits.
- (3) Combine overseas resources of the group and evaluate strategic investment opportunities overseas; expand into overseas markets through joint venture/strategic collaboration and take steps toward becoming "The Best Financial Institution in Asia Pacific".

■ Cathay Securities Corporation

1. Attract customers through implementation of total online digital platform; widen existing advantage by adopting a digital model.
2. Provide an integrated service of quality products, platforms, and activities to domestic and foreign corporations.
3. Explore strategic cooperation within and outside the organization; assemble a sub-brokerage team to secure growth momentum.
4. Introduce broader product and service variety to accommodate customers' needs and hence broaden sources of income.
5. Utilize core technologies to develop diverse products and markets and product modularization to improve operational performance.
6. Leverage group resources for underwriting and cross-selling; compete for prominent cases and grow international underwriting service.
7. Implement law compliance and strengthen risk management mechanism

■ Cathay Securities Investment Trust Co., Ltd.

1. Aim to maintain lead over peers in terms of total assets under management, and secure the 2nd place in terms of mutual funds under management.
2. Increase the size and performance of mutual fund, ETF, discretionary investment and private equity fund under management.
3. Become the best asset management expert in Asia Pacific.
4. Integrate the group's global asset management resources and expand service on an international scale.
5. Adopting innovative applications of Fintech.

■ Cathay Venture Inc.

1. Investment Strategy:

- (1) Investments into financial technology: Cathay Venture continues to accumulate investment experience in financial technology, and will direct attention towards the following areas:
 - A. Cathay Venture will invest in teams and companies that are devoted to the development of technology or business models that can be used or applied to provide innovative financial services and/or products, especially that have the potential to optimize the Group's financial service capabilities.
 - B. Invest into local teams, viable technologies and operating models in various countries, particularly services that are frequently used by consumers.
- (2) Improving investment yields: Cathay Venture has had successful experience investing in several fields, and will continue to grow and select its targets to deliver consistent returns. Some of the potential prospects include:
 - A. Manufacturers that exhibit adequate management capacity, intention to undergo IPO, and possibility of relocating due to rising labor and production costs in China and the ongoing trade war between China and USA.
 - B. Healthcare: (A). Digital Health, (B). Biotech medicine, and (C). Medical equipment.
2. Investment stage: discover quality companies with growth potentials highly recognized in capital markets in the seed stage, early stage, expansion stage and later stage, and gradually increase the amount of individual investments.
3. Investment region: The Company will focus on potential businesses in Taiwan, Southeast Asia and China, while at the same time monitor Fintech and biomedicine trends and opportunities in the U.S.

(III) Industry Overview

Although concerns toward economic recession have slightly dissipated since 2019, there remain uncertainties regarding the trade negotiation between USA and China, the U.S. fiscal budget and internal conflicts, Brexit negotiations, and China's fiscal incentives. Coupled with the ongoing slowdown of the global economy, the financial market still has yet to find its bottom and therefore requires further monitoring. Overall, the global economy should undergo soft landing this year, but financial markets may exhibit high volatility throughout the process. Review and outlook of the domestic life insurance and banking industries are presented as follows:

With regards to life insurance, the trade war between China and USA that started in the second half of 2018 combined with strengthened USD resulting from interest rate hikes in the U.S. caused a worldwide shift in capital. Increased volatility in emerging markets and developing economies eventually affected the world's major economies and Taiwan, slowing down expansion in the second half. The authority's policy support and deregulation efforts, including but not limited to incentives for design of protection-oriented insurance policy, creation of environment favorable to financial technology, ongoing support for e-commerce, and tightened risk management requirements for the insurance industry, are all favorable to the business expansion efforts of life insurance companies and may help them allocate capital at greater efficiency.

As for the banking environment, local banks as a whole achieved 0.70% return on asset and 9.31% return on net worth in 2018, while overdue loan ratio remained low at 0.24%. These results suggest that local banks have taken steps to tighten risk management amidst uncertainties in the market, and enhance compliance with local and foreign regulations as a means to mitigate impacts from the external environment. In response to ongoing changes in customers' demand, financial technologies and international banking regulations, the authority continues to encourage financial innovation and has taken the initiative to deregulate in line with global trends, which may help improve product and service innovation among local banks.

(IV) Research and Development

■ Cathay Life Insurance Co., Ltd.

1. Research and development spending in the last 2 years and the results:

- (1) The budgets on research and development in the last two years are shown in the table below:

Unit: NT\$ thousand

Year	2019 (Estimate)	2018	2017
Amount	308,066	246,996	195,091
Growth rate (%)	25%	27%	248%

- (2) Results of research and development

- A. Product innovation: The Company has been actively reacting to changes in social trends with innovative products and protections to meet the needs of different consumers. In 2018, the Company introduced Asia's first insurance policy aimed exclusively at cancer patients and helping them obtain medical protections. The Company has secured its position as the market's leading brand with its ongoing innovation, and is the only insurance company to win "Excellence Award for Product Innovation" in "Taiwan Insurance Excellence Awards" for seven consecutive years.
- B. Customer management: Customers are the foundation of sustainability, and the Company manages customer relationship with a "customer-centric" focus. Apart from targeting young and high net worth customers, the Company places equal emphasis on exploring potential customers as well as business opportunities from existing customers, and provides thoughtful service as a means to maintain sustainable customer relationship.
- C. Digital development: The Company adopted data analysis to observe customers' behavior. Online and offline service channels have been properly integrated to give customers the ability to enjoy the immediacy of the Internet and the human touch of physical branch at the same time for better digital experience. The Company is the only company in Taiwan to win AITA's "Best Insurer: Technology Award" for two years in a row, and was the only insurance company in Asia to win LIMRA's "Creative Connection Award: Silver Award". In addition, the Company collaborated with participants from different industries to introduce new forms of digital service, and organized "Cathay Walker" - a hiking event, to promote the public's health awareness.

2. Research and development plan in the future

- (1) Product innovation: An aging population combined with longer life expectancy means that more people are living in an unhealthy state for extended periods of time. In an attempt to encourage self-motivated health management, the Company will continue introducing usage-based policies in 2019 to create a health promotion ecosystem that helps people improve their health conditions and eventually reduce the amount of medical spending to the mutual benefit of the public, the Company and society.
- (2) Customer management: The company will undertake a series of "Customer Management and Service Enhancements" in 2019 to improve the quality of customer relations. Through data collection, modeling and statistical analysis, the company aims to provide personalized marketing and services, deliver the ultimate customer experience that would lead to the referral of quality customers, and escalate customer management across all channels.
- (3) Digital development: The company will continue analyzing internal and external data while at the same time observe customers' needs so that products and services can be improved to deliver better user experience. Through more intensive digital marketing and channel development, the company plans to extend its services across industries. More efforts will be

invested into developing AI as an enhancement to existing insurance capacity and to facilitate smart applications, thereby enable the company to provide the most comprehensive “Smart Insurance Service” in the industry.

■ **Cathay United Bank Co., Ltd.**

1. Research and development spending in the last 2 years and the results:

(1) The budgets on research and development in the last two years are shown in the table below:

Unit: NT\$ thousand

Year	2019 (Estimate)	2018	2017
Amount	316,156	376,710	297,277
Growth rate (%)	-16.07%	26.72%	4.47%

(2) Results of research and development

Unit: NT\$ thousand

Name of major project	Investment
Real-time decision-making (RTDM) platform	20,430
Data warehouse upgrade	44,030
Consumer banking loan system (e-Loan)	37,092
Customer contribution model	12,000
IFRS 9 and IAS	27,165
Smart customer service	20,203
Summit upgrade	16,390

2. Research and development plan in the future

Plan/project in the most recent year	Progress	Additional budget required (NT\$1,000)	Estimated time of completion	Factors critical to the success of research and development
Corporate banking eLoan + CRM	In progress (50% incomplete)	123,134	2019/12/31	Effective communication with the departments in need
Video-based service and facial recognition	In progress (80% incomplete)	46,114	2019/10/1	Analysis of recognition rate and system calibration
Investment platform project	In progress (50% incomplete)	45,100	2019/10/31	Effective communication with the departments in need
Introduction of robotic process automation (RPA)	In progress (50% incomplete)	10,734	2019/7/31	Effective communication with the departments in need
Smart counter and digital service station	Planning	41,900	2020	Analysis of customers' behavior and completeness of system feedback
Pre-processing enhancement to the core banking system	Planning	63,000	2020	System integration and optimization
Digital account opening platform - Phase 2/3	Planning	15,000	2020	Analysis of customers' behavior and completeness of system feedback

■ **Cathay Century Insurance Co., Ltd.**

1. Research and development spending in the last 2 years and the results:

(1) The budgets on research and development in the last two years are shown in the table below:

Unit: NT\$ thousand

Year	2019 (Estimate)	2018	2017
Amount	3,966	2,889	3,321
Growth rate(%)	37.3%	-13.0%	-16.8%

(2) Results of research and development

A. Digital aspect:

The Company has been actively undergoing digital and mobile transformation with respect to the services it provides. In terms of claim service, the Company launched “Auto Insurance Mobile Claim 2.0” and incorporated big data into introducing “Injury Health Insurance Smart Claim” that are estimated to reduce the work volume of claims personnel by approximately 35.0%. “Easy Go,” a mobile App for injury health insurance, was developed to speed up the rate at which injury health insurance claims are processed and simplify the workflow of service personnel. As for commercial insurance, the Company completed the development of “Commercial Insurance Quotation System” in 2018 that received a utilization rate of nearly 100% since launch. For travel insurance, the Company collaborated with EVA Air and China Airlines to introduce automatic claims on overseas flight delays.

B. Damage prevention aspect:

The Company has been applying its “damage prevention” expertise and technology to promote the public’s awareness towards prevention. A diverse range of damage prevention services including “Damage Prevention Conference,” “Accident-free Workshop,” “Accident-free Campus” and “Accident-free Rider” has been provided to policyholders over the years. The Accident-free Rider project that began in 2015 combined the Company’s automobile insurance and damage prevention expertise with industrial and academic resources into a series of innovative courses that educate students on motorcycle safety. At the end of 2017, the Company began development of “VR Danger Awareness Test” and launched an App version in early 2018 that was later adopted by schools in offshore islands in May 2018. Through the use of this App, students of Lanyu High School were able to learn the difference and complexity of traffic condition between the main island and offshore islands. By the end of 2018, a total of 67 service sessions were held to an audience size of 8,261.

C. Product aspect:

The Company submitted 118 new products for assessment in 2018. By introducing diverse and differentiated products, we aim to satisfy the needs of the public and create marketing advantages for our products. In 2018, the Company developed SME network and information security insurance to provide SMEs and individuals with access to affordable information security insurance and as a way of promoting the public’s awareness on this issue. The Company also introduced liability insurance for nursing institution, substitution fee coverage for teachers’ liability insurance, and liability insurance for childcare service providers in 2018 to offer the various professionals the peace of mind they need to carry out service activities.

D. Credit ratings and awards:

The Company's outstanding performance has earned itself an excellent credit rating of "twAA+" from Taiwan Ratings Corp., "A-" from S&P, and "A2" from Moody's. In 2018, the Company also received "Insurance Excellence Awards," "Trusted Brand Award" and "Golden Torch Award" as commendations for its performance.

2. Research and development plan in the future

- (1) The Company will continue improving the efficiency and quality of services offered through construction of data infrastructure, implementation of digital procedures, and development of AI-based applications/services, so that customers may have refreshing, reliable and valuable experience at every service contact point.
- (2) Recruit and collaborate with talents specialized in financial technology and data analysis; expand reserve talent on commercial insurance practices to enhance competitiveness and market expansion capabilities of the organization.

■ **Cathay Securities Corporation**

1. Research and development spending in the last 2 years and the results:

- (1) The budgets on research and development in the last two years are shown in the table below:

Unit: NT\$ thousand

Year	2019 (Estimate)	2018	2017
Amount	7,000	6,143	1,564
Growth rate(%)	14%	293%	24%

(2) Results of research and development

- A. Infrastructure construction: installation of TWSE Co-Lo server and upgrade of network structure.
- B. Introduced new functionalities such as bilateral securities lending, regular fixed-sum share purchase, central depository STP, mobile account passbook, and paper-less sub-brokerage account opening onto the e-commerce platform.
- C. Optimization of e-trading functions: dual-currency ETF, price notification, customized cost, and express order placement.
- D. Development of App that provides services including regular U.S. equity investment and self-managed investment.
- E. Added functionalities such as U.S. stock standing orders / strategic orders to the sub-brokerage APP; implemented API trade functions, and improved overall business competitiveness and service quality.
- F. Enhancement of mobile service platform functions: fingerprint recognition, simplified login, and AI-driven customer service.
- G. Upgrade of the IPO lottery App to version 2.0.
- H. Launch of share financing mobile platform and express loan disbursement.
- I. Implementation of online business activity dashboard.
- J. Development of brokerage system at the Hong Kong subsidiary (foreign share/bond trading and bookkeeping).
- K. Establishment of wealth management trust system.
- L. Ongoing optimization of centralized phone order placement center.
- M. Implementation of centralized account opening system for more convenient online account opening, with ongoing system optimization.
- N. Implementation of AML and CRS systems in compliance with law, and development of

proprietary ELN and CBAS systems.

- O. Upgrades in line with TWSE's new trading system: unrestricted purpose loan, foreign currency ETF, and expansion of price fields.
- P. Completed system upgrade to accommodate Taiwan Futures Exchange's new policies and after-hour trading.

2. Research and development plan in the future

- (1) Enhanced information security.
- (2) Construction of Banqiao Server Room.
- (3) System optimizations in line with TWSE: Establishment of deal-by-deal matching system and modification of price fields.
- (4) Development of sub-brokerage margin trading/financing system, sub-brokerage small-sum offshore bond e-trading service, and sub-brokerage B2B bond/share/fund order placement system to support future deregulations.
- (5) Development of regular U.S. equity investment platform.
- (6) Consolidation of passwords across securities, futures and sub-brokerage systems.
- (7) Establishment of online account opening system depending on the business development progress.
- (8) Establishment of securities account mid-office.
- (9) Functionality enhancements to the mobile service platform.
- (10) Development of online trading features (WEB/APP) for treasury trust funds.
- (11) Introduction and application of AI-driven customer service group-wide.
- (12) Data analysis and customer segmentation.
- (13) Precision marketing algorithm and platform.

■ Cathay Securities Investment Trust Co., Ltd.

1. Research and development spending in the last 2 years and the results:

- (1) The budgets on research and development in the last two years are shown in the table below:

Unit: NT\$ thousand

Year	2019 (Estimate)	2018	2017
Amount	16,690	12,630	11,680
Growth rate	32.1%	8.1%	-2.7%

- (2) Results of research and development
 - A. Establishment of AI-powered Taiwan stock selection system
 - B. Development of product and capital management system for ETF managers
 - C. Functional enhancements to ML and TF risk assessment system
 - D. Development of proprietary capital investment control system
 - E. Implementation of network load-balancing system
 - F. Gateway/e-mail APT defense

2. Research and development plan in the future

Plan in the most recent year	Progress	Additional budget required (NT\$1,000)	Estimated time of completion	Factors critical to the success of research and development
Establishment of smart investment platform	Planning (5% completed)	1,200	December 2019	Creation of a digital, AI-driven mobile investment platform targeted at young customers and people approaching retirement
Development of investment assistance system	Planning (0% completed)	10,000	December 2020	Development of a new investment assistance system that incorporates new technology and is integrated and automated to enhance operating efficiency, security and service quality
Annual information security strengthening program	Planning (0% completed)	3,440	December 2019	Server vulnerability scans, defense against DDoS attack, defense against gate-end mail and cyber attack, information security policy-making, and information security training
Online account opening - mobile version	In progress (10% completed)	900	October 2019	Simplified online account opening and bank authorization, so that Cathay United Bank customers are able to complete account opening and trade funds within the same day
Enhanced off-site backup	In progress (30% completed)	1,150	June 2019	Upgrade of off-site equipment and system structure adjustment to reduce the startup time of the off-site backup system

(V) Long and Short-term business development plan

■ Cathay Life Insurance Co., Ltd.

1. Short-term business development plan:

The insurance business environment currently faces a number of challenges involving demographic shift, market saturation, accounting standards, regulatory environment and insurance technology, for which the Company has responded with the following short-term business plans:

- (1) Adhere to the value-driven principle; increase sale of protection products to provide coverage for consumers while maintain good corporate health.
- (2) Upgrade the insurance value chain and observe customers' needs through digital innovation and service for enhanced service experience in all lifestyle scenarios.
- (3) Optimize business channels in response to social and environmental changes; maintain growth in balanced quality and quantity.

2. Long-term business development plan:

Founded more than half a century ago, the Company is currently the No. 1 life insurance brand in Taiwan. The Company has made the following long-term business plans to secure its leading advantage in the future and to become "The Best Financial Institution in Asia Pacific":

(1) Technology trends and insurance capacity

By applying the latest insurance technology, the Company aims to optimize all aspects of insurance service and facilitate digital innovation in ways that will improve operating efficiency and service quality.

(2) Customer observation and referral

The Company will observe customers' needs through data and optimize experience accordingly. Combined with more fine-tuned customer segmentation, the Company should be able to improve

customers' referral rate.

(3) Grow existing overseas markets and capitalize on business opportunities

The Company will progressively develop local business models for overseas companies while at the same time direct attention towards investment opportunities in emerging markets.

(4) Enhance corporate governance and create corporate value

Through enhanced internal control, information security and decision-making, the Company aims to develop a risk governance culture throughout the organization.

(5) The Company strives to become the leader in sustainable insurance service

By enhancing brand image, exerting social influence, contributing insurance expertise to society, and communicating with internal and external stakeholders.

■ **Cathay United Bank Co., Ltd.**

1. Short-term business development plan

(1) Consumer banking:

A. Using data mining technology, the Bank will develop a prediction model to focus on its target customers. Meanwhile, enhancements will be made to the consultation service and additional service modules will be introduced to connect customers' needs. Attention will be directed towards managing relationship with high net worth customers and introduction of integrated solutions for higher product attachment.

B. Emphasize on utilizing financial technology for precision marketing and differentiated investment service. Apply AI in investment advisory for enhanced digital experience.

C. Continue coordinating joint marketing efforts between group subsidiaries and expand customer base. Utilize the cash flow network to provide integrated financial products and services and create synergy.

D. Increase the size and contribution of quality SME customers, direct focus towards target customers, and explore business opportunities with high net worth customers. Design integrated products/services and solutions exclusive for SME customers, and improve the flexibility and convenience of operating procedures to support business promotion.

(2) Payment: Expand market share of transaction acquisition among merchants, and design new payment solutions to support the business models of different merchants. Continue optimization of user experience on automated channels from a customer-centric perspective.

(3) Credit card:

A. Explore new payment scenarios through strategic alliance; adopt digital applications for account-linked service; offer merchant privileges for enhanced user experience, which in turn increases customer loyalty and brings new customers.

B. Enhance multi-channel experience and capitalize on event-driven business opportunities; aim to satisfy customers' needs in real-time for increased credit card revenues.

C. Organize a series of Test & Learn marketing projects; enhance data value and improve data utilization for precision marketing, strengthened customer loyalty and increased profitability.

D. Apply audience analysis and decision algorithm to gain insight into target customers' needs; strengthen relationship with young and valuable customers, and build a highly loyal customer base.

(4) Trust: Combine trust service with investment products to offer protection over customers' assets, and satisfy their needs to transfer wealth or business across generations.

(5) Corporate banking: The Bank will continue expanding its primary customers and offer trade

financing, foreign currency hedging and investment as the primary services. By expanding both the breadth and depth of banking relationship, the Bank aims to increase customers' profit contribution while at the same time maintain growth momentum.

(6) International banking:

- A. Capitalize on the opportunities of converting China branches/sub-branches into full-fledged subsidiaries; expand the scope of RMB service and enhance association between investment products and cross-border banking service.
- B. Coordinate offices throughout Southeast Asia into developing business activities with distinctive, local features, and enhance collaboration between Greater China and Southeast Asian teams.
- C. In light of the challenges presented by the global political and economic environment, the Bank shall strengthen its financial position by making ongoing optimizations to balance sheet and risk management.
- D. Optimize product performance and P/L management.
- E. Establish a corporate customer service center that provides one-stop services for the optimal experience.

(7) Digital banking: Adopt a user-centric approach and integrate online with offline services for optimal digital experience.

(8) Investments and financial products:

- A. Create end-to-end sales coordination system between channels and explore active traders.
- B. Enhance KYC and KYP practices; evaluate customers' risk tolerance in greater precision and minimize risk of complaint.
- C. Review and refine transaction procedures on an ongoing basis for improved operating efficiency and reduced operational costs.

2. Long-term business development plan

(1) Consumer banking:

- A. The Bank will continue adopting a customer-centric business approach to offer more diverse financial services that suit customers' distinctive characteristics and create good overall experience. With the help of big data analysis, the Bank will be able to observe customers' needs and market products at greater precision.
- B. Actively develop digital cash flow service for increased account utilization; cooperate with third parties to bring banking service into customers' lifestyles and business operations; expand customer base and strengthen their attachment to banking service.
- C. Utilize group resources to introduce diverse products and services for different market segments; integrate manpower, sales channels and product lines into coordinated marketing efforts and create synergy in business development.
- D. Adopt the optimal asset/liability structure for improved capital efficiency and profitability.
- E. Enhance asset allocation and investment advisory services.

(2) Payment: Explore new payment solutions in line with advancements in financial technology, market trends and channels; associate automated channels with customers' needs to create new business models.

(3) Trust: Enrich the existing trust product line to accommodate customers' needs and market changes

(4) Credit card:

- A. Adopt big data analysis and digital platform as means to connect with merchants and

- consumers, and create a lifestyle ecosystem that meets the needs of merchants and consumers; increase brand value by offering differentiated services that precisely cater for the lifestyles of target customers.
- B. Master and utilize the AI technology to create business opportunities; exchange information with strategic partners for closer observation of changes in market trend and consumers' behavior, and thereby enable development of financial services that best meet customers' expectations.
 - C. Undergo active digital transformation; apply big data and mobile analyses on the vast number of credit card customers to explore hidden demands; strive to bring financial services into different scenarios and create a lifestyle banking ecosystem.
- (5) Corporate banking:
- A. Optimize service procedures, product depth and expand digital channels to provide customers the most suitable solutions with real-time support, and build the reputation needed to attract new customers into the Bank's service network.
 - B. Combine the Bank's extensive experience on syndicated loan and structured financing with its distinctive advantages in capital market to introduce localized products and services, and create synergies.
- (6) International banking:
- A. Connect branches and partner platforms local and abroad to grow trade financing and cash management services within the boundaries permitted by law. Offer convenient financial services to customers' needs while at the same time improve accessibility of capital in ways that make Cathay United Bank the preferred bank to maintain a cross-border operations account.
 - B. Develop a fully featured digital channel for deposit service and optimize customers' experience in virtual and physical channels; strengthen banking relationship with customers for increased volume of foreign currency deposits and currency exchange.
 - C. Leverage Cathay Group's local and overseas offices and business partners into creating an integrated worldwide service platform; grow cross-border banking services in the Greater China Region and Southeast Asia through financial hubs such as Hong Kong and Singapore.
 - D. Introduce an upgraded global Internet banking system that connects all overseas branches/subsidiaries for more effective offering of corporate banking products/services across borders. Make ongoing optimization to the user interface for increased customer satisfaction and attract new customers into the Bank's service network.
 - E. The Bank will be applying its extensive experience in structured corporate financing on syndicated loans. Combined with the offering of capital market products and services, the Bank will be making the best use of its advantages for the exploration of valuable corporate banking customers overseas, and implementing localized business management for greater revenue prospects.
- (7) Digital banking: Become the key service channel that customers may depend upon for transactions.
- (8) Investment and financial instruments: The Bank will be introducing broader variety of products and services and assisting channels with their sales efforts to expand customer reach. Meanwhile, enhancements will be made to the risk management platform to improve overall control of sales risk.

■ Cathay Century Insurance Co., Ltd.

1. Short-term business development plan

(1) Business strategy

- A. Invest marketing resources in line with the Group's channel development efforts; enhance resource integration with the Group by contributing expertise on asset impairment awareness and demand analysis.
- B. Recruit business personnel and improve service quality and capacity; manage external channels in ways that raise the quality of solicited businesses and the control of expenses incurred.
- C. Expand digital channels; maintain relationship with existing customers while explore business opportunities with new customers.

(2) Product strategy

- A. Provide differentiated customer service and develop unique and marketable products; design products that conform with market segmentation and increase the company's competitiveness.
- B. Grow personal and small commercial insurance products depending on the characteristics of each distribution channel; design simplified and specialized products that are easy to market.
- C. Market new commercial insurance categories such as information security insurance and cellphone insurance.

(3) Service strategy

- A. Invest into the development new service delivery over mobile devices and new information systems to accommodate consumers' shift towards digital channels; aim to improve service efficiency, quality and satisfaction.
- B. Improve the efficiency of claims and offer differentiated damage prevention services for added value and stronger brand awareness.
- C. Continually incorporate environmental protection, social prosperity and governance (ESG) into the company's operations, and achieve corporate sustainability (CS).

2. Long-term business development plan

- (1) Grow existing markets in depth and in breadth, and strive to secure position as the industry leader.
- (2) The company will aim to improve operational efficiency by seeking innovation in the services it provides, which in turn reinforces its superior brand image as customers' preferred non-life insurance company.
- (3) Align ourselves with the business development strategy of the financial holdings and march toward the goal of becoming the best property-casualty insurance company in the Asia-Pacific region.

■ Cathay Securities Corporation

1. Short-term business development plan:

- (1) Implement the "Summit Project" and explicitly state the core value of "integrity, accountability, innovation", review the quality of service and improve performance regularly, and create a positive work environment for higher performance.
- (2) Grow products/services in broader variety such as sub-brokerage, OSU, unrestricted purpose loan, regular fixed-sum equity investment, and structured instruments for more diversified revenue source.
- (3) Expand business to domestic and foreign institutional investors, provide integrated services of

quality products, platform and activities to domestic and foreign investors to increase orders placed by institutional investors.

- (4) Cultivate customers with digital thinking, promote digital marketing, and strengthen pure online service experience.
- (5) Exercise higher level of discretion when issuing options and aim to maximize profit under controlled risk. In terms of proprietary futures trading, the Company will improve arbitrage techniques to incorporate more markets, more instruments and promote product modularization for better returns.
- (6) In terms of sub-brokerage, the Company will escalate its intra-group cross-selling efforts and coordinate with subsidiaries to bring comprehensive services to institutional and high net worth customers. A cross-border team will be assembled specifically to serve institutional customers in China and Southeast Asia, and thereby sustain growth.
- (7) The company will be working with group affiliates to promote underwriting of securities for listed companies, and gradually expand international underwriting with the support of group resources.

2. Long-term business development plan:

- (1) Leverage group resources for cross-selling of securities, and achieve higher penetration rate among customers.
- (2) Search for niche business opportunities to secure diverse revenue sources; make enhancements to securities financing service and the product platform.
- (3) Explore overseas business opportunities, and expand operations into Asian markets.

■ **Cathay Securities Investment Trust Co., Ltd.**

1. Short-term business development plan

- (1) In light of the Group's policy not to issue TDF, the Company searched for alternative business opportunities and made its first-ever attempt to collaborate with parties from outside the Group (e.g. Taiwan Life) for the issuance of tiered target maturity bond fund. More than 200 training sessions have been organized in joint effort with key channels including Taiwan Life, Bank SinoPac and CTBC Bank after Chinese New Year, and the new fund is expected to commence offering in March.
- (2) The Company will be focusing on the sale of quasi-discretionary investment-linked insurance policies. In addition to marketing "Cathay MIT Multi Income Fund" through Cathay channels, the Company will also coordinate with its life insurance and banking affiliates on the sale of "Cathay VIP Multi Fixed Income Fund".
- (3) By researching an effective education and payment collection strategy, the company aims to grow regular fixed-sum investment plans in terms of market share and amount of investment per person.
- (4) Market regular fixed-sum ETF investment plans to general investors, subject to future deregulation.
- (5) Continue making refinements to the digital marketing platform, and apply it to channel services.
- (6) Appeal to the authority for life insurance employees to obtain their eligibility to sell funds with a valid investment-linked insurance license and an investment trust/consulting license.

2. Long-term business development plan

- (1) Leverage group resources and Cathay's elite asset management team to deliver consistent long-term returns in line with customers' expectations, and hence improving business performance.
- (2) Expand internal and external distribution channels, and create synergy by making efficient use of group resources.

- (3) Promote customer classification management; classify customers by level of contribution and offer differentiated services to increase purchases from high net worth customers.
- (4) Leverage the advantages and strengths of the group's overseas asset management team to refer and sell quality products to customers. Focus on growing the group's asset management service.
- (5) Continually market full fiduciary discretionary investment services to government funds and corporations.
- (6) Optimize the digital user interface and improve customers' experience and satisfaction across all product/service categories.

■ Cathay Venture Inc.

1. Short-term business development plan:

- (1) The company aims to establish relationship with customers and identify potential prospects at an early stage, and actively support investees with their growth by referring businesses from other investees and group customers. The company will also draw from the group's exceptional financial service capabilities to assist investees in their financial and business competitiveness.
- (2) Other than Taiwan, the Company will also direct attention to locations of advance financial technology, such as USA, Singapore, China, Hong Kong etc., for the latest trends and business opportunities.
- (3) Leverage group resources and connections of the venture capital subsidiary to explore and invest into financial technology companies in Southeast Asia.
- (4) Strength investment development and assessment team continuously, and work with top-performing VC/PE funds on sharing investment prospects and overseas investment opportunities.

2. Long-term business development plan:

- (1) Work alongside business partners (groups and companies) that the Company can form business alliance with on joint venture investments to the benefit of both parties. Actions will be taken to enhance investment assessment capabilities of the venture capital team, and thereby enabling the Company to acquire investment prospects from a broader number of sources.
- (2) Further explore opportunities in ASEAN countries or regions where there is strong presence of Taiwanese enterprises.
- (3) Strengthen investment teams in terms of research capacity and efficiency across different industries and regions.

II. Cross-business & Cross-selling Benefits

Cathay Financial Holdings has been actively consolidating resources across subsidiaries to reduce operating costs, raise capital efficiency, and enhance cross-selling efforts. In doing so, subsidiaries are able to share resources with each other, while the Company substantially enhances customer satisfaction and maximizes shareholder value. Cathay Financial Holdings and subsidiaries regard cross-selling as an important performance indicator. Take 2018 results as an example, 26% of Cathay Life Insurance's first-year-premium was generated from the sale of insurance products through Cathay United Bank. For credit card business, 14% of new cards issued by Cathay United Bank had come from applications submitted through Cathay Life Insurance. Moreover, Cathay Life Insurance and Cathay United Bank together contributed to 63% of Cathay Century Insurance's overall business for the period.

Cathay Financial Holdings will continuously lie in the business foundation of customer value and aim for seamless integration between channels and products to fulfill customers' personalized needs. In

terms of product development, by observing and adopting changes in the financial industry and regulatory environment around the world, we develop and introduce suitable products to our customers. In terms of distribution, we strive to create a more gratifying one-stop shopping experience for our customers through integration of marketing information and optimization of service processes. Given the trend of financial service toward scenario patterns, the company will continue working with partners of different industries to explore third-party applications and develop everyday banking. By offering brand new service experience, we hope to tighten our long-term relationship with customers.

In summary, Cathay Financial Holdings will continuously base on customer orientation mindset to raise customer value by delivering the right product/service through the right channel at the right time depending on customers' needs and preferences. Through systematic and efficient cross-selling mechanism, we expect to make better use of group resources and create higher synergy.

III. Industry and Market Overview

(I) Locations where products (services) are mainly sold (provided)

Main financial products (services)	Regional base/office
Life Insurance (including life, endowment, health/medical, annuity, accident, group, etc.)	Taiwan, Mainland China and Vietnam
Banking (deposits, loans, credit cards, foreign exchange, trusts, etc.)	Taiwan, Hong Kong, Mainland China, Singapore, Vietnam, Cambodia, Laos, Malaysia and Philippines
Non-Life Insurance (automobile, fire, flood, engineering, health, casualty and others etc.)	Taiwan and Vietnam
Securities (brokerage, proprietary trading, underwriting, financial instrument)	Taiwan and Hong Kong
Securities Investment Trust and Consulting /Asset Management	Taiwan, Hong Kong, Mainland China, Europe, United States and Japan

(II) Future market supply and demand

■ Life Insurance

1. Supply

- (1) Given the ongoing digital transformation of the financial industry, the Company will continue making improvements to its product and service models and optimize service procedures in favor of digital marketing. With proper integration of virtual and physical channels, the Company will be able to deliver higher operational efficiency and better customer experience.
- (2) Following the FSC's deregulation on new insurance products, the Company will direct its focus towards promoting insurance policies featuring health checkups and in-kind benefits. Usage-based insurance plans will also be introduced to encourage policyholders in managing their own health, and thereby shifting attention from damage compensation to early prevention.

2. Demand

Due to the aging population and low fertility rate, local citizens are expected to have increasing needs for nursing care, medical protection, and retirement planning solutions. As life expectancy extends, the Company will strive to encourage self-motivated health management and create a health promotion ecosystem that helps people improve their health conditions. Life insurance companies still have room to grow in this respect.

3. Future prospects

Cathay Life will adhere to its value of “Integrity, Accountability and Innovation” and adopt a “value-oriented” strategy that constantly strives to maximize marketing performance, management efficiency, technological capacity, and expense yields. By applying data analysis, the Company aims to observe customers’ needs, increase market share and secure market leadership with greater precision.

- (1) Continue adopting a multi-channel strategy and digital transformations to expand customer base and size of organization, while at the same time secure income and maximize yield per dollar spent.
- (2) Using big data analysis, the Company will observe customers’ experience more closely and strive to improve experience at every point of contact, and thereby generate referrals while building a reputable image among customers.
- (3) The Company will enforce its sustainable philosophy for the stability and well-being of society by contributing its financial expertise. The Company continues to adopt PSI bring visibility to Cathay Group with this international standard.
- (4) The Company will continue to incorporate accountability and innovation into its corporate culture, and develop top-down organizational awareness for the stability of its workforce. Meanwhile, enhanced compliance, internal audit, internal control and risk management practices will be adopted to shape a compliance culture within the organization.
- (5) The Company will seize business opportunities in overseas markets and explore future growth prospects in China and Vietnamese markets.

■ Banking

1. Supply

- (1) The government’s efforts at creating a digital banking environment has attracted financial institutions into developing diverse digital solutions and big data applications, all for the purpose of providing personalized and convenient service to customers. Meanwhile, deregulation of online-only banks will further intensify competition within the financial industry.
- (2) The domestic financial market is already saturated with competition, and as peers invest an increasing amount of resources into new technology, the key to success now lies in the ability to bring innovations such as AI-based investment service and how well a company manages/explores opportunities in different customer segments, such as ultra high net worth individuals and families.

2. Demand

The ongoing trade war between China and USA will undoubtedly suppress economic recovery in the coming year, causing central banks around the world to be more cautious about interest rate hikes. The low-interest environment is expected to remain, which increases investors’ demand for income. Furthermore, recent reforms of government employee annuity schemes have brought the public’s attention to retirement planning, and increased demands for protection as well as investment solutions. There is ample room for banks to grow in midst of the rising demand.

3. Future prospects

Faced with a rapidly changing market and intensifying competition, Cathay United Bank shall adhere to the rules of the competent authority while seeking more efficient use of its capital. In the meantime, the Bank will strive to gain insight into customers’ needs and coordinate resources into supporting customer segmentation, service differentiation and value-adding service, and thereby accomplish operational goals.

■ Non-life insurance

1. Supply

- (1) Due to rapid development of financial technologies, non-life insurance companies have invested actively into making services available over digital channels, and exploring new kinds of mobile service and feature to meet customers' needs for speed and diversity. These investments will help expand the size of the non-life insurance market.
- (2) The public has increasing awareness towards issues such as pollution prevention, energy/carbon reduction, renewable energy and climate change. Furthermore, construction of offshore wind farms and solar power plants presents opportunities for green energy insurance.

2. Demand

The authority has been active in promoting residential earthquake insurance and coverage for the green energy industry. It even has plans to make director/supervisor liability insurance mandatory for all TWSE/TPEX listed companies in 2019, include information security insurance as part of the Corporate Governance Evaluation, and relax the 5 main restrictions concerning online insurance application. All the above policies and measures have the potential to increase insurance demand.

3. Future prospects

Automobile insurance, a popular service in the non-life insurance market, is facing diminishing benefits from cargo tax waiver, and is unlikely to exhibit any surge in growth in the future. However, the public's rising awareness towards insurance and increased tourism activities may prove favorable to the growth of injury health insurance and other liability insurance products.

■ Securities Business

1. Supply

Due to the rise of digital service channels, the number of securities branches and active specialists continued to dwindle in 2018. According to the most recent statistics, nation-wide branch count has fallen continuously from 1,086 (peak) in 2011 to only 907, whereas the number of active securities specialists has fallen from 19,575 (peak) in 2010 to 15,289. With regards to the supply of financial instruments, the sub-brokerage trade volume increased from NT\$2 trillion in 2017 to NT\$2.2 trillion in 2018, whereas the number of listed ETFs increased from 98 to 110, and the market value of options decreased from NT\$154.7 billion to NT\$146.8 billion in the respective years. The authority made a number of deregulations in 2018, such as the permission for securities firms to issue ETN and offering of TWSE/TPEX ETFs. All of which may stimulate activities within the capital market.

In 2018, Cathay Securities continued its focus on digital service and financial product development, using online services to attract customers' requests. The Company also introduced unrestricted purpose loan as a solution to customers' short-term liquidity needs.

2. Demand

In October 2018, TAIEX set record for the longest duration above 10,000 points, while average daily trade volume had also risen to an 8-year high of NT\$164 billion. However, due to the decline of the U.S. stock market in the 4th quarter, TAIEX closed with an 8.6% loss for the year, with natural-person investors representing a smaller percentage of the trade volume at 63.4%. Taiwan's primary market, on the other hand, exhibited a slight recovery with IPO count and amount both increased compared to the last two years. IPO count totaled 60 in 2018, the highest since 2012, but the amount of capital raised was only NT\$22.1 billion, lower than the 7-year average. It is apparent that the average size of IPO has reduced. In terms of SPO, a total of 129 cases were completed in 2018, raising NT\$74.6 billion of capital that exceeded the 7-year average. The authority has relaxed

the TWSE/TPEX listing criteria and introduced a number of action plans specifically to stimulate activities in the capital market. More than 100 new companies are expected to be listed on TWSE/TPEX over the next 2 years, increasing visibility of Taiwan's stock market. Cathay Securities will continue assisting its corporate customers with their fundraising activities and at the same time bring more diverse range of financial products and investments to investors.

3. Future prospects

Cathay Securities will embrace future challenges by constantly exploring viable business opportunities in the niche market, expanding customer base, introducing complete investment solutions from around the world, and making enhancements to existing service platforms. In addition, the Company will strive to improve business performance within controlled risks.

■ Investment Trust

1. Supply

Cathay SITE has issued 26 ETFs since 2015 with overall size totaling NT\$111.3 billion by the end of 2018, representing an annual growth rate of 236% and making Cathay SITE the 2nd largest investment trust company in terms of ETF size. The Company offers an extensive variety of products including single-country equity, leveraged inverse, Smart beta and fixed income to satisfy investors' needs for diversity. In 2018, the Company launched "Cathay AI+Robo" ETF (00737), the first ETF in Taiwan that aimed to capitalize AI and robotics developments in the world. The ETF not only achieved exceptional sales, but also received 2018 Benchmark Outstanding ETF Innovation Award.

2. Demand

The government's ongoing deregulation on ETF has provided investors with wider range of instruments to choose from. Encouraging individuals to invest regularly and in ETFs will be the focus of our future efforts. Furthermore, given the public's rising awareness towards retirement planning, the Company will continue introducing related services and products to help investors save for retirement early in life.

3. Future prospects

Cathay SITE foresees a general decline of GDP growth worldwide in the first half of 2019, followed by a soft landing in the second half. The stock market should exhibit similar movements, under-performing in the first half followed by a recovery in the second half, for which the Company will respond by diversifying capital allocation across multiple regions, currencies and asset categories such as shares, bonds, funds, ETF etc. and making dynamic adjustments between equity and debt. Through diversification, Cathay SITE aims to provide investors with greater variety of instruments to choose from, and at the same time capitalize on new market trends involving retirement planning and AI.

(III) The Business Objectives of Cathay Financial Holdings

The Company remains committed to its sustainability principles and its goal to maximize values for shareholders, customers and employees. Its future strategies will still revolve around three main focuses: 1. Making asset management the 3rd profit engine with higher profit contribution; 2. Expand presence in Asia Pacific; and 3. More pro-active adoption of financial technologies. In doing so, we hope to improve our market competitiveness and become one of the best financial institutions in Asia Pacific. The Company's future operational targets are as follows:

1. **Making asset management the 3rd profit engine with higher profit contribution:** In addition to banking and insurance, Cathay Financial Group is actively developing asset management as the 3rd

profit engine. A global asset management platform connecting Cathay SITE (Taiwan), Conning (USA), Octagon (USA) and Global Evolution (Denmark) is established to provide customer-centric asset management services. Through integration of banking, insurance and asset management services, the Company plans to satisfy customers' needs at various stages in life and under any market circumstances. By the end of 2018, the Group had accumulated US\$130 billion of assets under management, owing to its continuous efforts to expand product line and improve asset management capacity. In the future, the Group will strive to develop Cathay's brand influence in asset management for improved financial performance and enhanced profit contribution.

2. **Expand presence in Asia Pacific:** Cathay Financial Holdings was the first Taiwanese financial institution to establish life insurance and non-life insurance subsidiaries in China. With the opening of Cathay United Bank's China subsidiary in September 2018, Cathay Financial Holdings will continue working with Lujiazui Financial Development Co., Ltd., its insurance joint venture, and Ant Financial Services in China to grow insurance service, and take advantage of the subsidiary bank's license to deliver the ultimate one-stop financial service experience. As for the Southeast Asian market, Cathay Financial Holdings has been expanding its presence in this growing region in recent years through branch establishment, local investment and acquisitions. The Group currently has branches in 9 ASEAN countries, and by participating in rights offer of Bank Mayapada (Indonesia) and RCBC (The Philippines) in 2018, The Group hopes to work more closely with local partners and explore opportunities in Southeast Asian markets. Cathay Financial Holdings will continue increasing profit contribution from overseas and taking progressive steps toward becoming "The Best Financial Institution in Asia Pacific".
3. **More pro-active adoption of financial technologies:** At a time when non-financial institutions have the capacity to compete against well-established financial institutions with innovative business models and technologies such as AI, blockchain and big data, Cathay Financial Holdings will respond to the rising challenges by recruiting talents and consolidating data within the Group to assemble a solid data analysis team that is capable of realizing innovative financial technology applications. New services such as "Fa" - the AI customer service officer, "Free's Loan" - a digital credit product, and "Cathay Walker - Critical Illness" - a usage-based insurance policy, and "Cathay Robo Advisor" are all creative examples of what conventional financial institutions may offer with the help of financial technology. In the future, Cathay Financial Holdings will continue exploring market-leading technologies and create a digital banking ecosystem that provides customers with more convenient and unique service experience.

(IV) Future threats and opportunities

■ Life Insurance

1. Opportunities

- (1) In light of the aging population, the government is actively encouraging industry participants to develop products that provide consumers with more comprehensive medical protection and long-term care, and thereby satisfy consumers' retirement needs.
- (2) The government continues to support insurance protections, whereas industry participants and life insurance associations alike have created dedicated sections on their websites to explain insurance protection, which helps promote products.
- (3) As insurance technologies evolve, the government has responded with a series of deregulation that encourage industry participants to develop innovative financial services and products to better satisfy customers' needs.
- (4) The competent authority continues to enforce AML requirements and enhance AML/CFT practices in every life insurance company. These actions shall raise the level of compliance

and corporate governance within the Company over time.

2. Threats

- (1) Ongoing trade disputes around the world, concerns about China's economic and financial risks and international geopolitical risks will undoubtedly undermine economic growth and financial stability, and eventually affect profitability as a life insurance company.
- (2) Although financial technologies have presented the industry with new opportunities, the removal of the intermediary may impact conventional channels, while entry of competitors from the outside will prove difficult to deal with.
- (3) Adoption of international rules (such as IFRS) will affect net worth calculation in the life insurance industry.

■ Banking

1. Opportunities

- (1) Cathay United Bank has several advantages including an extensive customer base, diverse products from the financial group, and comprehensive branch coverage that enable it to provide timely, suitable and localized financial products and services to customers.
- (2) The government is actively supporting electronic payments and offering incentives for merchants and consumers with the goal to increase usage by multiple folds. These efforts will also result in increased credit card usage.
- (3) Cathay United Bank currently operates 164 branches locally and abroad. This coverage enables it to build relationship and offer full range of financial services to local customers for additional revenues and mutual benefits.
- (4) Integration of online and offline transaction data adds value to data analysis. Exchanging information with strategic partners from different industries helps identify customers' needs at greater precision, an advantage that the Company may exploit to create differentiation and improve brand competitiveness by offering services beyond expectation.
- (5) Fintech can be used to improve convenience of the trading platform, enrich the information provided, and enhance consultative services for funds and insurance. Fintech also has the potential to integrate different services for better digital experience and added value.
- (6) The business world has grown conservative in terms of capital requirement and investment. The banking industry continues to monitor credit risks and industry changes, and aims to improve business performance by shifting focus towards asset quality and service diversity.

2. Threats

- (1) Credit cards have been used more commonly as a payment tool and less so as a financing tool in recent years, which makes commissions and fees the primary form of revenue. Furthermore, banks are promising higher levels of reward at higher costs in an attempt to appeal to customers, which undermines the profit potential of the entire industry.
- (2) Electronic payment service providers and their account linkage features present direct competition for credit card usage and young customers without credit cards.
- (3) Driven by digital innovations around the world, conventional banking services and products can no longer satisfy customers' diverse needs, and the promptness of deregulation will be critical to service innovations within the financial industry.
- (4) Banks are facing challenges from new (quasi-) financial service providers and online-only banks as recent deregulations no longer make banking an exclusively chartered business.
- (5) The competent authority's tightened control over the product-selling process will impact business development and increase compliance costs. Increasing revenues under balanced risk and compliance will prove to be a challenging task.

- (6) As domestic interest rates remain low, banks have very limited room to profit, particularly given the excessive number of highly homogeneous branches operating simultaneously. The margin on deposit and lending activities has been compressed to the point that they deliver minimum contribution to the overall performance. As a result, Taiwan's banking industry exhibits lower production value and profitability compared to its Asia Pacific counterparts.

■ Non-life insurance

1. Opportunities

- (1) Cathay Century Insurance has the support of resources, integrated marketing efforts and brand awareness of a long-established financial holding group. The Company continues to incorporate impairment and demand analyses into asset management for improved marketing results.
- (2) Cathay Century Insurance has been actively implementing transformation programs to improve distribution and claims efficiency. The Company also explores application of digital services, platforms and tools as means to improve operational efficiency and enhance customer relationship management.
- (3) As the competent authority relaxes the 5 major restrictions of online insurance application, the Company will be able to grow its digital channels at a faster rate.

2. Threats

- (1) Industry peers have been active in the consolidation of marketing resources. Recent developments such as Nan Shan Life's acquisition of AIG and Fubon Insurance's successful cross-selling efforts may close in on Cathay Century Insurance's current cross-selling advantage.
- (2) The incorporation of Hotai Insurance disrupted the auto insurance market, and intensified competition particularly with regards to auto insurance and bulk commercial insurance.
- (3) The recent rise of Fintech gave industry participants the motivation to develop innovative services and products (e.g.: instant short-term auto insurance, Fubon's social insurance patent etc.), which not only impact conventional sales channels but also intensify competition for digital service.

■ Securities Business

1. Opportunities

- (1) The Company is a pioneer in digital service, and the extension of 50%-reduction in Securities Transactions Tax to 2021 will help bring natural-person investors into the market. In addition, given the fact that the digital platform has served its purpose of diverting customers, the scope of products and services offered on the digital platform will be broadened to customers' benefit.
- (2) Local investors still have substantial demand for overseas investments, which presents room for growth in the sub-brokerage segment. The Company is the market's leading sub-brokerage service provider, connecting customers to products offered in 29 markets worldwide. It has the ability to supply the products demanded by local and foreign customers, and explore potential business opportunities that would further expand its sub-brokerage service.
- (3) As a member of Cathay Financial Holdings, Cathay Securities is able to draw on the resources of other group subsidiaries to serve securities and artificial person customers, and complement each other's products and services for higher customer satisfaction. This collaboration also creates opportunities for development and underwriting of new financial instruments.

2. Threats

- (1) Securities brokerage in Taiwan is an over-saturated and highly competitive service. The

- ever-increasing discount on commissions has severely impacted brokerage revenues.
- (2) It is necessary for Cathay Securities to respond to the challenge with a strategic focus on digital service and by competing with peers for shortened supply of digital talents.
 - (3) The Company's business scale and share capital are relatively small. This shortcoming has prevented it from undertaking certain securities services and venturing abroad.

■ Investment Trust

1. Opportunities:

- (1) Cathay SITE has the ability to consolidate asset management resources under Cathay Financial Holdings and enjoys the support of a world-class asset management team and shared knowledge from group affiliates, thus enabling Cathay SITE to deliver consistent returns over the long term and build an image that is trusted by investors.
- (2) The Company continues to introduce a wide variety of ETFs and mutual funds in response to market trends and investors' needs. It is currently the largest investment trust company in Taiwan in terms of assets under management, and 2nd largest in terms of mutual fund and ETF size.
- (3) Cathay SITE has the support of internal and external distribution channels, and is able to create synergy by making efficient use of group resources.
- (4) By holding continuous wealth management classes for customers and applying innovative payment mechanism, Cathay SITE has effectively grown fund size of systematic investment plans.
- (5) With future deregulations underway, the Company will introduce quality asset management products from overseas to expand investors' choices.

2. Threats:

- (1) The Company is required to constantly optimize and refine its wealth management system, both Internet and mobile version, to keep investors interested.
- (2) The number of investment trust companies issuing ETFs has increased continuously, which increases the cost of market-making for ETFs. Almost all prominent indices local and abroad already have an ETF replicate listed for trading in Taiwan, and industry participants are finding it harder to compete and launch new products in this environment.
- (3) The slowdown in global economic growth increases market volatility and undermines investors' confidence.
- (4) It is difficult to expand fund services to overseas given the current regulatory environment. Future deregulations may help domestic investment trust companies expand abroad.

IV. Employee Profile

■ Cathay Financial Holding Co., Ltd.

- Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year		2017	2018	As of 01/31/2019
Employees	Managers	54	58	59
	General Staff	219	271	275
	Total	273	329	334
Avg. Age		35.88	35.87	35.78
Average years of services		7.28	6.97	6.80
Education	Doctorate	1.10%	1.52%	1.80%
	Master	64.10%	60.49%	59.58%
	Bachelor	33.70%	37.08%	37.72%
	High School	0.73%	0.61%	0.60%
	Below High School	0.37%	0.30%	0.30%
Professional Certifications or Qualifications Received by Employees		See chart below		

- Certifications and Qualifications Received by Employees

Certifications and Qualifications	Exam Administrator	Number of employees
Chartered Financial Analyst (CFA)	CFA Institute (AIMR)	2
Securities investment analyst	Securities and Futures Institute	5
Financial Risk Manager (FRM)	GARP	3
Certified Internal Auditors (CIA)	The Institute of Internal Auditors-Chinese Taiwan	2
Certified Public Accountant	The Examination Yuan of R.O.C.	2
Taiwan Bar Exam	Legal Affairs Dept	3
Certified Anti-Money Laundering Specialist (CAMS)	Association of Certified Money Laundering Specialists (ACAMS)	7
China Actuary	China Association of Actuaries	1
Non-life actuaries of China	China Association of Actuaries	1
U.S. actuary exam	Society of Actuaries	8
Associate of Society of Actuaries (ASA)	Society of Actuaries	2
Actuarial assistant	Department of Insurance, Ministry of Finance	1
Administration personnel for life assurance of R.O.C.	Life Insurance Management Institute of the R.O.C.	10
Fellow of Life Management Institute (FLMI) exam	Life Office Management Association (LOMA)	19
Fellow of Life Management Institute (FLMI) certification	Life Office Management Association (LOMA)	7
Project Management Professional (PMP)	Project Management Institute	1
SAS forecast model establishment designer	SAS	1

Certifications and Qualifications	Exam Administrator	Number of employees
OCPJWCD	ORACLE	1
Certified Financial Planner (CFP)	Financial Planning Association of Taiwan (FPAT)	1
Qualification Exam for Stock Affair Specialist	Securities and Futures Institute	8
Qualification Exam for Personal Insurance Representative	The Life Insurance Association of the R.O.C.	87
Qualification Exam for Non-Investment Foreign Currency Insurance Products	The Life Insurance Association of the R.O.C.	18
Basic exam for Corporate Internal Control	Securities and Futures Institute	1
Test for Internal Control and Internal Audit of Banks	Taiwan Academy of Banking and Finance	3
Securities investment trust and consulting laws (including self-governance rules)	Securities Investment Trust & Consulting Association of The R.O.C (SITCA)	6
Investment trust and consulting specialist exam	Securities Investment Trust & Consulting Association of The R.O.C (SITCA)	1
Securities investment trust and consulting professional	Securities Investment Trust & Consulting Association of The R.O.C (SITCA)	3
Qualification Exam for Investment-orientated Insurance Product Representative	Insurance Institute of the Republic of China	14
Basic Proficiency Test for Foreign Exchange Personnel	Taiwan Academy of Banking and Finance	4
Basic Proficiency Test for Junior Credit Personnel	Taiwan Academy of Banking and Finance	2
Trust representative	Trust Association of R.O.C.	32
Qualification Exam for Non-Life Insurance Representative	The Non-Life Insurance Association of the Republic of China	23
Proficiency Test for Financial Planning Personnel	Taiwan Academy of Banking and Finance	18
Sales Personnel of Futures Trust Fund Distributor	Securities and Futures Institute	2
Qualification Exam for Futures Specialist	Securities and Futures Institute	4
Qualification Test for Sales Personnel of Structured Products	Taiwan Academy of Banking and Finance	1
Qualification Exam for Securities Specialist	Taiwan Securities Association	5
Qualification Exam for Senior Securities Specialist	Taiwan Securities Association	7

3. Continuing Professional Training Received by Employees

Item	Number of Training Received by Employees
General Management	1,124
Professional Courses	635
Auditor Continuing Training	66
2018 Total Training Expense	NTD\$8,540,924

■ Cathay Life Insurance Co., Ltd.

1. Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year			2017	2018	As of 01/31/2019
Employees	Back-Office Personnel	Managers (Note 1)	409	402	404
		General Staff	4,600	4,609	4,619
	Front-Office Personnel	Managers (Note 2)	3,236	3,355	3,355
		General Staff	22,801	23,648	23,777
	Total		31,046	32,014	32,155
Avg. Age			43.69	43.70	43.70
Average years of services			11.96	12.00	12.02
Education	Doctorate		0.03%	0.02%	0.02%
	Master		7.12%	7.32%	7.35%
	Bachelor		48.71%	50.23%	50.29%
	High School		40.71%	39.30%	39.22%
	Below High School		3.43%	3.13%	3.12%
Professional Certifications or Qualifications Received by Employees			See chart below		

Note 1: Back-end management refers to managers of vice president grade and above, assistant vice presidents, managers, customer service deputy managers and regional assistant vice presidents, but excludes specialists.

Note 2: Frontline management refers to head of business unit, head of business promotion and regional chief, but excludes trainers.

2. Certifications and Qualifications Received by Employees

Certifications and Qualifications	Exam Administrator	Number of employees
Qualification Exam for Securities Investment Analyst	Securities and Futures Institute	98
Qualification Exam for Securities Specialist	Securities and Futures Institute	143
Qualification Exam for Senior Securities Specialist	Securities and Futures Institute	162
Qualification Exam for Futures Specialist	Securities and Futures Institute	157
Futures Trading Analyst	Securities and Futures Institute	2
Qualification Exam for Securities Investment Trust and Consulting Professional	Securities and Futures Institute	140
Qualification Exam for Securities Investment Trust and Consulting Regulations	Securities and Futures Institute	3468
Qualification Exam for Stock Affair Specialist	Securities and Futures Institute	7
Professional Capacity of Bonds Specialist	Securities and Futures Institute	12

Certifications and Qualifications	Exam Administrator	Number of employees
Sales Personnel of Futures Trust Fund Distributor	Securities and Futures Institute	1221
Basic exam for Corporate Internal Control	Securities and Futures Institute	23
Proficiency Test for Financial Planning Personnel	Taiwan Academy of Banking and Finance	2039
Basic Proficiency Test for Junior Credit Personnel	Taiwan Academy of Banking and Finance	106
Basic Proficiency Test for Foreign Exchange Personnel	Taiwan Academy of Banking and Finance	12
Qualification Test for Sales Personnel of Structured Products	Taiwan Academy of Banking and Finance	31
Test for Internal Control and Internal Audit of Banks	Taiwan Academy of Banking and Finance	324
Qualification Exam for Personal Insurance Representative	The Life Insurance Association of the R.O.C.	26987
Qualification Exam for Non-Investment Foreign Currency Insurance Products	The Life Insurance Association of the R.O.C.	26372
Insurance Assessor for Life Insurance	Life Insurance Management Institute of the R.O.C.	703
Claim Adjuster for Life Insurance	Life Insurance Management Institute of the R.O.C.	729
Non-life insurance underwriter/claims adjuster exam	The Non-Life Underwriters Society of The Republic of China	0
Qualification Exam for Non-Life Insurance Representative	The Non-Life Insurance Association of the R.O.C.	10125
Proficiency Test for Trust Operations Personnel	Trust Association of R.O.C.	4955
Qualification Exam for Investment-orientated Insurance Product Representative	Insurance Institute of the Republic of China	20889
Insured service certification - life insurance	Insurance Institute of the Republic of China	1959
Insured service certification - property insurance	Insurance Institute of the Republic of China	1
Certified Public Accountant	The Examination Yuan of R.O.C.	14
Architect	The Examination Yuan of R.O.C.	2
Fire Protection Engineer	The Examination Yuan of R.O.C.	1
Real Estate Appraiser	The Examination Yuan of R.O.C.	9
Taiwan Bar Exam	The Examination Yuan of R.O.C.	12
Structural Engineer	The Examination Yuan of R.O.C.	0
Hydraulic Engineer	The Examination Yuan of R.O.C.	0
Civil Engineer	The Examination Yuan of R.O.C.	0
Fellow, Life Management Institute (FLMI)	Life Office Management Association (LOMA)	116
Chartered Financial Analyst (CFA)	CFA Institute	22
Financial Risk Manager (FRM)	GARP	15
The Associate, Life and Health Claims (ALHC)	International Claim Association	6
Fellow of The Institute of Actuaries of Japan	The Institute of Actuaries of Japan	1
Fellow of the Society of Actuaries	Society of Actuaries	4
Associate of the Society of Actuaries	Society of Actuaries	44

Certifications and Qualifications	Exam Administrator	Number of employees
Administration Personnel for Life Insurance	Life Insurance Management Institute R.O.C.	49
Fellow of The Actuarial Institute of R.O.C.	The Actuarial Institute of the R.O.C.	10
Associate of The Actuarial Institute of R.O.C.	The Actuarial Institute of the R.O.C.	29
Non-life actuaries of China	China Association of Actuaries	0
Non-life preliminary actuaries of China	China Association of Actuaries	0
Associate actuary of casualty insurance in the US	Casualty Actuarial Society (CAS)	0
Certified Internal Auditors (CIA)	Institute of Internal Auditors (IIA)	13
Certified Information Systems Auditor (CISA)	Information Systems Audit and Control Association (ISACA)	4
Certified Financial Planner (CFP)	Financial Planning Association of Taiwan (FPAT)	273
A member of Royal Institution of Chartered Surveyors (RICS)	RICS	21
Project Management Professional (PMP)	Project management institute	21
Certified Public Accountant (CPA)	American Institute of Certified Public Accountants	0
Certified Anti-Money Laundering Specialist (CAMS)	ACAMS	3
SAS basic programming designer	SAS Institute	3
Oracle Certified Master, Java SE 6 Developer(OCMJD)	ORACLE	1
Oracle Certified Professional, Java EE 5 Web Component Developer(OCPJWCD)	ORACLE	29
Oracle Certified Professional, Java EE 5 Business Component Developer(OCPJBCD)	ORACLE	1
Certified Information System Security Professional(ISC) ² (CISSP)	CISCO	2
IBM Certified System Administrator –AIX6.1 series and above (CSA)	IBM	12
IBM Certified Application Developer–DB2 Universal Database V8.1 series and above (CAD)	IBM	5
IBM Certified Advanced Database Administrator –DB2 Universal Database V8.1 series and above for Linux, Unix and Windows (CADA)	IBM	4
Professional Scrum Master(PSM)	Scrum.org	1
CISM, Certified Information Security Manager	ISACA	1

3. Continuing Professional Training Received by Employees

Item	Number of Training Received by Employees
General Management	6,608
Professional Courses	368,466
Auditor Continuing Training	124
2018 Total Training Expense	NTD\$561,530,331

■ **Cathay United Bank Co., Ltd.**

1. Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year		2017	2018	As of 01/31/2019
Employees	Managers	843	913	981
	General Staff	9,626	9,832	9,801
	Total	10,469	10,745	10,782
Avg. Age		36.39	37.34	37.38
Average years of services		8.33	8.60	8.66
Education	Doctorate	0.09%	0.17%	0.16%
	Master	17.94%	18.55%	18.55%
	Bachelor	76.86%	77.13%	77.14%
	High School	5.07%	4.13%	4.13%
	Below High School	0.04%	0.02%	0.02%
Professional Certifications or Qualifications Received by Employees		See chart below		

Note: Includes domestic permanent personnel, marketing specialists and locally hired overseas employees.

2. Certifications and Qualifications Received by Employees

Certifications and Qualifications	Exam Administrator	Number of employees
Proficiency Test for Financial Planning Personnel	Taiwan Academy of Banking and Finance	1,689
Basic Proficiency Test for Junior Credit Personnel	Taiwan Academy of Banking and Finance	3,444
Basic Proficiency Test for Bank Internal Controls	Taiwan Academy of Banking and Finance	7,106
Basic Proficiency Test for Foreign Exchange Personnel	Taiwan Academy of Banking and Finance	2,845
Qualification Exam for Personal Insurance Representative	The Life Insurance Association of the R.O.C.	6,795
Qualification Exam for Non-Life Insurance Representative	The Non-Life Insurance Association of the R.O.C.	6,767
Proficiency Test for Trust Operations Personnel	Trust Association of R.O.C.	6,460
Qualification Exam for Investment-orientated Insurance Product Representative	Insurance Institute of the Republic of China	3,234
Real Estate Appraiser	The Examination Yuan of R.O.C.	2
Taiwan Bar Exam	The Examination Yuan of R.O.C.	4
Certified Public Accountant	The Examination Yuan of R.O.C.	9
Certified Internal Auditors (CIA)	The Institute of Internal Auditors-Chinese Taiwan	13
Financial Risk Manager (FRM)	GARP	29
Chartered Financial Analyst (CFA)	CFA Institute	25
Certified Anti-Money Laundering Specialist (CAMS)	Association of Certified Money Laundering Specialists (ACAMS)	21

Certifications and Qualifications	Exam Administrator	Number of employees
Certified Financial Service Auditor(CFSA)	The Institute of Internal Auditors	7
Project Management Professional (PMP)	Project Management Institute	60
Certified Financial Planner (CFP)	Financial Planning Association of Taiwan	129
Certified Information Systems Auditor (CISA)	Information Systems Audit and Control Association (ISACA)	5

3. Continuing Professional Training Received by Employees

Item	Number of Training Received by Employees
General Management	2,505
Professional Courses	25,611
Auditor Continuing Training	59
2018 Total Training Expense	NTD\$86,448,318

■

■ Cathay Century Insurance Co., Ltd.

1. Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year			2017	2018	As of 01/31/2019
Employees	Back-Office Personnel	Managers	169	178	174
		General Staff	1,527	1,573	1,578
	Front-Office Personnel	Managers	3	1	1
		General Staff	367	369	376
	Total		2,066	2,121	2,129
Avg. Age			38.28	38.74	38.78
Average years of services			9.08	9.50	9.50
Education	Doctorate		0.05%	0.05%	0.05%
	Master		11.96%	12.54%	12.54%
	Bachelor		77.78%	77.79%	77.83%
	High School		10.07%	9.48%	9.44%
	Below High School		0.14%	0.14%	0.14%
Professional Certifications or Qualifications Received by Employees			See chart below		

2. Certifications and Qualifications Received by Employees

Certifications and Qualifications	Exam Administrator	Number of employees
Chartered Financial Analyst (CFA)	CFA Institute	3
Financial Risk Manager (FRM)	GARP	2
Investment-linked product exam	Insurance Institute of the Republic of China	45
Insured service certification - life insurance	Insurance Institute of the Republic of China	2
Insured service certification - property insurance	Insurance Institute of the Republic of China	154
Proficiency Test for Trust Operations Personnel	Trust Association of R.O.C.	113
Associate of The Actuarial Institute of R.O.C.	The Actuarial Institute of the R.O.C.	6
Fellow of The Actuarial Institute of R.O.C.	The Actuarial Institute of the R.O.C.	3
Non-life actuaries of China	China Association of Actuaries	1
Associate actuary of casualty insurance in the US	Society of Actuaries	3
Associate actuary of life insurance in the US	Society of Actuaries	4
Fellow of Life Management Institute (FLMI) exam	Life Office Management Association (LOMA)	2
Chartered Financial Analyst (CFA)	CFA Institute	3
Project Management Professional (PMP)	Project management institute	9
Certified Anti-Money Laundering Specialist (CAMS)	Association of Certified Money Laundering Specialists (ACAMS)	4
Administration personnel for life assurance of R.O.C.	Life Insurance Management Institute of the R.O.C.	1
Insurance Assessor for Life Insurance	Life Insurance Management Institute of the R.O.C.	38
Claim Adjuster for Life Insurance	Life Insurance Management Institute of the R.O.C.	28
Non-life insurance underwriter/claims adjuster exam	The Non-Life Underwriters Society of The Republic of China	573
Chartered Property & Casualty Underwriters (CPCU)	CPCU Taiwan	8
Basic Proficiency Test for Foreign Exchange Personnel	Taiwan Academy of Banking and Finance	4
Basic Proficiency Test for Junior Credit Personnel	Taiwan Academy of Banking and Finance	27
Proficiency Test for Financial Planning Personnel	Taiwan Academy of Banking and Finance	35
Qualification Test for Sales Personnel of Structured Products	Taiwan Academy of Banking and Finance	6
Qualification Exam for Non-Life Insurance Representative	The Non-Life Insurance Association of the R.O.C.	1659
Qualification Exam for Personal Insurance Representative	The Life Insurance Association of the R.O.C.	1560
Basic exam for Corporate Internal Control	Securities and Futures Institute	2
Sales Personnel of Futures Trust Fund Distributor	Securities and Futures Institute	2
Structural Engineer	The Examination Yuan of R.O.C.	1
Hydraulic Engineer	The Examination Yuan of R.O.C.	1
Civil Engineer	The Examination Yuan of R.O.C.	1
Certified Public Accountant	The Examination Yuan of R.O.C.	1
Taiwan Bar Exam	Legal Affairs Dept	2

3. Continuing Professional Training Received by Employees

Item	Number of Training Received by Employees
General Management	525
Professional Courses	10,638
Auditor Continuing Training	49
2018 Total Training Expense	NTD\$23,347,702

■ Cathay Securities Corporation

- Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year		2017	2018	As of 01/31/2019
Employees	Managers	51	53	50
	General Staff	596	601	601
	Total	647	654	651
Avg. Age		40.8	40.92	41.02
Average years of services		4.96	5.16	5.26
Education	Doctorate	0.15%	0.15%	0.15%
	Master	26.74%	25.23%	25.04%
	Bachelor	68.63%	70.03%	70.20%
	High School	4.48%	4.59%	4.61%
	Below High School	0.00%	0.00%	0.00%
Professional Certifications or Qualifications Received by Employees		See chart below		

- Certifications and Qualifications Received by Employees

Certifications and Qualifications	Exam Administrator	Number of employees
Qualification Exam for Securities Specialist	Securities and Futures Institute	96
Qualification Exam for Senior Securities Specialist	Securities and Futures Institute	407
Qualification Exam for Futures Specialist	Securities and Futures Institute	320

- Continuing Professional Training Received by Employees

Item	Number of Training Received by Employees
General Management	160
Professional Courses	1,521
Auditor Continuing Training	86
2018 Total Training Expense	NTD\$6,400,788

■ **Cathay Securities Investment Trust Co., Ltd.**

1. Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year		2017	2018	As of 01/31/2019
Employees	Managers	44	44	43
	General Staff	222	233	240
	Total	266	277	283
Avg. Age		41.6	41.1	41.7
Average years of services		7.43	7.7	7.7
Education	Doctorate	0.00%	0.36%	0.35%
	Master	48.87%	50.54%	50.53%
	Bachelor	48.87%	47.3%	47.35%
	High School	2.26%	1.8%	1.77%
	Below High School	0.00%	0.00%	0.00%
Professional Certifications or Qualifications Received by Employees		See chart below		

2. Certifications and Qualifications Received by Employees

Certifications and Qualifications	Exam Administrator	Number of employees
Qualification Exam for Senior Securities Specialist	Securities and Futures Institute	158
Qualification Exam for Securities Specialist	Securities and Futures Institute	60
Qualification Exam for Securities Investment Trust and Consulting Professional	Securities and Futures Institute	146
Qualification Exam for Securities Investment Trust and Consulting Regulations	Securities and Futures Institute	70
Proficiency Test for Trust Operations Personnel	Taiwan Academy of Banking and Finance	144
Qualification Exam for Futures Specialist	Securities and Futures Institute	156
Futures Trading Analyst	Securities and Futures Institute	6
Securities investment analyst	Securities and Futures Institute	18
Chartered Financial Analyst (CFA)	Association for Investment Management and Research (AIMR)	14
Certified Financial Planner (CFP)	Taiwan Academy of Banking and Finance	1
Certified Internal Auditor, R.O.C. (CIA)	The Institute of Internal Auditors-Chinese Taiwan	1
Financial Risk Manager (FRM)	Global Association Of Risk Professionals (GARP)	2
Financial Knowledge and Ethics Exam	Securities and Futures Institute	173
Certified Public Accountant	American Institute of Certified Public Accountants	1

3. Continuing Professional Training Received by Employees

Item	Number of Training Received by Employees
General Management	323
Professional Courses	2,769
Auditor Continuing Training	6
2018 Total Training Expense	NTD\$4,497,104

■ Cathay Venture Inc.

- Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year		2017	2018	As of 01/31/2019
Employees	Managers	6	6	6
	General Staff	11	12	12
	Total	17	18	18
Avg. Age		40.35	43.67	43.76
Average years of services		5.40	6.20	6.29
Education	Doctorate	0.00%	0.00%	0.00%
	Master	82.35%	83.33%	83.33%
	Bachelor	17.65%	16.67%	16.67%
	High School	0.00%	0.00%	0.00%
	Below High School	0.00%	0.00%	0.00%
Professional Certifications or Qualifications Received by Employees		See chart below		

- Certifications and Qualifications Received by Employees

Certifications and Qualifications	Exam Administrator	Number of employees
Certified Public Accountant	The Examination Yuan of R.O.C.	1
Qualification Exam for Securities Investment Analyst	Securities and Futures Institute	1
Qualification Exam for Securities Specialist	Securities and Futures Institute	6
Qualification Exam for Senior Securities Specialist	Securities and Futures Institute	7
Qualification Exam for Securities Investment Trust and Consulting Professional	Securities and Futures Institute	5
Qualification Exam for Securities Investment Trust and Consulting Regulations	Securities and Futures Institute	3
Exam for Professional Capacity of Bonds Specialist	Securities and Futures Institute	2
Qualification Exam for Futures Specialist	Securities and Futures Institute	3
Proficiency Test for Trust Operations Personnel	Trust Association of R.O.C.	2
Qualification Exam for Investment-orientated Insurance Product Representative	Insurance Institute of the Republic of China	1

Certifications and Qualifications	Exam Administrator	Number of employees
Qualification Exam for Non-Life Insurance Representative	The Non-Life Insurance Association of the R.O.C.	1
Qualification Exam for Personal Insurance Representative	The Life Insurance Association of the R.O.C.	3
Proficiency Test for Financial Planning Personnel	Taiwan Academy of Banking and Finance	2
Qualification Test for Sales Personnel of Structured Products	Taiwan Academy of Banking and Finance	1
Chartered Financial Analyst (CFA)	CFA Institute	1
Financial Risk Manager (FRM)	GARP	1
Fellow, Life Management Institute (FLMI)	Life Office Management Association (LOMA)	2

3. Continuing Professional Training Received by Employees

Item	Number of Training Received by Employees
General Management	15
Auditor Continuing Training	2
2018 Total Training Expense	NTD\$2,734

V. Corporate responsibility and moral conduct

■ Cathay Life Insurance Co., Ltd.

Cathay Life encourages employees to apply their “people value” not only to provide insurance service, but resolve social and environmental problems as well. The Company fulfills its social responsibilities by envisioning itself as the force that stabilizes society and protects homes:

1. Arts and culture:

- (1) The Company sponsored “Cloud Gate Dance Theatre performances” in organizing 2 outdoor public performances, 12 campus performances, and 12 performances in China. A total of 800 volunteers had participated and the performances were viewed by 90,000 people.
- (2) The Company organized a series of events titled “Lin Yuan Life Plaza”. 50 volunteers and 2,000 had participated over a total of 8 sessions.
- (3) Organizing “Nation-wide Children’s Drawing Contest”, which received more than 85,000 entries.

2. Sports promotion:

- (1) To promote basketball sport, the Company organized 10 events in collaboration with NBA that attracted attention from nearly 100,000 people, sponsored Jeremy Lin Basketball Camp in 10 events that attracted participation from approximately 2,500 people, sponsored maintenance of basketball courts at 4 tertiary institutions, and sponsored 12 institutions in organizing basketball games.
- (2) To promote baseball sport, the Company sponsored Wei-Yin Chen Baseball Camp in 4 events that attracted 3,100 participants, sponsored Tzu-Wei Lin Baseball Camp in 4 events that attracted 250 participants, and organized 2 MLB events that attracted approximately 3,500 participants.

3. Care for new immigrant families: A series of events including “New Immigrant Offspring Training Program,” “English/Vietnamese Language Camp,” “Diverse Intelligence Course,” and “Online Training Course” were organized to help immigrant offspring learn and develop their dual-culture advantage as well as self-confidence.

4. Children's care:

- (1) The Company organized the 5th "Cathay Children's Dream Come True Program" in which 16 remotely located elementary schools were selected to receive more than NT\$3 million in donations, thereby helping passionate teachers inspire their students to embrace their dreams. In addition, a 4-day-3-night "Cathay Children's Development Camp" was held during the summer vacation to expand children's global vision.
- (2) The Company supported "Teach For Taiwan" in training multi-talented young instructors who are passionate about teaching in schools located in remote areas such as Hualien, Yunlin, Tainan and Taitung, and thus creating a balanced education environment.
- (3) The Company subsidized "after-school care" for 6 schools located in Dongshan District, Tainan City, and Keliao Village, Kouhu Township, Yunlin County, to make up for the shortage of learning and household resources. The program benefited more than 300 junior high school and elementary school students.

5. Care for young students:

- (1) The Company organized "Cathay Scholarship" to provide support for top-performing high school/vocational high school students, students with exceptional contributions, and students involved in public projects or specialized research, who are from financially disadvantaged families. The scholarship amounted to a total of NT\$7.4 million and benefited a total of 79 winning teams.
- (2) The Company organized 10 events in relation to the "Student and Inmate Care Program," which extended care to nearly 6,000 high school/vocational school students and inmates.
- (3) The Company subsidized charity clubs from 67 tertiary institutions nationwide and encouraged college students to commit to community services in remote areas during summer and winter breaks.
- (4) The Company sponsored the anti-drug tour of "H.D.A". from Chungyu University of Film and Arts between March and April. The tour covered 10 junior and senior high schools located in Taichung and Changhua, and each performance received participation from more than 1,000 students.
- (5) The Company collaborated with K-12 Education Administration, Ministry of Education, to launch a "Sustainable Campus Project" where members of the student group insurance service team were assigned to elementary, junior high, and senior high schools nationwide to speak on 4 sustainability issues: anti-drug, environmental protection, campus safety, and investment/insurance. This program has so far reached more than 16,000 people.

6. Promotion of micro insurance:

Cathay Life has been active in the promotion of micro insurance. By the end of 2018, Cathay Life had underwritten micro insurance and provided basic coverage to more than 190,000 disadvantaged people.

7. Other charity activities:

- (1) The Company organized a series of "Cathay Charity Coach" events, which brought magic performance to remote towns throughout Taiwan. Over a course of 8 sessions, a total of 160 volunteers were involved and 8,000 people participated.
- (2) The Company mobilized "Lin Yuan Volunteer Group" to visit, care for and support 394 disadvantaged families, and paid approximately NT\$2.08 million of subsidies during the process. The volunteer group was also mobilized to assist with the disaster relief in Hualien and support local charity events.
- (3) The Company held a "Summer Blood Donation" event and deployed 297 donation booths

nationwide. A total of 33,602 people responded to the cause and donated 48,699 bags of blood.

- (4) The Company joined Eden Social Welfare Foundation, YMCA Taichung and YMCA Kaohsiung to organize 3 “Environmental Protection Auctions”. More than 14,000 participated and a sum of NT\$3.76 million was raised.
- (5) The Company organized the “Giving Winter Warmth” event where employees’ donations were turned into winter wear and distributed by Cathay Volunteers to 86 remotely located elementary schools nationwide to the benefit of more than 6,000 children.
- (6) On 422 Earth Day, the Company organized a coastal cleanup event involving 22 office locations nationwide. Cathay Volunteers invited their family members, customers, suppliers, local schools and social welfare organizations to support the cause, and together they cleared out 11,000 kg of waste.

Cathay Volunteers collaborated with local community and non-profit organizations to organize 5 tree plantation and bitter vine removal events in Yunlin, Nantou, Chiayi, Tainan and Yilan.

■ Cathay United Bank Co., Ltd.

- (I) The Bank was the first in the industry to contribute to the field of art, starting with the establishment of Cathay United Bank Foundation in 1980 followed by the founding of Cathay United Art Center in 2000. Driven by its mission to “give back to society,” the Bank has since been active in charitable causes including offering of study aid, charity sponsorship, cultural/arts performance, and consignment charity. The Bank is highly committed in fulfilling corporate social responsibilities. It organizes charity events through Cathay United Bank Foundation, and a list of major events organized by the Foundation in 2018 is presented as follows:

1. “Elevated Tree Program — Grow A Big Tree From A Shoot” series:

- (1) Elevated Tree Program Scholarship:
In April and October, the Foundation made 2 donations under the Elevated Tree Program for a total of NT\$10,970,000. These donations were intended to cover tuition fees for students from financially disadvantaged families and those who fell victim to tragic events. Donations were made to 847 elementary and junior high schools in Hsinchu County, Miaoli County, Changhua County, Yunlin County, Chiayi County, Taitung County and Yilan County to a total of 7,626 beneficiaries. Since the program first started in 2004, more than NT\$156 million in donations have been made to the benefit of nearly 100,000 children. Cathay United Bank Chu Lai Branch, too, has responded to the Program and introduced its own “Elevated Tree Program - Vietnam” since 2008. In 2018, the Foundation extended its support across borders by donating NT\$1 million in scholarship to a total of 1,005 beneficiaries.
- (2) Donating coats in collaboration with Ever Shine Y&F and Ever Shine I&F:
Ever Shine Y&F and Ever Shine I&F are two of the world’s top-20 suppliers of fabric materials, and are two very important customers to Cathay United Bank. Ever Shine Y&F Chairman Johnny Shen and Ever Shine I&F Chairman Sally Yeh had sponsored the “Elevated Tree Program” through action, donating nearly 4,500 winter coats to students in remote locations in 2018.
- (3) Elevated Tree Program Lectures:
14 lectures were held in Taipei City, Taichung City and Taitung County to an audience size of nearly 3,000. Since the Program first began in 2008, more than 160 lecture sessions have been held to an audience size of more than 20,000.
- (4) Love Without Barriers:
In order to fully preserve the contents of “Elevated Tree Lectures”, the Foundation published

the 6th volume of “Love Without Barriers”, which features a collection of knowledge verbally communicated by experts and scholars of parental education. 12,500 copies of the publication were printed and placed at Cathay United Bank branches where customers and the general public may access free of charge. A total of 87,500 copies have been printed to date since the first publication was made in 2013.

2. Art and cultural events:

(1) Art exhibitions at Cathay United Art Center:

In an attempt to promote art and charity, Cathay United Art Center invited numerous artists to hold exhibitions and seminars in 2018, and arranged “Elevated Tree Program - Philanthropist Artists Exhibition” in October where non-professional artists were invited to showcase their artworks. The venue was also used to display winning pieces from Cathay Arts Festival - New Century Potential Painting Exhibition. A total of 7 art exhibitions and 4 artist seminars were held during the year. The art center provides the public with a comfortable space to learn about art free of charge.

(2) “Art Talk Lectures” held at Cathay United Art Center:

The 2018 “Art Talk Lectures” placed greater emphasis on art history and sharing of practical experiences from real artists, including introduction to artist’s/painter’s ordinary day. Through these lectures, we hope to help the public appreciate art, participate in cultural activities, and find spiritual satisfaction through art.

(3) Charity auction of specially designed calendar:

In 2018, Cathay United Art Center created a calendar that comprised artworks of 12 artists including Yin-Hui Chen. Through this calendar, the art center hoped to bring colors and excitement to the public in the coming year, and help people appreciate the wonders of art. The art center also designed publications, albums and calendars in relation to the “Elevated Tree Program - Philanthropist Artists Exhibition,” and auctioned them to raise proceeds for socially disadvantaged students and spread acts of kindness in society.

3. Sponsored events:

The Bank supported Bunun Cultural and Educational Foundation’s “Jabuticaba Industrialization” - a fruit farming project that not only provides local indigenous people with the means to become self-sustainable, but also generates income to finance English education for tribal children and teenagers and connect them with the world. In an attempt to support persons with disabilities that prevent them from competing in the job market, the Bank made actual purchases of handmade cookies and merchandises from “Taoyuan Sheltered Workshop - Eden Bakery & Cafe” of “Eden Social Welfare Foundation,” “Workshop with Happiness” of “Syin-Lu Social Welfare Foundation” and “Xingfu Shop” of “Taiwan Fund for Children and Families,” and distributed them in various events or consigned charity organized by Cathay United Bank Foundation. Apart from the above, the Bank also sponsored: “The 81st Tai Yang Art Exhibition” by Tai Yang Art Society, “The 42nd National Oil Painting Competition and Exhibition” by The Oil Art Society of The Republic of China, “I’m 20” by Down Syndrome Foundation R.O.C., “Fitness Support Program” by Happy Mount, performance of Puzangalan Children’s Choir at “The 1st Tokyo International Choir Competition,” and co-arranged “Mid-autumn Charity Auction” with UBS Group.

4. Charity events co-sponsored with group affiliates:

The Bank participated in “Cathay Scholarship,” “Teach For Taiwan (TFT),” “Cathay Children’s Development Camp,” “New Immigrant Offspring After-school Care,” “Giving Winter Warmth” and “Eden Charity Auction”, and was involved in the preparation of Cathay Charity Group annual report. The diverse activities and services mentioned above are a good indication of the Bank’s

commitment in charity and social responsibilities. In the future, the Foundation will continue to support charity events of all kinds so that love and warmth can be spread to all corners of the society.

- (II) To support the government's policies of helping social enterprises grow and obtain the required funding, Cathay United Bank collaborated with Taipei City Government on the launch of "Social Enterprise Financing Program" and invited Small and Medium Enterprise Credit Guarantee Fund to provide guarantee on low-interest loans for borrowers that met the required eligibility criteria. By leveraging the strength of the government, non-profit organizations and the business world, the Bank hoped to introduce a financial platform in favor of social enterprises. Since the program started in April 2017, the Bank has lent to 6 social enterprises for a sum of NT\$29.5 million, and supported their efforts toward caring for the socially disadvantaged and fostering a sustainable environment. Cathay United Bank pays constant attention to society's needs and movements, and was the first in the industry to apply its expertise into introducing "Social Enterprise Financing Program". This initiative was intended to provide liquidity for social enterprises in Taiwan and create a better commercial environment where they may thrive and realize their visions of an inclusive society.
- (III) The Bank's credit cards have been designed with the function to store electronic invoices, and cardholders are constantly being encouraged to receive statements and terms and conditions in electronic form as part of the Bank's goal towards paperless process for the protection of the environment. The Bank also organizes donation campaigns as a way to fulfill its social responsibilities. The following is a summary of main credit card campaigns organized in 2017:
- (1) High Speed Rail (HSR) redemption privilege: When purchasing HSR tickets in the "Credit Card Promotions" section of the official website or over counter, cardholders may choose to spend 5,600 reward points for an upgrade to Business Car, available in limited quantities. This privilege has been offered as an incentive for using public transport, and therefore reduce pollution from motorcycles and cars. In 2018, cardholders converted a total of 300 million reward points for Taiwan High Speed Rail business class upgrades (with an equivalent value of NT\$20 million), representing approximately 10% annual growth.
 - (2) Credit card online donation: Cardholders can make donations to 44 partnered charity organizations using credit card. The ability to make credit card donations online without leaving home serves as a great incentive for cardholders. In 2018, Cathay cardholders donated a total of NT\$350 million using credit card to partnered charity organizations.
 - (3) Reward point online donation: The Bank currently works with 21 charity organizations to accept online donations in the form of credit card reward points. From the website of each charity organization, cardholders may specify to donate NT\$60 for every 1,000 reward points held. Up to 100% of the current reward point balance can be redeemed to offset the amount of donation specified (balance after redemption of reward point can be charged to Cathay United Bank credit card). In 2018, cardholders made a total of 451 donations with reward points; these transactions involved 3.76 million reward point conversions (equivalent to NT\$226,000) and NT\$297,000 of donations being charged to credit cards for a sum of NT\$553,000.
 - (4) Reward point fax donation: The Bank currently works with 11 charity organizations to enable reward point donation over fax. In 2018, a total of 507 reward point donations were made over fax for a sum of 4.72 million points (equivalent to NT\$283,000).
- (IV) The Bank initiated a computer recycling program in 2017, where internal departments were instructed to take count of impaired workstations, monitors and laptop computers and donate them to ASUS Foundation for refurbishment. Cathay United Bank Foundation then submitted requests for refurbished computers from ASUS Foundation to donate them to remotely located schools or disadvantaged groups long-sponsored by Cathay United Bank Foundation. This process not only avoids wastage, but also helps reduce the digital divide of remotely located schools and the socially disadvantaged. A total of 1,127 computers were donated in 2018.

- (V) The Bank organized “Cathay DIY Environmental Protection Carnival” that aimed to raise the public’s awareness towards reducing usage of water and plastic items through games.
- (VI) By engaging children in environmental protection, it is the Bank’s belief that preservation of Earth’s environment best begins with the young. Cathay Financial Holdings organized the 422 Costal Cleanup where the Company and its subsidiaries were mobilized on 4/22 to clean up 22 coastal areas throughout Taiwan. More than 7,000 people had participated in this event, during which they cleared out 11 tons of garbage in total.
- (VII) Below is a summary of main health promotion events the Bank had organized in 2018:
1. Cathay Financial Group organized a “Weight Loss Program” to promote healthy lifestyle, proper exercise habits, and healthy diet, and thereby improve health and energy of its employees. The Bank’s employees achieved a total weight loss of 4.1 tons, for which the financial holding company made a donation of NT\$2 million to charity causes.
 2. The Bank organized the “2018 Cathay United Parental Engagement” event along with a series of interactive courses and parenting lectures to help employees understand better the growth of their children. The Bank also hosted its 2nd baby crawling contest to help babies develop hand-eye coordination, balance and brain function, while at the same time promoting parental interaction and making the workplace friendly to employees with child. The event received a total of 864 participants.
 3. The Bank organized “2018 Blood Donation” event and invited participation from employees, customers and the general public. In addition to the health benefits (such as increased metabolism), participants also received exquisite concessions prepared by the Bank. A total of 8 sessions were held in northern, central and southern Taiwan, all of which received overwhelming responses from the local community, and resulted in 1,336 bags of donated blood. This event not only inspired compassion among the community and businesses, but also raised the public’s awareness towards health, charity and social engagement.
 4. The Bank organized 3 “HSR Tours” during the year and invited employees to take their families on a light trip so that they may return to work fully charged. A total of 4,168 enrollments were received, and 562 people won the HSR concession tickets prepared by the Bank. Through these activities, the Bank hopes to promote work-life balance of its employees.
 5. The Bank supported influenza vaccination and worked with public health service centers in organizing 9 mobile healthcare events. A total of 1,268 employees had taken the influenza vaccine.
 6. The Bank organized a “Pampered Mommy” event, in which childbirth gifts were offered to employees and nurses were invited to evaluate health and conduct seminars for pregnant employees, thereby promoting a healthy workplace.
- (VIII) In 2018, the Bank continued working with major merchants to expand mobile payment application through innovative technologies, and helped merchants expand the scope of their business and revenues. The Bank recognizes innovation as part of its mission, and supports the government’s effort in promoting electronic payments. We strive to incorporate our corporate social responsibility and quality values into the products and services we offer, and apply innovations to create new values.

■ Cathay Century Insurance Co., Ltd.

1. The company works with Cathay Financial Group in charity and makes donations as part of its citizen duty. Its efforts included:
 - (1) Arts and culture: Cloud Gate Dance Theatre, Nation-wide children's drawing contest and New Century Potential Painting Exhibition.
 - (2) Sport events: Jeremy Lin Basketball Camp, welcoming of Tzu-Wei Lin, welcoming of Taiwanese professional baseball stars playing overseas, and Wei-Yin Chen Baseball Camp.
2. The company's devotion to loss prevention services has also received recognition and good responses from the society. Its efforts included:
 - (1) The company joined "Chinese Association of Fire Protection" and "Taiwan Construction Research Institute" in organizing 4 loss prevention seminars including on-site visit to actual businesses for more comprehensive knowledge on risk assessment.
 - (2) The company actively offers loss prevention services by conducting safety tests on recreational facilities at campus. Instead of delivering lectures, the company used games, songs and languages understandable by children to raise safety awareness at campuses throughout the nation. Its effort to prevent accidents at campus has been well-received.
 - (3) The company has established a Zero Accident Academy website and introduced the nation's first online driver education system, using a "driver knowledge test" to evaluate the subject's mental capacity, response, and awareness to traffic safety. The test uses a "behavior diagnosis test", a "hazard perception test", and a "driving knowledge test" to educate the subject on defensive driving and safety.
 - (4) The company has also been hosting the "Accident-free Rider" program to promote motorcycle safety at colleges. Using an interactive online "Hazard Perception test", the program provided students with new perspectives on traffic safety. Meanwhile, the company also engaged "Hsinchu Safety-Educational Center" to correct student's driving habits.
 - (5) By combining VR technology with its expertise, the company introduced its proprietary "Virtual Reality Hazard Perception test", an edutainment tool that helped test subjects evaluate their driving behaviors and ability to identify potential traffic dangers.
 - (6) Furthermore, the company created a "campus risk map" that highlighted the traffic conflict hot spots of each campus, and suggested defensive driving techniques to help students avoid danger at these hot spots.
3. The company has launched various publications and Apps for the purpose of raising public awareness towards insurance and safety, such as the My Trip Asst App, vehicle safety knowledge, brochures on fire prevention and evacuation, and store safety checklists.
4. The company continued its sponsorship to "Cathay Century Insurance Triathlon Team" as a means to develop young triathlon athletes in Taiwan, while convey proper sports knowledge and promote healthy sporting habits.

■ Cathay Securities Corporation

1. The company has responded to Cathay Financial Holdings' call for "Corporate Sustainability" and organized various types of charity events, including:
 - (1) Environmental protection: In response to Earth Day, the Company contributed its environmental protection efforts by organizing a nationwide coastal cleanup and stating its commitment to reduce plastics.
 - (2) Sports: As a support for sports development in Taiwan, the Company sponsored basketball court maintenance and games for National Taiwan University, Tunghai University, Kaohsiung Medical University and National Cheng Kung University.

- (3) Arts and culture: The Company sponsored “Cloud Gate Free Outdoor Show” as a means to promote culture and art awareness within the local community. “Nation-wide Children’s Painting Contest” was held to develop cultural awareness among the new generation.
 - (4) The Company hosted “Cathay Banking and Insurance Camp,” where students were given the opportunity to learn real practices in the business world and begin planning for their personal careers.
2. On the eve of Mother’s Day 2018, the Company mobilized its employees and joined “Children Are Us Foundation” to organized their fifth charity auction. Nearly 1,200 items were sold for more than NT\$60,000 in two afternoons.
 3. In an attempt to raise employees’ awareness towards energy/carbon reduction, regular exercising, interaction and teamwork, Cathay Securities supported the Group’s Cathay Walker program and held its own hiking event called “GOGOGO”. More than 400 employees or nearly 70% of employees had participated in the event between November and December 2018; together, they traveled 800 million paces, exceeding the distance between Earth and the moon.
 4. In December, the month of blessing and gratitude, Cathay Securities held a series of fun, creative Christmas events that also incorporated the Group’s CSR values. In a collaboration with The Garden of Hope Foundation, the Company prepared refreshments for employees as a recognition for their contributions throughout the year. In view of employees’ overwhelming response to the “GOGOGO” event, Cathay Securities followed up with a “Christmas Charity Walk” that incorporated a charity theme where Cathay Securities donated NT\$20 to “RCSCA” for every 2018 paces traveled by employees on that day. These donations were used to sponsor the one-day cultural trip to Taipei for disadvantaged children living in remote areas, and conformed with Cathay Group’s value of helping those in need.
 5. The Company convened the “2019 Investment Forum” in joint effort with Business Today Magazine to encourage the general public in learning new financial knowledge and wealth management. As a support to the agricultural business of indigenous people in Taiwan, the Company worked with Taiwan Way Co., Ltd. to distribute produce as forum concessions. The Company also sponsored the “2018 NTPU Securities Camp” in an attempt to promote academic training of the financial profession.
 6. The Company sponsored “cnyes.com” in organizing its “2018 Year-end Donation”. Beneficiaries of this donation event included: Federation for the Welfare of the Elderly, A Kernel of Wheat Foundation, Jieh Huey Social Welfare & Charity Foundation and Tainan Home of Philanthropy.

■ Cathay Securities Investment Trust Co., Ltd.

1. Each year, the Company participates in charity activities organized by Taipei Foundation of Finance and makes fixed donations to medical transportation equipment used at remote medical facilities, in an attempt to rectify the disproportional allocation of medical resources between urban and suburban areas.
2. The Company has been hosting free investment seminars in northern, central and southern Taiwan to keep the public informed of the latest market and social changes. It also joined Pension Fund Association and Securities Investment Trust & Consulting Association in hosting a series of seminars aimed at proposing investment solutions to the aging population, thereby raising the public’s awareness towards wealth management and retirement planning. Apart from the general public, the seminars were also held at community colleges for more in-depth education on investment and retirement.
3. Following the success of 2017 women’s investment seminar, the Company held a series of seminars for women on the topic of “Fitness and Health” in 2018 at various locations including Taipei, Hsinchu, Taichung and Kaohsiung. Through fitness activities and sharing of wealth management

experiences by celebrities, the Company was able to engage its female customers in real interaction and offer useful investment advices.

4. With respect to external CSR engagement, the company has had a long-term working relationship with the “Eden Social Welfare Foundation”, and offers holiday volunteer services and donations as part of its social responsibilities.
5. To enhance the learning experience of students at school and help them discover their career potentials in advance, the company organizes summer study camps for customers’ and employees’ children as part of its corporate responsibilities.
6. Cathay SITC’s FUN Volunteers Club mobilized 80 employees and their family members (exceeding 1/3 of the Company’s employee size) to participate in the anniversary celebration of Taipei City Yangming Home of the Disabled, where they operated stalls and cleaned up afterwards. Through real actions, these volunteers have dedicated themselves to caring for those in need.

VI. Number of employees who are not in supervisor positions, the annual average employee benefit expenses, and the differences comparing to the previous year

Item	2017	2018	Difference	Growth rate
Total expenses for non-supervisory employee benefits (NT\$)	26,605,178,137	27,907,841,190	1,302,663,053	4.90%
The number of non-supervisory employees	19,068	20,019	951	4.99%
Average expenses for each non-supervisor employee	1,395,297	1,394,097	-1,200	-0.09%

Note: For 2017 and 2018, employees’ salaries were defined and calculated according to “Notes on Reporting of Full-time Employee Salary for Non-managerial Role” and “FAQ” published by Taiwan Stock Exchange Corporation.

VII. Information System

■ Cathay Life Insurance Co., Ltd.

(I) Key information system setup and maintenance:

1. IBM Power Host:

- (1) Hardware: P822(L)
- (2) Software: AIX, RHEL, WebSphere, DB2, MQ, Guardium, backup software (TSM and Avamar).
- (3) Storage: IBM DS8870, EMC VNX5800, EMC Unity

2. Intel x86 Server:

- (1) Hardware: IBM X3650, X3850 and HP DL380 multi-core servers.
- (2) Software: Windows operation system, MS SQL database, ClearCase software configuration management system, effectiveness monitoring system Linux System, JBoss, CrystalDB and Avamar.
- (3) Storage: EMC VNX5800, NetApp FAS8040

(II) Business development plan:

1. Fintech and innovation:

- (1) Planning and establishment of block chain environment
- (2) Research and implementation of RPA
- (3) Implementation of facial recognition technology
- (4) Implementation of voice recognition technology

2. Private cloud - cloud computing

- (1) Conversion of private cloud structure - Establishment of cloud-based core system for life insurance and active-active mode.
- (2) Planning and establishment of multi-factor authentication.

3. Intel x86 Server:

- (1) Establishment of microservice platform
- (2) Establishment of Customer relationship management system (CRM 2.0)

4. Database management

Planning and establishment of the data governance platform.

5. Network:

- (1) Network upgrade and optimization.
- (2) Network access control (NAC).

6. Information security:

- (1) Corporate e-mail control.
- (2) Whitelist control for key equipment and program.

(III) Information Security and Emergency Back-Up Measures:

1. The backup data center's facilities were built according to that in the main data center. Furthermore, business continuity plans were also drafted to ensure critical business procedures remain intact after major breakdowns and disasters. Apply DWDM high-speed fiber optics network to synchronize information changes from main data center to backup data center to ensure all data is up to date.
2. To strengthen information security, protection systems including three layers of firewall from the inside to the outside, intrusion detection & prevention system, website vulnerability scanning and automatic weakness remedy, the latest anti-virus software and an application firewall are already in place. Moreover, additional investments and efforts are made on the server security system, periodical intrusion and vulnerability scanning, content control system, network server efficiency management and Security Information and Event Management (SIEM) to strengthen information

security control and management measures. In addition, social engineering training is provided to the staff to strengthen employees' awareness of information safety and minimize the risk of information leakage as well as to protect the company's information assets, customer rights and sustainable operation of enterprise.

3. In the age of personal data protection and due to the requirements of Personal Information Protection Act, we introduce the "Information System Daily Log Management Platform," which places all system daily logs of heterogeneous platforms and application program daily log (APP Log) under centralized access management to accomplish the security of evidence and efficient statistical analysis.

■ Cathay United Bank Co., Ltd.

(I) Configuration and maintenance of the main IT system

1. Host

- (1) Core system hardware: IBM RS/6000 P795 and P770.
- (2) Core system software: OS - IBM AIX; DB – Oracle and IBM DB2
- (3) Credit card hardware: IBM 2965-N01.
- (4) Credit card software: IBM Z/OS, CICS TS, VTAM/NCP.
- (5) FX hardware: IBM P770.
- (6) FX software: IBM OS/400 and DB2/400.

2. Open system Windows and Linux platform

- (1) Hardware
 - A. IBM、HP、LENOVO、DELL multi-core servers
 - B. Storage: EMC, IBM and Hitachi Data Systems (HDS) storage.
- (2) Software
 - A. OS : Windows Server、Red Hat Linux
 - B. DB : MSSQL DB、Oracle DB、Hadoop

(II) Future Development and procurement plan

1. Host and server

- (1) Mainframe zOS and server upgrade.
- (2) IBM RS/6000 server upgrade.
- (3) Upgrade to Windows 2016 operating system.
- (4) Consolidation and upgrade of MS SQL database.

2. Network

- (1) Network/security equipment replacement and performance upgrade at data center - Upgrade of firewall and load-balancing equipment.
- (2) Wide Area Application Services (WAAS) at branch.

3. Terminals equipments

- (1) Implementation of 2-in-1 printer and scanning device
- (2) Implement biometric mechanism.
- (3) Upgrade bank computers to Win10.
- (4) Personal information inventory system upgrade.

4. Information security

- (1) Implement Content Disarm and Reconstruction (CDR) system.
- (2) Implement vulnerability audit tracking management system..
- (3) Implement Intranet APT behavior detection protection equipment.
- (4) Implement network access control (NAC) system.

5. IT service and test planning management

- (1) Completed implementation of MyIT - an information service platform for domestic and offshore branches, and adopted centralized processes that enable IT administrators to quickly distinguish the severity of the incidents occurred and handle them at greater efficiency.
- (2) Completed developed of automated test tools and test data management system; adopted automated test tools and assisted the development team with basic function tests. The test data management system increases data re-utilization rate and reduces the workload and time taken for test preparation.

(III) Emergency disaster recovery and security protection measures

1. Emergency disaster recovery Measures:

- (1) Host
Use EMC SRDF and IBM PPRC remote DR solution; through the high-speed optical fiber de-multiplexer and DWDM, disk drive synchronizes local transaction data to remote DR center to ensure there is no data inconsistency.
- (2) M Open system Windows and Linux platform
Important servers use storage area network (SAN) technology to engage in real-time data remote DR so that CUB's major operation won't be interrupted accordingly.
- (3) Internet
For Internet system's DR, important routers and exchangers adopt center LoadBalance approach for implementation and are connected to remote DR center via DWDM to ensure client's connection quality.

2. Safety protection measures

In terms of security protection, all external systems, application mainframes, terminal and network equipment are being guarded by a tiered information security protection system that incorporates measures such as: advanced network firewall, network system firewall, intrusion detection, APT protection etc. DDoS defense and ISP clean pipe service have also been adopted to protect against malicious attacks. Cope with the intelligent and automatic information security monitor system to effectively defend and monitor and security of internet and systems. In addition, the Bank also inspect and evaluate the computer system security structure at all times, which comprehensively inspect information security, internet control system, anti-virus and anti-hacking, and recovery plan. We continue to conduct the corresponding information security defense strengthening mechanism under the principle of concurrently attending security and convenience in order to reduce the risks of data leaking and external malicious intrusion threats. We comprehensively and efficiently improve the computer and internet security to protect customers transaction service quality.

■ Cathay Century Insurance Co., Ltd.

(I) Key information system setup and maintenance:

1. Core information system:

IBM RS/6000 server system

Model: P770, S924, S922, S822

Software: AIX, RHEL, DB2, WebSphere, Imperva DAM, and backup software (TSM, CommVault).

Primary applications: all insurance quotes, claim handling, premium, financial, accounting, business process management, and image system, etc.

2. Open-system deployment and maintenance:

(1) Hardware:

A. IBM X3250, X3550, X3650, x3850 server.

B. HP DL380 sever.

- C. Storage: IBM DS8870, EMC UNITY 550F, EMC UNITY 300
- (2) Software:
 - A. MS Windows Server, Linux open source software and JBoss for the operation system of servers.
 - B. Database: SQL Server, IBM DB2
 - C. Primary uses: internal file transfer, employee attendance, corporate website, e-commerce, and B2B information exchange between bank channels and insurance agent companies.

(II) Business development plan:

- 1. Host and server
 - (1) Establishment of cloud-based core system and active-active mode.
 - (2) Advanced storage equipment upgrade.
 - (3) Evaluation for the introduction of Virtual Tape Library.
- 2. Network
 - (1) Assessment of Network Performance Management (NPM) software.
 - (2) Establishment of core network structure.
 - (3) Firewall equipment upgrade.
- 3. Information security.
 - (1) Introduction of web application firewall (WAF).
 - (2) Introduction of digital forensics system.
 - (3) Implementation of information security incident management procedures and drills for enhanced response to information security incidents.

(III) Information Security and Emergency Back-Up Measures:

- 1. The company adopted the high availability (HA) structure on the same site for the IBM RS/6000 mainframe system and the storage system. In addition, the company will create a remote backup mechanism to achieve uninterrupted operation and service.
- 2. With virtual server technology, the company can perform fast recovery when a system malfunction happens. The company also creates a backup server for critical servers at the remote backup data center and synchronizes them with the data.
- 3. To enhance Internet security, solutions including firewall, vulnerability scanning, intrusion protection, SSL VPN, Security Information and Event Management (SIEM), along with anti-virus software and Trojan remover, have been acquired and installed.
- 4. Gateway network data loss prevention (NDLP) system has been installed to lower the risk of personal information leakage.
- 5. APT protection measures have been established on mails, gateways and terminals to prevent malicious software from intruding the company's computers.
- 6. Ongoing ISO 27001 information system safety certification for improved information security.
- 7. Installation of Imperva Secure Sphere.
- 8. Introduced DDOS defense to protect against malicious attacks from the outside.
- 9. Mobile device management (MDM) and mobile application management (MAM) for enhanced management over the use of mobile devices.
- 10. PCI DSS checks are performed regularly to ensure information security of online transactions.

■ Cathay Securities Corporation

(I) Key information system setup and maintenance:

1. Mainframe:

- (1) Hardware: IBM RS6000-P8 S822, P740, P720, P560, IBM AS400, ODA, Exadata etc.
- (2) Software: AIX V7, AIX V6, AIX V5, IBM OS/400
- (3) Storage equipment: IBM DS5300, V7000, V5030, FastT700

2. xServer:

- (1) Hardware:
IBM xServer (M2~M3), Lenovo xServer (M4~M6), HS22 blade server, and DELL R740.
- (2) Software:
 - A. Operating system: MS Windows Server for the servers.
 - B. Database: Microsoft SQL, Oracle database systems and IBM DB2.
 - C. WWW: Websites are divided into external and internal types. All external sites are set at the Demilitarized Zone (DMZ) of the firewall.
- (3) Storage equipment: EMC 5300/5400, IBM DS3524, IBM DS3512

3. Network:

- (1) Hardware:
 - A. Routers in the information center: The Neihu computer room uses Cisco 3845 to connect the head office with nine branch companies and Cisco 2801 to connect itself with the Internet. The IDC computer room uses Juniper 6350 to connect the head office with the nine branches.
 - B. Switches in the information center: The Neihu computer room uses Cisco 3750 for the Local Area Network connection and Cisco 2960 for open mainframe connection. The IDC computer room uses Juniper 4500 for the Local Area Network connection and Juniper 4200 for open mainframe connection.
 - C. PIX Firewall: The Company uses Palo Alto firewall, which is located at the Neihu server room with automatic backup connection. An ASA5525 firewall is being used to control Internet connections to Neihu server room. The Company uses two layers of Checkpoint UTM firewall, which are located in the IDC computer room with automatic backup connection. The firewalls control Internet connections to IDC server room.
- (2) Software:
 - A. The Company uses Riverbed ARX and Netshark to perform network flow analysis at the IDC server room.
 - B. Use Websense Enterprise to control all website browsing in the head office and the branches.
 - C. The Company uses Symantec as its PC antivirus software.

(II) Business development plan:

1. Enhanced information security.
2. Construction of Banqiao Server Room.
3. System optimizations in line with TWSE: Modification of the price field.
4. Development of sub-brokerage margin trading/financing system and sub-brokerage small-sum offshore bond e-trading service to support future deregulations.
5. Sub-brokerage B2B bond/share/fund order placement system.
6. Establishment of online account opening system depending on the business development progress.
7. Consolidation of passwords across securities, futures and sub-brokerage systems.
8. Establishment of securities account mid-office.
9. Support for TWSE's new system: Establishment of deal-by-deal matching system

(III) Information Security and Emergency Back-Up Measures:

1. Mainframe: Core trading mainframe on-site HA backup and remote backup currently in place.
2. Network:
 - (1) For network backup, employ high availability (HA) design for important routers and switches with dedicated connecting to the remote backup data center. Also, alternate connection lines are installed in the remote backup data center and available to all business locations to ensure minimum interruption for important operation procedures.
 - (2) For Internet security: use high-end firewalls with network management and anti-virus programs to construct a complete and effective Internet security management system and ensure customer-trading quality.

■ Cathay Securities Investment Trust Co., Ltd.

(I) Key information system setup and maintenance:

1. Open system setup
 - (1) Hardware
 - A. HP DL360, DL380, DL385, IBMx3650 server.
 - B. Storage equipment: EMC (CX4, VNX5300, VNX5200, VPLEX, NetApp FAS2240-2, EonNAS)
 - (2) Software
 - A. Operating system: MS Windows Server.
 - B. Database: SQL Server.
 - C. Linux system: for network monitoring and email sending system.
2. Network and information security
 - (1) Network: Two E1 lease lines with Load-Balance design are used to connect the head office and each branch directly. Internet connection is supported by load balancer with 1 lease line and 2 ADSLs as the backup.
 - (2) Firewall: use dual redundant Check Point firewall to control all Internet communication and set up the Demilitarized Zone (DMZ) for public websites. FortiWAN Firewall controls the connection with the subsidiaries of Cathay Financial Holdings.
 - (3) Network Security: The company uses Forcepoint to manage Internet browsing activities and for APT protection, and Symantec Endpoint Protection to prevent virus attack.
 - (4) NDLP is adopted to control transmission of sensitive information.
 - (5) Arbor is adopted as DDoS defense.
 - (6) Website load balance and fault tolerance.

(II) Business development plan:

1. Establishment of smart investment platform.
2. Development of investment assistance system.
3. Online account opening - mobile version.
4. Enhanced off-site backup.
5. Replacement of storage equipment.
6. Implementation of end point APT defence system.

(III) Information Security and Emergency Back-Up Measures:

1. For core system, we introduce HA structure with high availability and conducts off-site backup every day through encrypted transcription technology. We also establish host restore environment in off-site computer room and strengthen relating backup mechanism and softwares, hardwares and equipment in compliance with the expansion of business. We also conduct restoration drills to ensure the integrity of customer data and continue to provide computer services during a massive

catastrophe.

2. In addition to basic firewall defense, HA structure, Forcepoint Internet access management, APT gateway protection and automated virus protection, the Company also adopts enhanced security protections in line with its information security roadmap. By escalating the level of security over information, the Company not only protects the organization's assets, but also protects customers' interests and ensure sustainability of the business.

VIII. Industrial Relations

(I) Employee benefit programs, retirement system, related agreements and rights protection:

Besides the labor and health insurance coverage as required by the government, additional benefits such as group insurance, various subsidies, festival allowances, hiking activities, internal training, exam-taking reimbursements, etc. are part of our employees' benefits. In terms of retirement payments, all benefits are paid in accordance with Labor Standards Act and Labor Pension Act.

To protect the rights of employees, companies should clearly define the following according to laws and regulations, collective bargaining agreement and management needs, in the work rules: wage payment standard, working hours, vacation, leave of absence, attendance, reward and punishment, transfer, dismissal & retirement, and pension. After approved by regulators, these rules should be distributed through public notification. To promote a non-harassment and gender-equality employment measures for preventing/correcting sexual harassment with related complaint procedures and disciplinary measures were established. A sexual harassment appeal processing committee was also set up to process matters on sexual harassment complaints, investigation, and resolution.

To ensure a safe working environment to guarantee employee personal safety, the following Group measures are created:

1. First-aid personnel are required to take the related professional training. First-aid kits and AEDs are provided in all working locations.
2. Regular tests for illumination and carbon level of working environment.
3. Health checkups and pre-job safety and health training for new hires.
4. Health checkups and safety and health training for employees on a regular basis.

(II) Losses arising as a result of employment disputes in the last year up till the publication date of this annual report (including violations against Labor Standards Act found during a labor inspection; explain the date of penalty, reference number, the laws violated, the violating action, and the nature of penalty). Please quantify the estimated losses and state any response actions, and state reasons if losses cannot be reasonably estimated:

None.

(III) Employee Code of Service:

All employees are required to follow the codes below as a part of their contributions to the Company's future development and to the common welfare of the entire employee population.

1. All employees must abide by applicable government laws, rules and regulations, and the Company's regulations and policies. Team spirit is highly encouraged within the Company but behavior relating to disturbances in the working environment or common welfare, such as being opinionated, agitating, quarreling, fighting physically, misleading others, etc. are strictly prohibited.
2. All work should be carried out in accordance with the instructions given, if no such instruction is available, a request for related guidance from the upper managers should be sought before further execution.
3. Instructions given by the working supervisors shall be implemented, any refusal, dodging or disagreement should be forward to the department/divisional supervisor for resolution.

4. Unless approved by the Company, no outside employment is allowed. Activities relating to jobbery will not be tolerated.
5. Other than serving for his/her departments, employees are expected to assist in the work of others when necessary and as requested by the direct supervisors. Buck passing is not allowed in this situation.
6. Unless for Company holidays or other holidays as designated by the central government, employees are required to arrive at work on time for working days. Absences without prior notice or leaving early/arriving late are disallowed.
7. All duties, unless otherwise specified, should be completed during the day without delay.
8. Absence without permission during working hours is prohibited.
9. Employees must comply with whatever job transfers or arrangements made by the company.
10. All work settings should be kept in good order. Riotous activities or disturbing others or any forms of misconduct are prohibited.
11. No going through other's data including statements, documents, phone calling history, and computer files (including any storage). No document is to be taken outside or revealed to others without the supervisor's permission.
12. Company customers should be treated with kindness and respect. Attitudes associated with negligence or arrogance are strictly prohibited. All customer requests should be served with full effort without delay. Explanations should be made patiently when misunderstood. Inquiries should be answered or transferred to the suitable personnel, whether in charge or not. An answer of "I do not know" is not acceptable.
13. Business intelligence and commercial data should be kept confidential and not disclosed to others.
14. Employees are not permitted to guarantee a loan or contract for others in the name of the Company or the job position.
15. All Company facilities or supplies should be used with care and without waste. Wanton damage and misappropriation for personal use outside of the Company is not allowed.
16. Avoid bad addictions, such as gambling and excessive business entertainment.
17. Contraband or hazardous goods are banned from all the office areas. No safekeeping of personal belongings in the warehouses. No smoking or leaving ignitable goods in the file rooms.
18. Under unusual circumstances, all important documents, statements, commercial bills, cash and computer files (including any storage) should be placed and handled properly. And notice should be sent to the nearby supervising units as soon as possible.
19. Supervising responsibility should be divided into various layers according to the nature of the transaction. Managers in all levels should properly look after the business under his/her supervision.
20. Employee must maintain confidentiality of their job rank and the salary and bonus they receive, and cannot reveal such information to others or ask others for such information.
21. There shall not be extramarital affairs, sexual harassment or gender discrimination in words or in action at the workplace.

IX. Important contracts and commitments

■ Cathay Life Insurance Co., Ltd.

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
Major reinsurers and reinsurance contracts	Central Reinsurance Corporation	1970/9/30~	Reinsurance contracts for life, casualty policies and CAT	None
	Swiss Reinsurance Company Ltd	1970/9/30~	Reinsurance contracts for life and health insurance policies	
	Munich Reinsurance Company	1975/4/1~	Reinsurance contracts for life, health, casualty and group insurance policies	
	RGA Reinsurance Company	1998/9/1~	Reinsurance contracts for life and health insurance policies	
	SCOR Global Life SE	1998/1/1~	Reinsurance contracts for life, health and casualty insurance policies	
	Hannover Rück SE	2003/1/1~	Reinsurance contracts for life, health, casualty, group insurance policies and CAT	

Note: If both parties of the rein contracts of life and health insurance are in consent, the contracts will be automatically renewed. Other contracts are one-year contracts.

■ Cathay United Bank Co., Ltd.

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
The assignment of performing lending assets	The Bank Of East Asia, Ltd., Singapore Branch	2018/01/16	Total amount US\$19,000,000.00	None
	Taichung Commercial Bank	2018/01/30	Total amount US\$10,000,000.00	
	Hua Nan Commercial Bank, Ltd., Hong Kong Branch	2018/05/09	Total amount US\$15,000,000.00	
	The Tokyo Star Bank, Ltd., ING Bank N.V., Singapore Branch KGI Bank Bank Sinopac	2018/05/25	Total amount US\$67,500,000.00	
	China Wealth Growth Fund Iv L.p.	2018/06/20	Total amount US\$42,500,000.00	
	China Wealth Growth Fund Iv L.p.	2018/06/21	Total amount US\$21,875,000.00	
	Yuanta Commercial Bank, Co., Ltd Taishin International Bank co., Ltd. Bank Sinopac Co., Ltd.	2018/09/21	Total amount US\$30,000,000.00	
	Bank Sinopac Entie Commercial Bank Taiwan Shin Kong Commercial Bank	2018/12/21	Total amount US\$20,000,000.00	
	Siemens Bank GmbH Singapore Branch	2018/12/27	Total amount US\$11,333,333.33	
	Yuanta Commercial Bank, Co., Ltd	2018/12/27	Total amount US\$12,566,666.66	

■ Cathay Century Insurance Co., Ltd.

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
Reinsurance Contracts (Domestic)	Central Reinsurance Corporation	1993/8/19~	Reinsurance contracts for fire, single event/catastrophe, liability, marine, and casualty insurance policies	Special exclusions and coverage limitation listed under the reinsurance contracts
Reinsurance Contracts (International)	EVEREST REINSURANCE COMPANY	2001/1/1~	Reinsurance contracts for single event/catastrophe, engineering & construction, liability, and casualty insurance policies	
	KOREAN REINSURANCE COMPANY	2002/1/1~	Reinsurance contracts for fire, single event/catastrophe, liability, marine, engineering & construction, and casualty insurance policies	
	SWISS REINSURANCE COMPANY	1993/8/19~	Reinsurance contracts for single event/catastrophe, liability, engineering & construction, and casualty insurance policies	
	TOKIO MILLENNIUM RE AG	2001/1/1~	Reinsurance contracts for fire, casualty, marine and engineering & construction insurance policies	
	TRANSATLANTIC REINSURANCE COMPANY	2001/1/1~	Reinsurance contracts for fire, single event/catastrophe, marine, engineering & construction and liability insurance policies	
	TOA REINSURANCE COMPANY	2001/1/1~	Reinsurance contracts for catastrophe, engineering & construction, and casualty insurance policies	

■ Cathay Securities Corporation

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
Software Writing Service	Dimerco Data System Co.	105/8/12~ (One-year warranty at the completion)	Customer relationship management system	None
Hardware equipment procurement contracts	Dimerco Data System Co.	106/8/29~ 109/8/28	Purchase Agreement	
Program Maintenance	Sysjust Co., Ltd.	108/08/01~ 108/12/31	Maintenance Agreement for the Taiwan Stock Market Trading System(Web Version).	
Program Maintenance	Sysjust Co., Ltd.	108/1/1~ 108/12/31	Data License Agreement	
Software Writing Service	Easyuse Digital Technology Co., Ltd.	107/8/1~ 108/7/31	BillHunter/MailHunter Ultimate Electronic statement and marketing E-mail system	
Program Maintenance	Da Cho Digital Co., Ltd.	107/11/09~ 108/11/08	Securities brokerage business, proprietary (securities, futures, warrant) application system	
Program Maintenance	Yi Tung Digital Technology	106/09/01~ 108/08/31	Maintenance agreement for Speedy securities system	
Program Maintenance	K Way Information	108/01/01~ 108/12/31	HTS ASP application software system maintenance contract	

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
Program Maintenance	Mitake	108/01/01~108/12/31	Maintenance agreement for Mitake mobile trading system	None
Program Maintenance	Cmoney Corporation	108/01/01~108/12/31	CMoney System Rental Contract CMoney Cloud Subscription System Rental Contract	
Software Writing Service	SYSTEX Corporation	108/01/01~108/12/31	Wealth management financial products platform	
Software Writing Service	Systemweb Technology	106/8/17~ (One-year warranty at the completion)	Discretionary Accounting Management System	
Software and Hardware construction Contract	Changingtec	106/1/20~ (One-year warranty at the completion)	Contract and Seal Management System for New-opened Accounts	

■ Cathay Securities Investment Trust Co., Ltd.

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
Fund Custodian	Hua Nan Bank	1994/3/9~	Cathay Dragon Fund	None
	Taipei Fubon Bank	2000/6/23~	Cathay Cathay Fund	
	Taipei Fubon Bank	2000/8/7~	Cathay Taiwan Money Market Fund	
	Taipei Fubon Bank	2001/1/10~	Cathay Small & Medium Cap Fund	
	Chang Hwa Bank	2002/1/31~	Cathay Greater China Fund	
	Taipei Fubon Bank	2002/7/18~	Cathay Technology Fund	
	Taipei Fubon Bank	2005/12/15~	Cathay Global Aggressive Fund of Fund	
	Hua Nan Bank	2008/3/14~	Cathay Global Ecology Fund	
	Bank SinoPac	2006/12/27~	Cathay Global Infrastructure Fund	
	Bank SinoPac	2009/8/27~	Cathay Man AHL Futures Trust Fund of Funds	
	Mega International Commercial Bank	2009/11/30~	Cathay Mandarin Fund	
	Chinatrust Bank	2010/5/6~	Cathay High Income Fund of Funds	
	Bank of Taiwan	2010/8/19~	Cathay Emerging Markets fund	
	Taipei Fubon Bank	2010/12/20~	Cathay Global Resources Fund	
	E.Sun Bank	2011/6/23~	Cathay China Domestic Demand Growth Fund	
	E.Sun Bank	2011/9/9~	Cathay Emerging Market High Yield Fund	
	Hua Nan Bank	2012/4/30~	Cathay China Emerging Industries Fund	
	Shin Kong Bank	2012/7/4~	Cathay Value and Superior Fund	
	E.Sun Bank	2012/10/26~	Cathay New Zealand Dollar Principal Protected Fund	
	E.Sun Bank	2013/1/9~	Cathay Multi-Strategy High Yield Bond Fund	
	Chinatrust Bank	2013/10/24~	Cathay New Zealand Dollar 8-Years Principal Protec	
	E.Sun Bank	2013/12/3~	Cathay RMB Money Market Fund	

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
Fund Custodian	Chinatrust Bank	2013/12/3~	Cathay Emerging China Bond Fund	None
	Bank of Taiwan	2014/1/23~	Cathay High-Tech Fund	
	Shanghai Commercial Bank	2014/8/6~	Cathay Global Multiple Income Balanced Fund	
	E.Sun Bank	2014/8/6~	Cathay New Zealand Dollar 2021 Principal Protected Fund	
	Hua Nan Bank	2014/12/18~	Cathay Asian Growth Fund	
	E.Sun Bank	2015/10/29 ~	Cathay FTSE China A50 Daily Leveraged 2X ETF	
	E.Sun Bank	2015/10/29 ~	Cathay FTSE China A50 Daily Inversed ETF	
	HSBC Bank (Taiwan) Limited	2015/3/20 ~	Cathay FTSE China A50 ETF	
	Chang Hwa Bank	2015/7/1 ~	Cathay European Equity Fund	
	The Shanghai commercial & Savings Bank, Ltd.	2015/9/10 ~	Cathay China High Yield Bond Fund	
	E.Sun Bank	2015/12/25 ~	Cathay Asia-Pacific Income Balanced Fund	
	Hua Nan Bank	2016/4/25~	Cathay Nikkei 225 Currency-hedged ETF Fund	
	Mega International Commercial Bank	2016/4/25~	Cathay FTSE Japan Daily Leveraged 2X ETF Fund	
	Mega International Commercial Bank	2016/4/25~	Cathay FTSE Japan Daily Inversed ETF Fund	
	Hua Nan Bank	2016/8/4~	Cathay Global High Dividend Fund	
	E.Sun Bank	2016/7/1~	Cathay TAIEX Daily Leveraged 2X ETF	
	E.Sun Bank	2016/7/1~	Cathay TAIEX Daily Inversed ETF	
	Taishin International Bank	2016/10/3~	Cathay Dow Jones Industrial Average ETF	
	Taishin International Bank	2016/10/3~	Cathay Dow Jones Industrial Average Daily Inversed	
	E.Sun Bank	2017/3/15~	Cathay Smart ETF Conservative Fund of ETFs	
	E.Sun Bank	2017/4/6~	Cathay US Treasury 20+ YR ETF	
	E.Sun Bank	2017/4/6~	Cathay US Treasury 20+ YR Lev 2X ETF	
	E.Sun Bank	2017/4/6~	Cathay US Treasury 20+ YR Inv 1X ETF	
	E.Sun Bank	2017/8/9	Cathay TIP TAIEX+Low Volatility Select 30 ETF	
	E.Sun Bank	2017/8/9	Cathay S&P 500 Low Volatility High Dividend ETF	
	E.Sun Bank	2018/1/29	Cathay BBB Corporate 10Y+ ETF	
	Chinatrust Bank	2018/1/29	Cathay EM USD Investment Grade ex China Coupon 5.5%5Yrplus 10% Country Capped ETF	
	E.Sun Bank	2018/1/29	Cathay High Yield 1-5Y ETF	
	Chang Hwa Bank	2018/5/4	Cathay Senior Secured High Yield Bond Fund	

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
Fund Custodian	E.Sun Bank	2018/5/4	Cathay FTSE Chinese Government and Policy Bank Bond 0-1	None
	E.Sun Bank	2018/5/29	Cathay FTSE Emerging Markets ETF	
	E.Sun Bank	2018/5/29	Cathay Nasdaq CTA Artificial Intelligence and Robotics ETF	
	E.Sun Bank	2018/5/29	Cathay Korea/Taiwan IT Premier ETF	
	Chinatrust Bank	2018/7/25	Cathay China New Era Balanced Fund	
	Chinatrust Bank	2018/7/25	Cathay Securities Investment Trust Fund - Cathay FTSE China A150 ETF	
	Hua Nan Bank	2018/7/25	Cathay FTSE Chinese Policy Bank Bond 5+ Years ETF	
	E.Sun Bank	2018/11/20	Cathay Bloomberg Barclays US Corporate A-and Above 10+ Years Liquid ETF	
Note: Contract effects on the funding date of the investment fund. The contracting party is the fund’s custodian bank				

Six. Financial Report

I. Five Year Condensed Balance Sheet and Income Statement Summary (Table 20)

(I) Condensed Balance Sheet of Cathay Financial Holdings and Subsidiaries

Unit: NT\$ thousand

Item \ Year	2014 (Note 5)	2015	2016	2017	2018	Financial Information as of 02/28/2019
Cash and cash equivalents, due from Central Bank and call loans to banks	586,295,650	291,949,556	267,854,460	370,518,548	310,799,369	(Note 3)
Financial assets at fair value through profit or loss	223,007,168	296,117,926	244,529,264	365,808,158	1,428,824,049	
Financial assets available for sale	1,405,300,159	1,486,393,125	1,591,359,657	1,681,125,738	0	
Financial assets at fair value through other comprehensive income	0	0	0	0	1,127,810,270	
Investment in debt instruments measured at amortized cost	0	0	0	0	2,688,221,788	
Derivative financial assets for hedging	665,390	447,326	232,269	246,444	216,611	
Securities purchased under agreements to resell	56,515,170	55,880,471	50,160,342	99,703,578	59,212,899	
Receivable - net	134,368,376	141,649,869	154,212,060	169,202,260	161,216,190	
Current income tax assets	7,374,177	4,339,061	4,215,323	4,362,608	6,438,062	
Assets held for sale - net	0	0	0	0	0	
Loans - net	1,812,773,579	1,766,476,353	2,045,532,795	2,038,528,190	2,176,775,907	
Reinsurance assets	6,377,012	7,000,785	8,767,841	7,237,144	7,623,707	
Held to maturity financial assets	81,658,512	81,708,446	81,826,739	98,759,110	0	
Investments accounted for using the equity method - net	4,545,318	25,500,488	35,209,790	37,355,653	44,932,006	
Assets subject to restriction	0	0	0	0	0	
Other financial assets - net	2,131,815,297	2,790,400,892	3,036,381,213	3,347,907,301	555,740,531	
Property and equipment - net	92,877,629	97,488,736	164,114,231	165,095,690	166,458,327	
Investment property - net	338,336,979	381,149,809	311,014,127	318,106,325	319,222,554	
Intangible assets - net	9,283,025	56,943,768	58,597,243	55,802,976	53,826,467	

Year Item		2014 (Note 5)	2015	2016	2017	2018	Financial Information as of 02/28/2019
Deferred tax assets - net		16,081,618	14,425,707	14,729,993	31,243,778	40,806,934	(Note 3)
Other assets		37,562,177	71,102,715	66,400,120	50,506,788	76,357,835	
Total assets		6,944,837,236	7,568,975,033	8,135,137,467	8,841,510,289	9,224,483,506	
Due to Central Bank and other banks		58,816,432	41,226,909	77,493,795	90,417,859	81,432,233	
Bankers acceptances and funds borrowed		1,585,900	0	0	0	0	
Financial liabilities at fair value through profit or loss		108,286,154	137,471,418	115,014,826	90,514,268	129,698,896	
Derivative financial liabilities for hedging		0	0	0	0	0	
Securities sold under agreements to repurchase		62,021,921	55,523,982	59,139,059	112,643,582	59,307,037	
Commercial papers payable		26,790,000	35,677,634	41,578,838	51,468,158	62,989,367	
Payables		50,417,151	43,402,650	55,295,781	57,943,815	66,727,399	
Current income tax liabilities		237,634	1,641,020	3,512,350	8,879,563	2,543,689	
Liabilities directly related to assets pending for sale		0	0	0	0	0	
Deposit and remittances		1,702,302,143	1,854,495,831	1,999,943,172	2,062,953,012	2,187,203,086	
Bonds payable		107,613,949	71,800,000	51,900,000	98,350,000	90,600,000	
Preferred share liabilities		0	0	87,229	441,199	336,381	
Other financial liabilities		543,279,993	549,564,053	561,224,829	623,527,312	627,815,178	
Provisions		3,800,562,744	4,262,002,527	4,596,525,084	4,972,427,256	5,341,935,726	
Deferred tax liabilities		27,171,920	34,775,271	26,362,443	34,828,440	27,091,143	
Other liabilities		16,630,845	20,331,536	17,236,040	28,645,282	17,514,376	
Total liabilities	Before payout	6,505,716,786	7,107,912,831	7,605,313,446	8,233,039,746	8,695,194,511	
	After payout	6,530,843,206	7,133,039,251	7,630,564,451	8,266,347,695	(Note 4)	
Equity attributable to owners of parent		433,480,605	455,056,994	523,324,572	599,067,071	519,731,330	
Capital stock	Before payout	125,632,102	125,632,102	133,965,102	133,965,102	140,965,102	
	After payout	125,632,102	125,632,102	133,965,102	133,965,102	(註 4)	
Capital surplus		88,782,304	88,781,174	130,448,697	130,452,105	165,449,364	
Retained earnings	Before payout	163,029,792	230,195,428	252,687,821	283,743,551	285,875,616	
	After payout	137,903,372	205,069,008	227,436,816	250,435,602	(Note 4)	
Other equity		56,036,407	10,448,290	6,222,952	50,906,313	(72,558,752)	

Year Item		2014 (Note 5)	2015	2016	2017	2018	Financial Information as of 02/28/2019
Treasury stock		0	0	0	0	0	(Note 3)
Non-controlled interests		5,639,845	6,005,208	6,499,449	9,403,472	9,557,665	
Total equity	Before payout	439,120,450	461,062,202	529,824,021	608,470,543	529,288,995	
	After payout	413,994,030	435,935,782	504,573,016	575,162,594	(Note 4)	

Note 1: Financial statements of the Company in 2014 to 2018 were audited.

Note 2: The Company did not conduct any revaluation of assets in 2014 to 2018.

Note 3: As of the publication date of this annual report, no financial information of 2019 had been audited or reviewed by CPAs.

Note 4: Distribution for earnings in 2018 had not yet been resolved by the shareholder's meeting.

Note 5: 2013 International Accounting Standards No. 19 "Employee Benefits" has been applicable to the Company and our subsidiaries since January 1, 2015, and we restated retrospectively the consolidated financial statements for the year ended December 31, 2014.

(II) Condensed Consolidated Income Statement of Cathay Financial Holdings and Subsidiaries

Unit: NT\$ thousand

Year Item		2014 (Note 4)	2015	2016	2017	2018	Financial Information as of 02/28/2019
Interest income		141,393,913	157,079,850	168,883,110	186,087,791	202,714,029	(Note 2)
Less: Interest expenses		16,271,075	17,081,656	15,405,207	17,627,041	22,085,810	
Net interest income		125,122,838	139,998,194	153,477,903	168,460,750	180,628,219	
Net income other than interest		282,194,679	301,266,845	385,759,498	415,992,524	293,297,827	
Total income		407,317,517	441,265,039	539,237,401	584,453,274	473,926,046	
Bad debt expense and provision for premiums reserve		(2,982,411)	(2,467,452)	(5,231,676)	(3,459,544)	(4,599,086)	
Changes in insurance liabilities and provisions		(290,799,984)	(306,598,275)	(408,613,955)	(445,832,540)	(334,121,938)	
Operating expenses		(57,477,088)	(65,067,110)	(75,207,265)	(75,525,573)	(79,606,248)	
Profit before income tax from continuing operations		56,058,034	67,132,202	50,184,505	59,635,617	55,598,774	
Income tax (expense) benefit		(6,426,682)	(9,249,831)	(2,145,305)	(2,962,393)	(3,776,518)	
Net profit this term of the units in continued business operation		49,631,352	57,882,371	48,039,200	56,673,224	51,822,256	
Profit (loss) of the unit discontinued from business operation		0	0	0	0	0	

Year Item	2014 (Note 4)	2015	2016	2017	2018	Financial Information as of 02/28/2019
Net profit (net loss) this term	49,631,352	57,882,371	48,039,200	56,673,224	51,822,256	(Note 2)
Other comprehensive income (loss) this term (net amount after tax)	25,162,199	(45,358,364)	(4,652,382)	44,354,346	(175,183,163)	
Total comprehensive income (loss) this term	74,793,551	12,524,007	43,386,818	101,027,570	(123,360,907)	
Net profit attributable to the parent	49,369,162	57,513,572	47,618,813	56,306,735	51,467,243	
Net profit belonging to non-controlled equity	262,190	368,799	420,387	366,489	355,013	
Total amount of comprehensive profit (loss) attributable to the parent	74,135,650	11,939,628	43,393,475	100,990,096	(123,867,466)	
Total amount of comprehensive profit (loss) belonging to non-controlled equity	657,901	584,379	(6,657)	37,474	506,559	
Earnings Per Share	3.93	4.58	3.79	4.47	3.95	

Note 1: Financial statements of the Company in 2014 to 2018 were audited.

Note 2: As of the publication date of this annual report, no financial information of 2019 had been audited or reviewed by CPAs.

Note 3: Business units whose operations have been discontinued are disclosed with their net amounts after income tax.

Note 4: 2013 International Accounting Standards No. 19 “Employee Benefits” has been applicable to the Company and our subsidiaries since January 1, 2015, and we restated retrospectively the consolidated financial statements for the year ended December 31, 2014.

(III) Names of external auditors and audit opinions in recent years

Year	Names of Auditors	Audit opinions of Auditors
2014	Accountant James Huang, James Wang	Audit Report with amended unqualified (unreserved) opinion
2015	Accountant Bob Chang, James Wang	Audit Report with amended unqualified (unreserved) opinion (Note 1)
2016	Accountant Bob Chang, James Wang	Audit Report with unqualified opinion
2017	Accountant Bob Chang, James Huang	Audit Report with unqualified opinion
2018	Accountant Bob Chang, James Huang	Emphasis paragraph on unqualified opinion (Note 2)

Note 1: 2013 International Accounting Standards No. 19 “Employee Benefits” has been applicable to the Company and our subsidiaries since January 1, 2015, and we restated retrospectively the consolidated financial statements for the year ended December 31, 2014.

Note 2: The Applicability of Focus Item Section-New Accounting Criteria: The Company and subsidiaries have adopted IFRS 9 - “Financial Instruments” and IFRS 15 - “Revenue from Contracts with Customers” since January 1, 2018, and chose not to restate consolidated financial statements for the comparative periods. The CPAs did not modify their audit opinions in response to this decision.

II. Five Year Financial Analysis (Table 21)

(I) Financial analyses (2014-2018)

Title (Note 2) \ Year		2014 (Note 5)	2015	2016	2017	2018	Financial Information as of 02/28/2019
Operational ability	Total assets turnover (times)	0.06	0.06	0.07	0.07	0.05	(Note 4)
	Deposit to loan ratio of subsidiary bank (%)	64.34	60.05	70.62	68.33	71.34	
	NPL ratio of subsidiary bank (%)	0.29	0.14	0.15	0.21	0.16	
	Average revenues per employee (group)	9,145	9,463	10,542	11,517	8,840	
	Average earnings per employee (group)	1,114	1,241	939	1,117	967	
Profitability	ROA (%)	0.96	0.99	0.77	0.84	0.77	
	ROE (%)	12.10	12.86	9.70	9.96	9.11	
	Net profit margin (%)	12.18	13.12	8.91	9.70	10.93	
	Earnings Per Share (NTD)	3.93	4.58	3.79	4.47	3.95	
Ability to repay debts and financial structure	Liabilities to assets ratio (%)	93.68	93.91	93.49	93.12	94.26	
	Liabilities to net worth ratio (%)	1,481.53	1,541.64	1,435.44	1,353.07	1,642.81	
	Financial holding double leverage ratio (%)	112.63	110.58	104.85	107.88	112.41	
	Financial ratios of financial holding pursuant to Article 41 of the Financial Holding Company Act (%)	None	None	None	None	None	
Leverage	Operation leverage	6.29	5.66	9.35	8.62	7.19	
	Financial leverage of financial holding company	1.29	1.25	1.31	1.30	1.40	
Growth rate	Asset growth rate (%)	12.43	8.99	7.48	8.68	4.33	
	Profitability growth rate (%)	30.98	19.75	(25.25)	18.83	(6.77)	
Cash flows	Cash flow ratio (%)	51.07	(Note7)	(Note7)	32.11	(Note 7)	
	Net cash flow adequacy rate (%)	669.10	226.73	74.18	35.48	(Note 7)	
	Cash flow coverage ratio (%)	(Note 6)	(Note 6)	(Note 6)	(Note 6)	(Note 6)	
Scale of operation	Market share of asset (%)	16.63	16.63	16.92	16.84	16.57	
	Market share of net worth (%)	14.91	14.80	15.82	16.38	14.36	
	Market share of the deposit at subsidiary bank (%)	4.83	4.92	5.14	5.13	5.33	
	Market share of lending at subsidiary bank (%)	4.84	4.71	5.80	5.54	5.85	
Capital adequacy ratio	Capital adequacy ratio set forth by respective subsidiaries at industry standard (%)	Cathay Life	287.43	304.55	304.78	309.48	291.70
		Cathay United Bank	16.19	16.39	14.19	15.89	14.99
		Cathay Century Insurance	324.10	358.97	384.82	391.85	369.75
		Cathay Securities	375.88	395.71	430.48	323.93	377.41
		Cathay Securities Investment Trust (Note 9)	84.68	81.28	84.74	83.33	85.49
		Cathay Venture	99.88	99.38	99.79	98.91	98.24
	Qualified capital of respective subsidiaries (NTD\$1,000)	Cathay Life	288,840,039	371,970,149	427,858,678	454,450,732	488,752,735
		Cathay United Bank	208,576,229	214,974,118	214,610,255	245,474,892	247,142,545
		Cathay Century Insurance	7,035,251	7,733,145	9,385,177	10,065,445	9,831,977

Title (Note 2) \ Year			2014 (Note 5)	2015	2016	2017	2018	Financial Information as of 02/28/2019
		Cathay Securities	4,654,352	5,150,200	5,042,620	5,224,350	5,208,773	(Note 4)
		Cathay Securities Investment Trust	2,169,292	2,151,661	2,141,926	2,328,954	2,559,779	
		Cathay Venture	3,034,814	2,923,824	3,728,806	3,548,009	3,735,531	
	Net qualified capital of the group (NTD\$1,000)	459,387,501	542,323,232	616,686,804	632,278,757	646,964,204		
Capital adequacy ratio	Mandatory capital requirements of respective subsidiaries (NTD\$1,000)	Cathay Life	200,982,702	244,273,877	280,769,853	293,686,834	335,101,600	
		Cathay United Bank	103,036,911	104,925,328	130,408,330	142,872,941	162,837,923	
		Cathay Century Insurance	4,341,458	4,308,568	4,877,648	5,137,390	5,318,228	
		Cathay Securities	1,853,813	1,952,273	1,757,108	2,419,203	2,070,194	
		Cathay Securities Investment Trust	1,280,821	1,323,560	1,263,804	1,397,407	1,497,116	
		Cathay Venture	1,519,204	1,471,000	1,868,265	1,793,578	1,901,290	
	Mandatory total capital requirements of the whole group (NTD\$1,000)		318,523,041	359,189,554	421,698,447	447,969,067	509,166,798	
	Capital adequacy ratio of the group (%)		144.22	150.99	146.27	141.14	127.06	
Total Balance Declaration Form for All Subsidiaries of the Financial Holding Company Engaging in Transactions Provided in Paragraph 2, Article 46 of the Financial Holding Company Act with a Counterparty Provided in Paragraph 1, Article 46 of the Same Act (in millions)			4,414,785	4,914,750	5,425,050	5,993,625	6,855,496	
			Specify the reasons that caused the changes in the financial ratios in the last 2 years. (Analysis is not required for changes of less than 20%) The difference between the financial ratios of operational ability in the two accounting periods was mainly caused by the decrease of net income and corporate earnings in current period.					

Note 1: Financial holding companies that have their stocks listed in the exchange or traded in the OTC market shall include the financial information as stated in the financial statement covering the period to the quarter prior to the date the financial report was printed in the financial analysis.

Note 2: The equations for calculation are shown below:

1. Operational ability

- (1) Total assets turnover = net profit/average total assets
- (2) Deposit to loan ratio = subsidiary bank total loans/total deposits
- (3) Subsidiary bank NPL ratio = subsidiary bank total overdue loans/total loans
- (4) Average revenues per employee = net income/total number of employees
- (5) Average earnings per employee = corporate earnings/total number of employees

2. Profitability

- (1) Return on Assets (ROA) = [corporate earnings + interest expenses × (1 – tax rate)]/average total assets
- (2) Return on shareholders' equity = corporate earnings/average net shareholders' equity
- (3) Net profit margin = corporate earnings/net income
- (4) Earnings per share (EPS) = (attributable to shareholders' equity of the parent – preferred stock dividends)/weighed average quantity of outstanding shares (Note 3)

3. Ability to repay debts and financial structure

- (1) Liabilities to assets ratio = total liabilities/total assets
- (2) Liabilities to net worth ratio = total liabilities/net worth
- (3) Financial holding company double leverage ratio = equity investment under paragraph 2 of Article 36 and Article 37 of this law/net worth

4. Leverage

- (1) Operation leverage ratio = (net income – variable expenses)/earnings before taxation
- (2) Financial holding company financial leverage = (earnings before taxation + interest expenses)/earnings before taxation

5. Growth rate

- (1) Asset growth rate = (total assets in current period – total assets in previous period)/total assets in previous period

(2) Profitability growth rate = (earnings before taxation in current period – earnings before taxation in previous period)/earnings before taxation in previous period

6. Cash flows

(1) Cash flow ratio = net cash flow from operation/(call loans and overdrafts from banks and financial institutions + payable commercial papers + financial liabilities at fair value through income statement + R/P bonds and bills liabilities + payables due in one year)

(2) Net cash flow adequacy ratio = net cash flows from operating activities in the last 5 years/(capital expenditure + cash dividend) in the last 5 years

(3) Cash flow coverage ratio = net cash flow from operation /net cash flow from investment

7. Scale of operation

(1) Market shares of assets = total assets/total assets of the whole financial holding company

(2) Market share of net worth = net worth/total net worth of the whole financial holding company

(3) Market share of the deposit at subsidiary bank = total deposits/total deposits at financial institutions entitled to engage in lending and deposits business

(4) Market share of the loans at subsidiary bank = total loans/total loans at financial institutions entitled to engage in lending and deposits business

8. Capital adequacy ratio

(1) Net qualified capital of the group = qualified capital of the financial holding company + (proportion of shareholding by financial holding company × the qualified capital of respective subsidiaries) – required deductible items

(2) Total statutory capital requirement of the group = statutory capital requirement of the financial holding company + proportion of shareholding by financial holding company × statutory capital requirement of respective subsidiaries

(3) Capital adequacy ratio of the group = net qualified capital of the group/statutory capital requirement of the group

Note 3: Attention to the following is required when the aforementioned equations for the calculation of EPS are applied to assessment:

1. The weighted average quantity of outstanding common shares shall be used as the standard, not the quantity of outstanding shares at the end of the year.
2. In case of raising capital through issuing new shares or transactions of treasury stocks, calculate also the weighted average quantity of outstanding shares in the period of circulation.
3. In case of capitalization of retained earnings or capitalization of capital surplus into new shares, adjustment shall be made in retrospect to the size of capitalization for each instance when calculating the earnings per shares annually or semi-annually. The time of issuance can be neglected.
4. If the preferred shares are non-convertible accumulated preferred shares, the dividend declared in current period (whether paid or unpaid) shall be deducted from corporate earnings or as addition to earnings after taxation. If the accumulated preferred shares are not accumulative in nature, dividend for preferred shares shall be deducted from corporate earnings, if any. In case of loss, no adjustment shall be made.

Note 4: As of the publication date of this annual report, no financial information of 2019 had been audited or reviewed by CPAs.

Note 5: 2013 International Accounting Standards No. 19 "Employee Benefits" has been applicable to the Company and our subsidiaries since January 1, 2015, and we restated retrospectively the consolidated financial statements for the year ended December 31, 2014.

Note 6: Ratio was not disclosed due to negative net cash flow.

Note 7: Group capital adequacy ratio and double leverage ratio - financial holding company are key performance indicators for the Company.

III. Audit Report from the Auditing Committee on the Latest Financial Statements

Audit Report from the Auditing Committee The financial statements of Cathay Financial Holdings covering the period from January 1 to December 31, 2018, and the business report and earning distribution plan have been prepared and submitted by the Board of Directors of the Company. The financial statements were audited by Bob Chang, CPA, and James Huang, CPA, of Ernst and Young, who issued an auditors' report. The Auditing Committee has appointed Andrew Fuh, CPA, of Ernst & Young to review the aforementioned financial statements and documents pursuant to Article 14-4 of the Securities & Exchange Act and Article 219 of the Company Act. In his opinion, the aforementioned financial statements and documents are fairly presented as stated. To: 2019 Annual General Shareholders' Meeting of Cathay Financial Holdings Auditing Committee Tsing-Yuan Hwang, Convener May 3, 2019

IV. Audited consolidated financial reports of the parent and subsidiaries in the most recent year

Refer to Appendix I.

V. In case of insolvency of the financial holding company and its subsidiaries in the most recent year to the date this report was printed, specify the effect on the financial position of the Company:

None.

Seven. Review and analysis of financial status and financial performance and risk management

I. Analysis of Financial Status

Unit: NT\$ thousand

Item	Year	2017	2018	Change in amount	Change in proportion (%)
Cash and cash equivalents		1,212,677	445,353	(767,324)	(63.28)
Financial assets at fair value through profit or loss		0	35,444,500	35,444,500	(Note 1)
Financial assets at fair value through other comprehensive income		0	102,304	102,304	(Note 1)
Financial assets available for sale		91,136	0	(91,136)	(Note 1)
Securities purchased under agreements to resell		0	0	0	-
Receivable - net		527,534	266,902	(260,632)	(49.41)
Current income tax assets		4,341,510	6,428,841	2,087,331	48.08
Held to maturity financial assets		41,000,000	0	(41,000,000)	(Note 1)
Equity investment under the equity method		605,207,073	548,662,186	(56,544,887)	(9.34)
Property and equipment		11,247	11,767	520	4.62
Other financial assets		0	0	0	-
Intangible assets		6,649	1,330	(5,319)	(80.00)
Deferred income tax assets		320,076	352,601	32,525	10.16
Other assets		31,797	59,474	27,677	87.04
Total assets		652,749,699	591,775,258	(60,974,441)	(9.34)
Payables		44,096,176	69,154,697	25,058,521	56.83
Current income tax liabilities		8,262,477	1,719,191	(6,543,286)	(79.19)
Payable corporate bonds		0	0	0	-
Provisions		933,466	739,257	(194,209)	(20.81)
Deferred tax liabilities		226,707	266,714	40,007	17.65
Other liabilities		163,802	164,069	267	0.16
Total liabilities		53,682,628	72,043,928	18,361,300	34.20
Common stock		125,632,102	125,632,102	0	-
Preferred stock		8,333,000	15,333,000	7,000,000	84.00
Capital surplus		130,452,105	165,449,364	34,997,259	26.83
Legal reserve		35,339,841	40,976,121	5,636,280	15.95
Special reserve		149,106,971	149,346,119	239,148	0.16
Undistributed earnings		99,296,739	95,553,376	(3,743,363)	(3.77)
Exchange differences resulting from translating the financial statements of a foreign operation		(10,823,242)	(12,149,871)	(1,326,629)	12.26
Unrealized gains and losses of available-for-sale financial assets		53,789,800	0	(53,789,800)	(Note 1)
Gains (losses) on cash flow hedges		203,647	173,289	(30,358)	(14.91)
Unrealized gains/losses on financial assets at fair value through other comprehensive income		0	(17,586,946)	(17,586,946)	(Note 1)
Other comprehensive income reclassified using the coverage approach		0	(52,816,081)	(52,816,081)	(Note 1)
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk		(1,191,027)	774,084	1,965,111	(164.99)
Remeasurement of defined benefit plans		(1,449,679)	(1,321,138)	128,541	(8.87)
Revaluation Surplus		10,376,814	10,367,911	(8,903)	(0.09)
Other equity - other		0	0	0	-
Total shareholders' equity		599,067,071	519,731,330	(79,335,741)	(13.24)

Note 1: Beginning January 1, 2018, the Company became applicable for the International Financial Reporting Standard No. 9 “Financial Tools”, chose not to recompile financial reports during the comparative period, the change ratio showed no significance, and no analysis descriptions were provided.

Note 2: Changes in the ratios of the analysis:

- (1) The variation in cash and cash equivalents was mostly due to higher cash dividends paid in the current period.
- (2) The variation in accounts receivable was mostly due to lower preferred share dividends receivable in the current period.
- (3) The variation in current income tax asset was mostly due to increased tax refund receivable.
- (4) The variation in payables was mostly due to increased short-term notes payable in the current period.
- (5) The variation in current income tax liabilities was mostly due to lower consolidated profit-seeking enterprise income tax incurred in the current period.
- (6) The variation in preferred shares and additional paid-in capital reserve was mostly due to preferred shares issued in the current period.
- (7) The variation in financial liabilities designated to be carried at fair value was caused by a change of credit risk and valuation in the USD bond issued by subsidiary.

II. Analysis of Financial Performance

Unit: NT\$ thousand

Item \ Year	2017	2018	Change in amount	Change in proportion (%)
Total income	58,936,647	54,167,735	(4,768,912)	(8.09)
Expenses and loss	(822,604)	(1,106,414)	(283,810)	34.50
Pre-tax income (loss)	58,114,043	53,061,321	(5,052,722)	(8.69)
Net income	56,306,735	51,467,243	(4,839,492)	(8.59)

III. Cash flows

(I) Liquidity Analysis in 2017 and 2018

Unit: NT\$ thousand

Item \ Year	2017	2018	Increase (decrease) in proportion (%)
Cash flow ratio (%)	Note	Note	-
Net cash flow adequacy rate (%)	Note	Note	-
Cash flow adequacy ratio (%)	Note	Note	-

Note: The net cash flow ratio is not disclosed since it is a negative figure.

(II) Cash flow analysis of the year ahead

Unit: NT\$ thousand

Cash balance at beginning ① (Note)	Projected net cash flow from operating activities in current period ②	Projected cash outflow in current period ③	Projected amount of cash surplus (deficit) ① + ② - ③	Remedy for cash deficit	
				Investment plan	Financing plan
445,353	11,920,656	19,397,294	(7,031,285)	None	Issue corporate bonds and commercial paper

IV. Major capital expenditures in the most recent year

None.

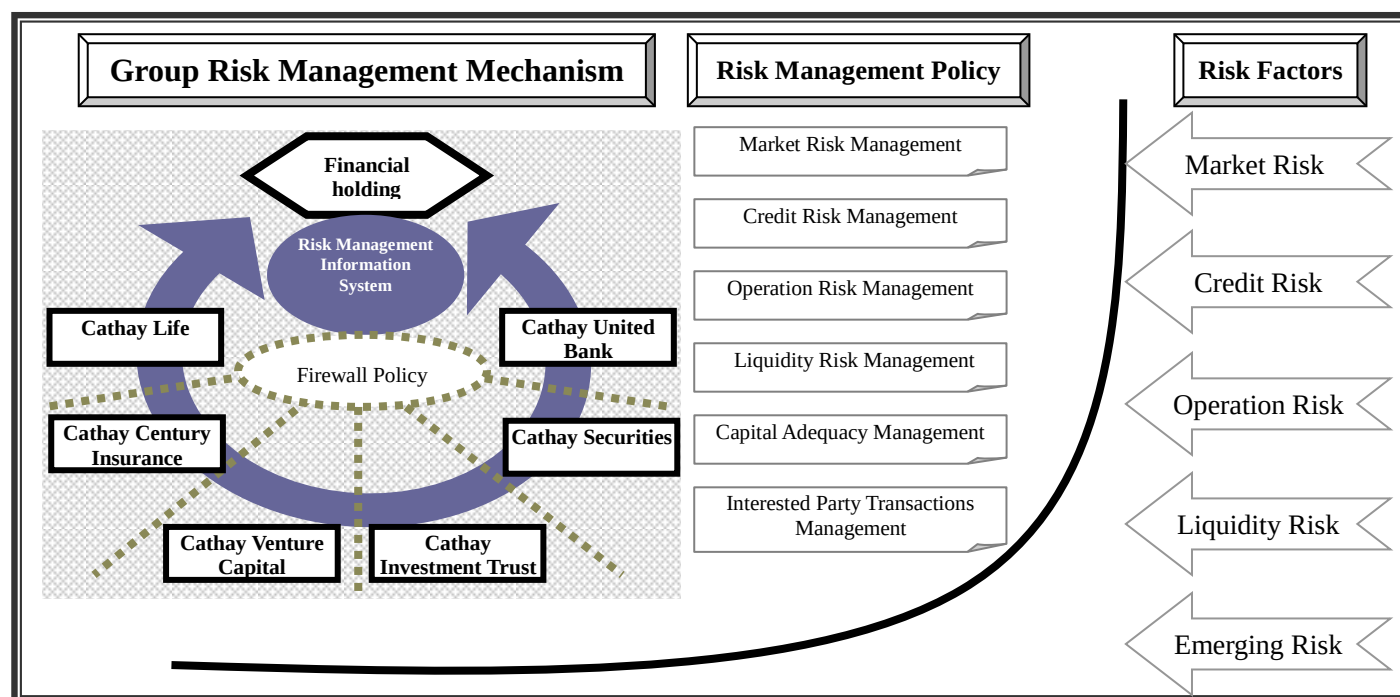
V. The investment Strategy in the most recent year, Main Causes for Profits or Losses, Improvement Plans and the Investment Plans for the Coming Year

For details of investments made in the last year, please refer to Page 110 - “VIII. Implementation of the Capital Utilization Plans.”

In the past, Cathay Financial Holdings initiated the twin-engine of the insurance and banking service, which yielded excellent complementary effects. Many in the industry learned from the Company and launched similar products. Cathay Financial Holdings decided to make its asset management operation as the third engine for further development of the twin-engine of insurance and banking for providing full-range financial services and further enhance brand value. In the future, the business policy will be focused in the development in other countries with the triple-engine of “insurance + banking + asset management” as the core strategy for development. With its base in Asia-Pacific and the triple-engine as its strategy, Cathay Financial Holdings is dedicated to be the best financial institution in Asia.

VI. The analysis and assessment of risk management in the most recent year to the date this report was printed by the analysis of the overall financial position and operation.

(I) Risk management framework and policies of the financial holding company and its subsidiaries



1. Risk Management Governance Structure:

The FHC has set up an independent Risk Management Division to implement governance and control the comprehensive risks. The division is responsible for establishing the related policies and guidelines and also for executing risk management practices.

Each subsidiary has set up its risk management unit based on the regulatory laws or business nature to carry on the establishment and execution of the risk control mechanism for its operation as well as the making of related policies and guidelines according to the business features and the FHC's risk control policy.

In addition, risk management committees are formed in both the FHC and the major subsidiaries to oversee the Group's risk exposure and ensure normal operation of the risk control activities.

2. Risk Management Policy:

The risk management policy and the related guidelines clearly delineate the responsibilities of risk management activities. Our employees are required to follow the policies and the guidelines, especially for the transactions related to investment and loan business.

- (1) The Risk Management Division is in charge of setting up criteria for each major risk of the FHC, including market, credit, operation, liquidity, and capital adequacy. The subsidiaries also set the criteria based on the policies set by the FHC and authority for risk management activities.
- (2) To monitor the concentrations of credit exposure by loans, investment and related transactions, we have established the guidance to manage the concentrations.
- (3) To enhance the management of credit and operation risk events, we apply the information system for monitoring those events among the FHC and the subsidiaries.

(II) Methods adopted by the financial holding company and subsidiaries for the assessment and control of risks, and disclosure of quantified risk exposures

■ General periodic disclosures

1. Risk Management Policies, Procedures and Reporting

(1) Risk Management Policies and Procedure

- A. Market risk management: The Company and its subsidiaries have established robust investment decision making procedures and implemented position limits, stop-loss limits, VaR limits, market risk factor limits, market risk stress VaR limits, and exceptions management procedures to guide employees' decisions. Risk factor monitoring, risk assessments, sensitivity analyses and stress tests are performed regularly on the exposure to enforce market risk management.
- B. Credit risk management: The Company and its subsidiaries have implemented robust credit policies, credit assessment procedures and guidelines on the handling of collaterals, overdue loans, asset valuation, and provisioning. Concentration limits for borrower groups, industries, specific industries and countries have also been implemented to ensure diversification of credit risk.
- C. Liquidity risk management: We maintain liquidity reserve to meet regulatory requirements. To measure liquidity risk, we use several quantitative analysis methods, including liquidity gap and cash flow analysis. In addition, each subsidiary maintains contingency funding plans that outline our potential responses to liquidity stress events at various levels of severity.
- D. Operational risk management: We accomplish operational risk management from two perspectives within the structure of the Group, all operations are divided into front, middle, and back desks based on their functions. Each subsidiaries applies timely and accurate information system for their operation procedures. Operational risk is properly monitored through internal control system, internal and external audits and legal compliance tasks with regulatory requirements.
- E. Capital adequacy: Currently the FHC and the subsidiaries all maintain a capital adequacy ratio superior to the regulation requirement. In addition, non-scheduled calculation will be held to test the impact of the ratio based on future merger & acquisition plans or expansion investment from the Group to ensure the ratio stays above an appropriate level, and in the meantime, to provide references for funding plans in the future.

(2) Risk Management Reporting

- A. All risk management units are required to submit reports to the authoritative supervisors on a regular basis to disclose risk exposures and risk management implementation status. Major risk events will be summarized and reported to supervisors to reinforce risk management practices.
- B. Risk management reporting should be based on quantitative risk assessments. Risks that cannot be quantified will require special disclosure in the report.
- C. The financial holding company and subsidiaries regularly report the progress of their risk management tasks to the Risk Management Committee and board of directors. All subsidiaries are also required to report to the financial holding company's Risk Management Division.

(3) Risk Management Committee

The FHC and the subsidiaries hold risk management committee meetings periodically to ensure all risk control systems are working properly and review the consequence of the risk control. Impromptu meetings are called for emergency events.

(4) Exception Management Process

When subsidiaries deviate from the risk management policies, subsidiaries should make the exception report which disclose the reasons, the related rules and following procedures. In addition, the report should forward to the FHC after approved by subsidiaries' supervisor.

2. Risk Management System, Range and Characteristics

The Company and its subsidiaries have established or implemented a number of risk management information systems including: VaR system, credit grading system, credit risk reporting system, group credit and investment limit system, and operational risk incident reporting system to comply with government regulations and for centralized monitoring of subsidiaries' exposure.

3. Risk Hedging/Reduction Policy

Please refer to "7. Management on financial risk" in Appendix I on page 432.

■ Information on the methods of risk management at all subsidiaries and quantifying risk exposure

Life and property/casualty insurance subsidiaries:

1. Risks that life and property/casualty insurance subsidiaries face and the method of controlling them are as follows:

(1) Market Risk

- A. Definition: Risks arising from price changes in financial market instruments that cause losses in the value of financial assets of the company.
- B. The method of controlling:
 - a. Monitoring market risk metrics.
 - b. Foreign exchange risk management.
 - c. Stop loss.
 - d. Scenario analysis; stress test.
 - e. Price deviation management.
 - f. Derivatives management.

(2) Credit Risk

- A. Definition: Risks in the loss of claims of the company because the counterparties or the debtors do not fulfill their contractual obligations.
- B. The method of controlling:
 - a. Evaluating transaction counterparty, issuer, and guaranty institutions before a transaction and verifying the legality of transactions.
 - b. Follow-up on positions after the investment.
 - c. Monitoring credit risk metrics.
 - d. Issuer credit and investment limit.
 - e. Controlling the concentration of transaction counterparties.
 - f. Controlling the limit of high-risk instruments.
 - g. Controlling the limit of high-risk industries
 - h. Scenario analysis; stress test.
 - i. Report on credit risk emergencies.

- j. Evaluating the risk of lending operation and risk management operation.
- (3) Country risk
 - A. Definition: Refers to the risk of devaluation to the Company's assets caused by political or economic instability in countries where the Company maintains loan portfolio, treasury investment or long-term equity investment positions, which results in market price fluctuation or renders securities issuer/debtor unable to repay debt obligations.
 - B. The method of controlling:
 - a. Defining country risk grades, limits and surveillance.
 - b. Regular inspection of country risk condition.
- (4) Liquidity Risk
 - A. Definition: It is classified as "fund liquidity risk" and "market liquidity risk". "Fund liquidity risk" refers to the risk with which the company cannot turn assets into cash or acquire enough funds and therefore cannot fulfill obligations that are due. "Market liquidity risk" refers to the risk of significant changes in market prices when it disposes of or offsets the positions it holds because there is not sufficient depth in the market or the market is in chaos.
 - B. The method of controlling:
 - a. Fund reporting.
 - b. Cash flow analysis.
 - c. Managing the maturity date of funds.
 - d. Monitoring fund liquidity risk assessment indicators and scenario analysis.
 - e. Evaluating and selecting the liquidity of investments.
 - f. Liquidity Risk Assessment
 - g. Emergency response mechanism.
- (5) Operation Risk
 - A. Definition: Losses caused by errors or malfunctions of internal operation, personnel, and system, or losses caused by external incidents. It includes legal risks but does not include strategic risks and reputation risks.
 - B. The method of controlling:
 - a. Internal control and internal audit.
 - b. Legal risk management mechanism.
 - c. Reporting operation risk incidents.
 - d. Crisis management for emergencies.
 - e. Money laundering prevention operating procedures.
 - f. Data security and personal data management.
- (6) Insurance risk
 - A. Definition: It refers to the risk that the company assumes from the insured after collecting a premium in operating the insurance business. It refers to the risk of loss caused by unexpected changes when the company pays indemnity and associated expenses.
 - B. The method of controlling:
 - a. Product design and pricing risk – occurrence studies, evaluation of new products, periodic review of product premium, after-sale experience tracking, and product analysis.
 - b. Underwriting risk – establishment of robust underwriting systems, procedures, manuals or guidelines, and monthly monitoring of underwriting indicators.
 - c. Reinsurance risk – creating reinsurance risk management plans, tracking the credit rating condition of the reinsurer.

- d. Catastrophe risk – periodically evaluating the loss when a catastrophe occurs, arranging reinsurance, and properly diversifying company risk.
- e. Claim risk – detecting claim risk, reporting exceptions, management by the hierarchy such as reporting along the hierarchy.
- f. Reserve risk - provision of adequate reserves for the products involved, and regular analysis and review of reserve adequacy.

(7) Risk in matching assets and liabilities

- A. Definition: It refers to the risk caused by the disparity in the change in value of assets and liabilities due to reasons in the external environment of an insurer.
- B. The method of controlling:
 - a. Cash flow test and monitoring of duration.
 - b. Analyses for defined scenarios and random scenarios.
 - c. Analysis of liability fair value and contract value.

(8) Capital adequacy

- A. Definition: Capital adequacy ratio refers to the ratio of total adjusted net capital to risk-based capital defined in the Insurance Act and the Regulations Governing Capital Adequacy of Insurance Companies.
- B. The method of controlling:
 - a. Periodic monitoring of capital adequacy ratio.
 - b. The evaluation and responses for the effect of specific investments or services on capital adequacy ratio.
 - c. The evaluation and responses for significant events (such as the change in regulations) on capital adequacy ratio.

(9) Operation Risk

- A. Definition: Direct or indirect possible losses caused by all factors of operation of an insurer.
- B. The method of controlling:
 - a. Notes on Major Incidents and the operational risk incident reporting system.
 - b. Strong internal audit and internal control.
 - c. Independent directors and supervisors.
 - d. Adequate compliance regulations (transmission of information on the change in laws, periodic execution of compliance review and report, regular training for compliance staff, and so on).

2. Quantitative information on risk exposure

- (1) The company defines risk tolerance each year and defines all types of risk limits and risk levels based on risk tolerance. The company calculates and monitors all types of risk monitoring indicators and plans response measures when specific risk levels are reached.
- (2) The company calculates capital adequacy ratio based on risk-based capital (RBC) to comply with the minimum requirements of statutory regulations.
- (3) Regular calculation of reserve-weighted interest rate, value of new business and liability figures for decision-making.

Cathay United Bank:

1. Cathay United Bank subsidiaries face and the method of controlling them are as follows:

(1) Credit Risk

- A. Designing organization principle:

- a. The company created a Risk Management Division that is independent of other business units. It oversees the Risk Management Department and Review Department. They help the company in the review and monitoring the level of credit risk as well as control the overall lending asset quality.
- b. Units that execute risk control: They are the units that provide all kinds of lending services, investment services, and all kinds of financial instruments or contracts.
- B. Risk Management Process:
 - a. The company prudently evaluates the risks of customers based on credit investigation and credit extension regulations to implement Know Your Customer (KYC) policies.
 - b. After a loan is granted, the company performs periodic review and account monitoring measures based on management policies during the life of the loan to improve overall asset quality.
- C. Measurement and control principle:
 - a. The principle is complying with the internal-rankings based regulations of the new Basel Accord.
 - b. The principles cover the creation of various regulations and systems. These include the creation of systems and regulations such as credit granting procedures; limit management, information on the levels of credit rating, information on collaterals, periodic review, and subsequent management.

(2) Market Risk

- A. Designing organization principle:
 - a. The Bank's market risks are monitored by the board of directors, the Asset and Liability Management Committee and the Risk Management Committee. The Bank also has an independent unit responsible for the management and monitoring of market risks associated with various transactions.
 - b. The market risk management department is a unit that controls market risk. It is responsible for authorization guidelines, monitoring the risk of funds and trading positions, the valuation of derivatives, and managing positions.
- B. Risk Management Process:
 - a. When the business unit executes market risk management measures, they perform the procedures based on their roles in the hierarchy responsibility table.
 - b. The company periodically provides management information and statements to supervisors with appropriate authority.
- C. Measurement and control principle:
 - a. Enforce proper identification, assessment and control of the Bank's market risks, and verify the correctness and rationality of principles, tools, methods and market data used in valuation, including the basis of valuation and the fairness of information obtained.
 - b. Develop a quantitative market risk management model that conforms to international practices.

(3) Operation Risk

- A. Designing organization principle:
 - a. The Board is the unit with the ultimate responsibility and authority and has three lines of defense, which are the risk-assuming units, the risk management department, and the internal audit office. They control, monitor, and audit the process and management structure of operational risks.
 - b. Unit that executes risk control: All units of the bank.

B. Risk Management Process:

- a. The company executes the goals of identifying, evaluating, monitoring, and controlling/offsetting operational risks with substantive policies and implementation procedures.
- b. All units ensure the appropriateness of the delineation of authority and responsibility and reporting procedure based on the hierarchical responsibility table, and reporting procedure and mechanisms.

C. Measurement and control principle:

- a. The company creates measurement and control mechanisms for dimensions such as core products, operational activities, operation procedures, and IT system pursuant to the new Basel Accord.
- b. Their scope covers the refinement of systems for managing operating risk, designing routine monitoring statements, preparing emergency response procedures, and related measures.

(4) Liquidity Risk

A. Designing organization principle:

- a. The board of directors holds the ultimate decision-making authority, whereas the Asset and Liability Management Committee is responsible for strategic planning and supervision of liquidity management. An independent Accounting Department has been assigned to the reporting and monitoring of liquidity risks.
- b. The Treasury Department is responsible for the execution of day-to-day funding. If the department discovers or expects major changes in the Bank's liquidity position, it shall coordinate with the Accounting Department and the Market Risk Management Department to analyze the situation, undertake appropriate measures, and report to the board of directors in a timely manner.

B. Risk Management Process:

- a. Part of the Treasury Department's responsibilities is to adjust liquidity gaps and maintain adequate liquid capital based on daily capital flow and changes in market condition.
- b. The Accounting Department adopts a quantitative management approach and prepares monthly reports to the Asset and Liability Management Committee for monitoring of changes in liquidity risks.

C. Measurement and control principle:

- a. The Bank adopts various systems including liquidity indicators, limit controls, reporting procedures, monitoring systems, and stress testing.
- b. The company develops liquidity risk management indicators and creates warning limits to monitor the condition at all times. The company analyzes factors that are detrimental to liquidity and take immediate measures to neutralize their impacts.

(5) Capital adequacy

A. Designing organization principle:

- a. Establish a specialized unit to conduct capital adequacy management and ensure proper capital adequacy ratio in order to defend the risk derived from undertaking business ventures.
- b. The specialized unit performs calculation, monitoring, disclosure and management of capital adequacy ratio in accordance with the authority's instructions and internal policies, and responds to any breaches of capital adequacy ratio.

B. Risk Management Process:

- a. Capital adequacy ratio is regularly calculated, reported, disclosed and managed according to internal and external rules, with proper actions taken in response to breaches.
- b. The evaluation and responses for the effect of specific investments or services on capital adequacy ratio.

C. Measurement and control principle:

The principle complies with the internal-rankings-based regulations of the new Basel Accord and capital adequacy management regulations.

2. Quantitative information on risk exposure

The company periodically calculates all types of quantitative risk exposure information and discloses them pursuant to applicable laws. Such information covers capital adequacy, loan asset quality, profitability, and sensitivity analysis to comply with regulations.

Cathay Securities:

1. Cathay Securities subsidiaries face and the method of controlling them are as follows:

The subsidiary has already formed an independent risk management unit and codified risk management policies and management guidelines on market risk, credit risk, operational risk, liquidity risk, and capital adequacy. These policies and guidelines clearly define the control mechanism on all sources of risks so that the company can implement risk management regulations. The execution of the risk management policy and risk measurement standards is as follows:

(1) Market Risk

A. Definition: The risk of loss in investment positions of the company (including stocks, bonds, and derivatives) caused by price fluctuations of financial instruments that affect the value of financial assets held by the company.

B. The method of controlling:

Codifying trading regulations based on the nature of products and departments and the actual operation. Clearly defining the authorization limit, risk limit, stop loss, and over-the-limit process methods; effectively implementing control mechanisms with middle office risk control personnel in the sales department and real-time monitoring system. Additionally, providing risk management reports, including market price evaluation, the amounts of over-hedging and under-hedging, Value at Risk (VaR), model back testing. The subsidiary performs stress tests based on different extreme scenarios and sensitivity factors to effectively control the risks assumed by the company and manage overall risk.

(2) Credit Risk

A. Definition: Risks of loss on receivables of the company because the counterparty of the trade or the debtor does not fulfill the contractual obligation.

B. The method of controlling:

Implementing the evaluation on the credit standing of the counterparty before the trade, intraday control and risk exposure management after the trade. Controlling risks that may arise from securities trading according to credit valuation models.

Defining trading limit on investment positions or derivatives based on the credit rating of the counterparty (TCRI, Taiwan Ratings, S&P, Moody's, Fitch) and performing examinations on investment risk concentration and risk exposure on a regular basis. In addition, periodically inspecting clients in the high risk zone of margin trade maintenance ratio of their entire accounts, and the stocks whose margin balances were over a certain level

of the margin balance in the market. Creating a credit risk emergency reporting mechanism along with the financial holding company.

(3) Operation Risk

A. Definition: Operational risks refer to losses caused by inappropriate action or mistakes in internal operation, personnel, or system; or by external events. Such risk includes legal risks but does not include strategic risk or reputation risk.

B. The method of controlling:

Creating authorization and segregation of duties and rights on the operating processes in the front office, middle office, and back office. Documents for trading, trade confirmation, delivery, and accounting shall be filed for review. Establish stringent operation procedures. Prevent inappropriate human error and frauds. Strictly requiring all departments to create and implement internal audit and internal control measures. Creating an operational risk loss incident reporting mechanism and loss database as well as the system error improvement schedule tracking system to have an in-depth understanding of the reason behind the loss caused by the system or personnel. Additionally, the company has an internal audit office that reports to the Board and performs audits on routine operations so that the company can implement effective internal audit and internal control and compile audit reports on a regular basis. The company seeks to lower the loss from all operating errors.

(4) Liquidity Risk

A. Definition: Liquidity refers to the realization capacity that a company acquires funds to maintain its operational needs and the capacity to fully cover asset growth and repay liabilities; market liquidity is to avoid and manage the risk of losses resulted from the fluctuations of market price when disposing or offsetting positions held in the situation of insufficient market depth or market disorder.

B. The method of controlling:

Defining liquidity risk indicators and compile fund liquidity risk management statements to review fund conditions and maturity date gaps for assets and liabilities. The preparation of structure analysis table of asset and liability maturity dates serves as a basis of fund planning. Also, we periodically perform fund liquidity simulations to ensure that we have response mechanisms under extreme conditions to meet fund gaps. We also acquire short-term financing credit from other financial institutions and manage fund inflow and outflow from such short-term financing to maintain proper liquidity and ensure the payment capabilities of the company. The investment unit shall conduct market liquidity risk control during the purchase in accordance with the market liquidity management indicators and regulations.

(5) Legal risk

A. Definition: The risk that arises because of defects in the contract or the eligibility of the counterparty that void the contracts or cause breaches of contracts.

B. The method of controlling:

We define the process of drafting and reviewing legal documents. Documents related to contracts are all signed-off at the legal department and reviewed by external attorneys as necessary.

(6) Capital Adequacy Management

A. Definition: Capital adequacy management is the foundation of the company's capital management. We maintain proper capital adequacy ratio, ensure the integrity of our capital

structure, and produce steady growth of our business.

B. The method of controlling:

We define capital adequacy measurement indicators and compile capital adequacy management statements on a regular basis to evaluate the appropriateness of the company's capital adequacy ratio and the integrity of our capital structure. When allocating risk-based capital, we also conduct allocations aiming at maximizing the profits under the premise of ensuring that the capital adequacy ratio meeting the internal standard.

(7) Reputation Risk and Strategic risk

A. Definition: Reputation risk is the risk that may result in a shrinking customer base, decline in revenue, a burden of enormous litigation fee, or other possible losses, due to negative matters in the company's operation, whether the matter is real or alleged. Strategy risk is the risk of immediate or future possible loss to revenue or capital because of wrong business decision, or poor execution of decision, or the lack of proper response to competitors, or the lack of proper response to changes in the industry.

B. The method of controlling:

We draft internal mitigation guidelines for significant events such as reputation risk or strategic risk to reduce the loss due to risk when significant events happen.

We codify risk management policies and guidelines for the aforementioned sources of risks. We clearly define the management mechanism for all sources of risks and create risk limit indicators and periodically review the appropriateness of these indicators. Additionally, every six months, we present risk management execution reports to the Risk Management Committee and the Board and notify the Risk Management Division of the Financial Holding with our clarification on the company's assumption of risks and the appropriateness of current risk management regulations.

2. Quantitative information on risk exposure:

- (1) On a regular basis, we produce quantitative statements, including: market risk value, risk value to risk value limit (the indicator is one day risk value at 99% confidence interval in the low risk interval that does not exceed 2.8% of the net asset of the company over the entire year); all types of sensitivity and stress scenario analysis; investment and loan concentration management and country limit management; asset and liability gap control and inspection for all periods; authorization, risk, and gain or loss of derivatives. The subsidiary presents the statements to top management to form the basis of decision making.
- (2) Producing liquidity fund liquidity risk management statement on a regular basis to understand the maturity date gap of the assets and liabilities of the company. In 2018, all maturity date gaps including short-term loan from financial institutions were free of fund gaps. In addition, the ratio of overall foreign currency liquidity is over 100% throughout 2018.
- (3) Calculating net adjusted capital adequacy ratio according to regulations on securities brokers and rules from regulators. In 2018, the capital adequacy ratio figures were between 311% and 380%, meaning that they were all above the internal risk control indicator of 220%.

Cathay Venture Capital:

1. Cathay Venture Capital subsidiaries face and the method of controlling them are as follows:

(1) Market Risk

A. Definition: Risks arising from price changes in financial market instruments that cause losses in the value of financial assets of the company.

B. The method of controlling:

- a. Holding investment management meetings on a regular basis.

- b. Decisions on investments in or disposal of assets are approved over an escalation of hierarchy according to the internal stratified responsibility table.
- c. Providing post-investment management reports periodically.
- d. Risk management execution report.

(2) Liquidity Risk

- A. Definition: Liquidity refers to the ability of a company in acquiring funds to maintain the liquidity it needs and to fully pay for the growth in assets and settle liabilities.
- B. The method of controlling:
 - a. Asset allocation analysis.
 - b. Cash flow analysis.
 - c. Inspecting long- and short-term debt ratio on a regular basis.

(3) Operation Risk

- A. Definition: Direct or indirect possible losses due to various operational factors.
- B. The method of controlling:
 - a. Particulars on processing significant events and reporting mechanism for operational risk loss incidents.
 - b. Robust internal audit, internal control and compliance systems.
 - c. Conveying the information of changes in regulation; performing legal compliance review and report on a regular basis; regular training and education for the legal compliance personnel.

2. Quantitative information on risk exposure

Disclosing worldwide investment exposure to regulators pursuant to applicable laws and declaring the amount of investment exposure pursuant to categories such as the group investment limit, high risk industry, and strategic developing nations defined by the Financial Holding.

Cathay Investment Trust:

1. Cathay Investment Trust subsidiaries face and the method of controlling them are as follows:

(1) Market Risk

- A. Definition: Market risk refers to the risk that fluctuations in the value of financial assets due to uncertainties in market price in a certain period of time could cause impairments to the net value of portfolios of funds or managed accounts. For example, fluctuations may be changes in the interest rates, exchange rates, and prices of equity securities and commodities.
- B. The method of controlling:
Market risk management focuses on regulating the company as a whole, and the portfolios of mutual funds and managed accounts based on investment objectives, investment characteristics, and investment restrictions. Its details include disclosure of market risk, restrictions on the range of investment trading, investment limit authorization level, and over-the-limit procedures.

(2) Credit Risk

- A. Definition: Credit risk refers to the risk of bad credit record from financial forecasts, statements, important messages of the issuing company of the investment, and the risk of failure to settle and deliver by the counterparties of the trade, such as securities brokers, futures brokers; bills finance firms, and banks.
- B. The method of controlling:
Credit risk management is mostly performed with the screening mechanism that reduces

the credit risk of the investment. The screening mechanism includes reviews on financial indicators of investments and the change in management of securities issuers and external auditors. The company uses external credit rating databases to evaluate the credit risk of counterparties in the trades and adjusts our own credit rating on counterparties in the trades to effectively control the credit risk of our investments.

(3) Liquidity Risk

- A. Definition: liquidity risk refers to the investment risk caused by an over-concentrated portfolio or plummeted trade volume, which are difficult to realize in a short period of time, and which further affects the redemption payment or position adjustment.
- B. The method of controlling:
The control of liquidity risk focuses on monitoring quantitative indicators, such as the quantity of stocks in portfolios, concentration of stock holding, concentration of sectors, asset liquidity, and liquidity reserve ratios.

(4) Operation Risk

- A. Definition: Operational risks refer to losses caused by inappropriate action or mistakes in internal operation, personnel, or system; or by external events.
- B. The method of controlling:
The management of operational risk mostly depends on executing controls based on the operating procedures and focuses defined by internal control processes of the company. We should also create proper control mechanisms through the information system against operational risks in business and trading processes to reduce human error.

(5) Other Risk

- A. Definition: Other risks include legal risks, reputation risks, and strategic risks, which are significant risks that are not quantifiable.
- B. The method of controlling:
The major process mechanism is initiating the risk management mechanism. The Risk Management Department manager notifies the Risk Management Committee to hold risk management meetings from time to time to propose emergency response measures. Based on their duties, members of the Risk Management Committee can also convene meetings on their own initiative.

2. Quantitative Information on Risk Exposure

- (1) We create management mechanism on quantifiable risks, such as market risk and credit risk, from our information system. We create quantitative models on market risk with the risk control system and disclose risk values.
- (2) We perform evaluations on the operational effectiveness of risk management. The components of the evaluation include whether the practices are in line with the expectations of the Board, whether risk management is independent, whether the execution of risk management is thorough, and whether the overall risk management infrastructure is complete. We present reports to the Board on a regular basis.

(III) Financial impacts and response measures in the event of changes in local and foreign regulations:

- 1. In 2018, the Ministry of Finance issued several correspondences including a Self-Certification Form template, Q&A and CRS-related rules to complement “Regulations Governing the Implementation of the Common Standard on Reporting and Due Diligence for Financial Institutions”.

Response measures: The Company and all regulated subsidiaries have adopted and made

corresponding adjustments in line with the new regulations.

2. In 2018, the Financial Supervisory Commission revised its “Implementation Rules of Internal Audit and Internal Control System” for various professions that demanded for the implementation of a whistleblower system. Companies that meet certain criteria are required to assemble dedicated information security units. The Implementation Rules also require applicable subjects to establish a compliance risk assessment/management/monitoring framework and methodology.

Response measures: The Company and all regulated subsidiaries have implemented their own whistleblowing systems and dedicated information security units in line with the new regulations. Compliance risk assessment/management/monitoring framework and methodology are being established according to the statutory timeline.

3. The Financial Supervisory Commission revised its “Regulations Governing Anti-Money Laundering of Financial Institutions” and “Regulations Governing Internal Audit and Internal Control System of Anti-Money Laundering and Countering Terrorism Financing” for various professions this year.

Response measures: The Company and all regulated subsidiaries have assessed impacts of these new regulations and will adjust their internal policies accordingly.

(IV) Major impact on the Cathay Financial Holdings financial position caused by changes in technology and industry and remedial action

Cathay Financial Holdings will continue adopting new technologies as a means to enhance product innovation and service efficiency. With financial technology at the foundation and customer-centric values in mind, the Company plans to create a digital environment where it may provide customers with more convenient and more comprehensive range of financial services. Furthermore, Cathay Financial Holdings has always valued stability in its main operating strategy, and the requirement to improve risk management and asset quality while pursuing business and profit performance is congruent with the Group’s goal.

(V) Major impact on FHC brought by company image change of FHC and the subsidiaries and remedial actions

- (1) The Group has long held the belief of “Growing a Grand Tree, Culturing Public Welfare” and exercising corporate power to put together various kinds of charity events, including public interest, child care, academic, culture and art. We believe in fulfilling our responsibilities as a “corporate citizen” and providing growing stamina for society as an important mission in addition to that of core business growth.
- (2) The company actively monitors the company’s brand image in the market by monitoring the media and investigating brand reputation. The company also created internal crisis management reporting and management guidelines for the purpose of actively clarifying and responding to incidents that may harm the image of the corporation at the earliest time possible.

(VI) Potential effects and risks associated with mergers and acquisitions and remedial action

■ **Acquisition/investment**

Conning Holdings Limited (“Conning”), a 100%-owned investment of the Company’s subsidiary - Cathay Life Insurance Co., Ltd., acquired approximately 45% of equity ownership in Global Evolution, a Danish asset management company specialized in emerging and frontier markets bonds, in June 2018.

■ Expected benefits of the acquisition

Expected benefits from Conning's acquisition of Global Evolution

Global Evolution's extensive experience in emerging and frontier markets bonds and foreign currency investments has made it a world-renowned asset management company in this special expertise. It has the potential to improve Conning's investment capacity and competitiveness, and may even bring in long-term customers and help build a world-class brand.

■ Possible risks and response measures

Possible risks associated with the completed/proposed acquisition/investment, and response measures:

1. Country risk:

Denmark is recognized as a developed market and a member of the European Union. It has long exhibited political and economic stability without significant country risk.

2. Operating and management risks:

Global Evolution is managed by Conning, whereas the everyday operation is handled by the local management team. By leveraging the management team's familiarity with the local business and market, the Group should effectively reduce its overall operating risks.

3. Other Risk:

Cathay Life will be managing market, credit, operational, liquidity and other risks with discretion, and undertaking post-investment management and risk management practices as stipulated by the Financial Supervisory Commission for foreign financial businesses. The investment and its performance will be reviewed on a regular basis and presented for discussion by the Risk Management Committee and the board of directors.

(VII) Risks associated with concentration of business activities

To lower the concentration risk, we leverage our comprehensive platform to provide a broad range of financial products and services – life insurance, property and casualty insurance, banking, securities and asset management – to individual and corporate customers in Taiwan and abroad.

(VIII) Impact and risks brought by significant shareholdings transfer by the Directors, Supervisors, or shareholders with more than 1% ownership, and the remedial actions

Currently there is no massive shareholdings transfer or change from our directors or supervisors. Any share disposition from shareholders with more than 1% ownership shall not bring impacts or risks to us.

(IX) Impacts, risks and response measures associated with a change to the management of the financial holding company:

The Company's operating concession is stable with no significant change.

(X) Litigations or non-contentious matters: List the directors, supervisors, general managers, the persons in charge, and major shareholders with more than 1% of shareholding of the Financial Holding Company and its subsidiaries; major lawsuits, non-contentious matters or administrative procedures involving the subsidiaries with a determined court ruling or that are still pending, that may significantly affect the shareholders' equity or the stock price of the Financial Holding Company. Disclose the factual accounts of the cases, the amount involved, the date of the commencement of judiciary proceeding, the parties concerned, and the status of the cases as of the date this report was printed.

1. As of February 28 2019, Cathay Life Insurance Co., Ltd. (hereinafter, "Cathay Life") was involved

in a major lawsuit which is still unsettled due to normal business relations. The details are elaborated below:

- (1) For the pursuit of its investment objective in the period of 2003 to 2007, Cathay Life subscribed to shares from Fairfield Sentry Limited, and redeemed the shares as agreed for USD 24,496,798.58. Bernard L. Madoff Investment Securities LLC (Madoff's asset management company), and investee of Fairfield Sentry Limited, was allegedly involved in a Ponzi Scheme, and is in liquidation procedures at BVI (Madoff's asset management company is also in liquidation procedures). The liquidator of Fairfield Sentry Limited and the official receiver of Madoff's asset management company filed a lawsuit against Cathay Life at the United States Bankruptcy Court of New York State in March 2011 and December 2011, respectively. They claimed that Cathay Life must return the proceeds from the redemption of shares to the liquidation panel. Cathay Life has already retained lawyers to defend the charge. Both Cathay Life and the attorneys hold that this case will not cause significant impact on the financial position of Cathay Life. In addition, the lawsuit against Cathay Life and Bernard L. Madoff Investment Securities LLC is now in United States Court of Appeals for the Second Circuit, and had held an oral arguments on November 16 2018.
- (2) In October of 2003, Global Life Insurance Co., Ltd (hereinafter, "Global Life") purchased from Taipei District Court by way of auction, the following real estates : (1) the second, third, fourth, fifth, and sixth floor of No.50, Sec.1, Zhongxiao West Road, Zhongzheng District, Taipei City, and (2) fifty parking spaces located on the fourth and fifth floor underground in the same building (collectively, the "Real Estate"). The bid was submitted in the name of Chou, Tsai-Fa (the "Defendant"), special assistant of Global Life's then chairman. Subsequent transfer and registration as owner of the Real Estate were all completed in the name of the Defendant. The Defendant subsequently embezzled the Real Estate, which led to Global Life's claiming for the return of the Real Estate and relating rents.

On the 30th of April, 2013, Taipei District Court has rendered its judgment in favor of Global Life, to the effect that Global Life is entitled to NTD 1,461,616,737, the proceed from auctioning the Real Estate. The judgment is overruled by the Taiwan High Court on the 30th of June, 2015. The Supreme Court has thereafter, on the 21st of April, 2016, overruled the 30th of June, 2015 Taiwan High Court judgement, and remanded the case to the Taiwan High Court. The case is currently attached to the Taiwan High Court. On June 27 2018, Taiwan High Court has rendered remand first instance judgement. Cathay Life is entitled to not only NTD 1,461,616,737, the auction price of Real Estate, but also a claim of NTD 37,007,940. The lawsuit is now action pending in the Supreme Court.

2. As of February 28 2019, the wholly-owned subsidiary, Cathay United Bank Co., Ltd. (hereinafter, "Cathay United Bank"), is subject to a major ongoing lawsuit arising in the normal course of business. The details are elaborated below:

Lee & Li, Attorneys-at-Law (hereinafter, "Lee & Li") alleged that the embezzlement case of Liu Wei-Chieh (a former employee of Lee & Li), which occurred in October 2003, was caused by the negligence of Cathay United Bank, and Lee & Li claimed damages from Cathay United Bank in the amount of approximately NT\$991.002 million. The case was brought to the court since July 2007, and Cathay United Bank won favorable decisions in both first instance and second instances. At present, the original second-instance judgment was reversed by the Supreme Court. Now the case is remanded to the Taiwan High Court for further review. Cathay United Bank and its attorneys hold that this case will not have material adverse effect on the financial position of Cathay United Bank.

(XI) Other material risks and corresponding measures

In order to enhance the management of information security, Cathay Financial Holdings has established an Information Security Department in May 2018 to supervise and assist affiliate subsidiaries in promoting information security. Cathay Financial Holdings also formed an Information Security Committee which consists of the company and its subsidiaries' senior executives from Information Technology and Information Security as members of the committee.

The committee will convene periodically to review the progress of critical information security projects and oversee the implementation of the Group's overall information security execution. Multiple information security assessments will be conducted annually to improve and strengthen the protection of information systems. For the purpose of risk mitigation pertaining to hacking and confidential customer information leakage, Cathay Financial Holdings and its subsidiaries will hold periodic information security awareness training and security incident drills to raise the awareness of employees.

In addition, an independent third party was appointed to assess the overall implementation of information security of each subsidiary in 2018 with the outcome as appropriate. Cathay Financial Holdings and its subsidiaries have no material information security incidents in 2018.

VII. Special Event Management

(I) Major Event Control

1. The Company has an "Incident Resolution Policy" in place that outlines the reporting and response procedures the financial holding company and subsidiaries shall follow in the case of major incident. This policy reduces the impact of major incidents while enabling the Company and subsidiaries to react to various situations.
2. When a major event occurs, the subject unit should immediately report to its direct supervisor and then notify the FHC, in addition to taking timely and appropriate actions.
3. If the major events are special and required preventive actions from all business units, the Risk management Division should provide solutions.

(II) Credit Event Control

1. To refine our risk management and minimize adversity caused by sudden credit events among our debtors or investees, we have developed "the Credit Emergency Reporting Guideline" for appropriate reporting procedures.
2. Reporting items: warning event reporting and major event reporting.
3. Reporting procedure: The business unit should report to both the subsidiary's risk management department and the FHC's risk management division immediately when warning, major event, or reportable event occurs among debtors or investees. The Risk Management Division should aggregate the Group's exposure amount and provide solution, when needed.

VIII. Other Major Events

None.

Eight. Special Disclosure

I. Information on Affiliates

(I) Consolidated business reports

Refer to Appendix II.

(II) Consolidated financial statements of the subsidiaries

Refer to Appendix I.

(III) Affiliation report

Refer to Appendix III.

II. Any private placement of securities in the recent years up to the publication of this annual report.

None.

III. The shares in the Financial Holding Company held or disposed of by subsidiaries in the recent years up to the publication of this annual report:

None.

IV. Other important supplementary information:

None.

V. Events occurred in the previous year or up to the publication of this annual report, which significantly affect shareholders' equity or price of shares pursuant to subparagraph 2, paragraph 3, article 36 of the Securities and Exchange Act

The board of directors passed a decision to reappoint accounting firm and CPAs for the Company during the meeting held on November 2, 2018. For details, please refer to “Three. Corporate Governance Report/6. Change of CPA.”

Appendix 1

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For the years ended
31 December 2018 and 2017
With Independent Auditors' Audit Report

Address: 296, Jen Ai Road, Sec. 4, Taipei, Taiwan, ROC

Telephone: 886-2-2708-7698

Independent Auditors' Report

To Cathay Financial Holding Co., Ltd.

Opinion

We have audited the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the “Company”) and its subsidiaries as of 31 December 2018 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended 31 December 2018 and 2017, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”).

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of 31 December 2018, and 2017, in conformity with the requirements of the “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies”, “Regulation Governing the Preparation of Financial Reports by Securities Issuers” and “International Financial Reporting Standards”, “International Accounting Standards”, “Interpretations developed by the International Financial Reporting Interpretations Committee” as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statement by Certified Public Accountants” and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Cathay Financial Holding Co., Ltd. and its subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the “Norm”), and we have fulfilled our other ethical responsibilities in accordance with the Norm. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audits of 2018 consolidated financial statements. These matters were addressed in the context of our audits of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Financial instruments valuation

The Company and its subsidiaries determine the fair value of some of the financial instruments by applying valuation techniques. The Company and its subsidiaries involve internal valuation model to determine the fair value for partial of the financial instruments. The underlying assumptions of the valuation model will significantly impact the fair value of the reported financial instruments. Therefore, we determined financial instruments valuation as a key audit matter.

Our audit procedures included (but not limited to) assessing and testing the effectiveness of internal controls related to financial instruments valuation, including management's decision and approval of the valuation model and related assumptions, the controls related to the valuation model and change of assumptions, and management's valuation review process. We used internal valuation specialists on a sampling basis to assist in reviewing the valuation techniques, understanding and assessing the rationality of key valuation assumptions, performing independent valuation calculation, and determining whether the valuation differences are acceptable.

Please refer to Notes 4, 5. (2) and 12. (2) for information about the Company and its subsidiaries' financial instruments valuation.

Measurement of insurance liabilities

The measurement of the Company and its subsidiaries' insurance liabilities are dependent on the calculations based on different assumptions. Partial of the assumptions followed the regulations issued by the authorities while partial of the assumptions followed the professional judgements of internal specialists, and thus resulting in high complexity. Therefore, we determined measurement of insurance liabilities as a key audit matter.

Our audit procedures included (but not limited to) evaluating and testing the effectiveness of internal controls around insurance liabilities, including management's decision and approval of the methods and assumptions used in setting aside various reserves and controls for changing the methods and assumptions and examining the data of calculating insurance liabilities. Meanwhile, we involved internal specialists in our audit procedures, including assessing the reasonableness of the actuarial judgements and actuarial assumptions models made by management. In the liability adequacy test, the internal specialists evaluated the reasonableness of underlying assumptions and results.

Please refer to Notes 4, 5. (2) and 6. (19) for details of the Company and its subsidiaries' insurance liabilities.

Investment properties measured at fair value

The Company and its subsidiaries' investment properties are measured at fair value. Due to inaccessible market prices, the management evaluates the fair value of investment properties based on external real estate appraisers firm's valuation reports, which highly relied on the valuation approach chosen (including but not limited to income approach and market approach) and the assumptions. The approach chosen and the changes to the assumptions will impact the result of the investment properties valuation. Therefore, we determined investment properties measured at fair value as a key audit matter.

Our audit procedures included (but not limited to) evaluating the objectivity and qualification of external real estate appraisers, and enlisting the internal valuation specialists' assistance to evaluate the external real estate appraisers firm's valuation reports to understand the valuation approach adopted; we also ensure the reasonableness in the valuation approach adopted and key valuation assumptions to verify whether the difference between the internal valuation specialists' work and external valuation reports is acceptable.

Please refer to Notes 4, 5. (2) and 6. (11) for information about the Company and its subsidiaries' investment properties measured at fair value.

Loan loss provision

In accordance with International Financial Reporting Standard 9, the Company and its subsidiaries developed their own systems to perform both individual and collective assessments of bad debts on loans. The systems assess the bad debts based on external and internal historical experience and parameters from forecast data or estimated future recoverable cash flows. The assessment included determining whether credit risk increases significantly, and that credit has impaired, as well as expected credit loss model and the related expected credit loss parameters. Therefore, we determined the loan loss provision as a key audit matter.

Our audit procedures included (but not limited to) assessing and testing the internal controls relating to the underlying loan loss provision, including assessing the source of the bad debt and the bad debt assessment system, and reviewing whether the allowance for bad debt assessment approach has been approved by management. For loan loss provisions calculated on a collective basis, we reviewed whether the models of impairment were approved by management and relied on our experts to verify the accuracy of those models. We also tested the appropriateness and accuracy of the inputs used in those models on a sampling basis, such as expected duration, exposure at default, probability of default, recovery rates, loss given default and whether there is a collateral. For loan loss provisions calculated on an individual basis, we tested the assumptions which were used to identify and quantify the impairments, on a sampling basis, including estimates of future cash flows, valuation of collateral and estimates of recovery on default. We reviewed the classification of loans and the provision of allowance for loans comply to ensure that management complied with the related regulations issued by the authorities of the Republic of China.

Please refer to Notes 4, 5. (2) and 6. (7) for information about the Company and its subsidiaries' the provision of allowance for loans.

Assessment of goodwill impairment

International Financial Reporting Standards requires entities to perform an impairment test for goodwill annually. However, the calculation made by the management is complex and involves major judgments and assumptions. Therefore, we determined assessment of goodwill impairment a key audit matter.

Our audit procedures included (but not limited to) assessing the rationality of financial forecasts and using internal experts to assist in the audit procedure of goodwill impairment assessment, including the rationality of the assumptions and approaches used by the management.

Please refer to Notes 4, 5. (2) and 6. (11) for information about the Company and its subsidiaries' assessment of goodwill impairment.

Emphasis of Matter – Application of New Accounting Standards

As described in Note 3 of the consolidated financial statements, Cathay Financial Holding Co., Ltd. and its subsidiaries applied the International Financial Reporting Standard 9, “Financial Instruments” and 15, “Revenue from Contracts with Customers” on 1 January, 2018, and elected not to restate the consolidated financial statements for prior periods. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the requirements of the “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies”, “Regulation Governing the Preparation of Financial Reports by Securities Issuers” and “International Financial Reporting Standards”, “International Accounting Standards”, “Interpretations developed by the International Financial Reporting Interpretations Committee” as endorsed and became effective by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the ability to continue as a going concern of the Company and its subsidiaries, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including audit committee or supervisors, are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2018 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

/s/ CHANG, CHENG-TAO
/s/ HUANG, CHIEN-CHE
Ernst & Young, Taiwan
21 March 2019

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdiction. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated Balance Sheets

As of 31 December 2018 and 31 December 2017

(Expressed in thousands of New Taiwan Dollars)

	Notes	2018.12.31	2017.12.31
Assets			
Cash and cash equivalents	4, 6.(1)	\$206,576,054	\$245,354,768
Due from the Central Bank and call loans to banks		104,223,315	125,163,780
Financial assets at fair value through profit or loss	4, 6.(2)	1,428,824,049	365,808,158
Available-for-sale financial assets - net	4, 6.(3)	-	1,681,125,738
Financial assets at fair value through other comprehensive income	4, 6.(4)	1,127,810,270	-
Financial assets measured at amortized cost	4, 6.(5)	2,688,221,788	-
Financial assets for hedging/Derivative financial assets for hedging - net	4	216,611	246,444
Securities purchased under agreements to resell	4	59,212,899	99,703,578
Receivables - net	4, 6.(6)	161,216,190	169,202,260
Current income tax assets	4	6,438,062	4,362,608
Loans - net	4, 6.(7)	2,176,775,907	2,038,528,190
Reinsurance assets - net		7,623,707	7,237,144
Held-to-maturity financial assets - net	4, 6.(8)	-	98,759,110
Investments accounted for using the equity method - net	4, 6.(9)	44,932,006	37,355,653
Other financial assets - net	4, 6.(10)	555,740,531	3,347,907,301
Investment properties - net	4, 6.(11)	319,222,554	318,106,325
Property and equipment - net	4, 6.(12)	166,458,327	165,095,690
Intangible assets - net	4, 6.(13)	53,826,467	55,802,976
Deferred tax assets	4, 6.(27)	40,806,934	31,243,778
Other assets - net		76,357,835	50,506,788
Total assets		\$9,224,483,506	\$8,841,510,289

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Balance Sheets - (continued)
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)

Liabilities & equity	Notes	2018.12.31	2017.12.31
Liabilities			
Due to the Central Bank and call loans from banks		\$81,432,233	\$90,417,859
Financial liabilities at fair value through profit or loss	4, 6.(14)	129,698,896	90,514,268
Securities sold under agreements to repurchase	4	59,307,037	112,643,582
Commercial paper payable - net	4, 6.(15)	62,989,367	51,468,158
Payables		66,727,399	57,943,815
Current income tax liabilities	4	2,543,689	8,879,563
Deposits	6.(16)	2,187,203,086	2,062,953,012
Bonds payable	4, 6.(17)	90,600,000	98,350,000
Other borrowings		336,381	441,199
Provisions	4, 6.(19)	5,341,935,726	4,972,427,256
Other financial liabilities	4, 6.(18)	627,815,178	623,527,312
Deferred tax liabilities	4, 6.(27)	27,091,143	34,828,440
Other liabilities		17,514,376	28,645,282
Total liabilities		8,695,194,511	8,233,039,746
Equity attributable to owners of parent			
Capital stock	6.(21)		
Common stock		125,632,102	125,632,102
Preferred stock		15,333,000	8,333,000
Capital surplus	6.(22)	165,449,364	130,452,105
Retained earnings	6.(23)		
Legal reserve		40,976,121	35,339,841
Special reserve		149,346,119	149,106,971
Undistributed earnings		95,553,376	99,296,739
Other equity		(72,558,752)	50,906,313
Non-controlling interests	4, 6.(24)	9,557,665	9,403,472
Total equity		529,288,995	608,470,543
Total liabilities and equity		\$9,224,483,506	\$8,841,510,289

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the years ended 31 December 2018 and 2017**

(Expressed in thousands of New Taiwan Dollars, except earnings per share)

	Notes	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Interest income	4	\$202,714,029	\$186,087,791
Less: Interest expenses		(22,085,810)	(17,627,041)
Net interest income	4	180,628,219	168,460,750
Net income other than interest			
Net commission and handling fee		2,883,459	1,069,774
Net premiums from insurance business		208,155,213	329,113,923
(Losses) gains on financial assets and liabilities at fair value through profit or loss		(120,944,083)	97,018,698
Gains from investment properties		9,763,523	9,393,781
Realized gains on available-for-sale financial assets		-	71,735,163
Realized gains on financial assets at fair value through other comprehensive income		14,687,183	-
Realized gains on held-to-maturity financial assets		-	203,906
Gains from derecognition of financial assets measured at amortized cost		4,751,007	-
Gains (losses) on foreign exchange		57,450,748	(116,155,990)
Impairment losses on assets		(1,150,946)	(130,099)
Share of profit of associates and joint ventures accounted for using the equity method		1,003,585	1,297,864
Gains from reclassification using overlay approach		118,076,539	-
Net other non-interest (losses) gains		(1,378,401)	22,445,504
Total income		473,926,046	584,453,274
Bad debt expenses, commitments and provision for premiums reserve		(4,599,086)	(3,459,544)
Changes in insurance liabilities and provisions		(334,121,938)	(445,832,540)
Operating expenses	6.(25)		
Employee benefits expenses		(49,829,957)	(46,118,276)
Depreciation and amortizations expenses		(5,674,622)	(5,424,248)
Other general and administration expenses		(24,101,669)	(23,983,049)
Subtotal		(79,606,248)	(75,525,573)
Profit before income tax from continuing operations		55,598,774	59,635,617
Income tax expense	4, 6.(27)	(3,776,518)	(2,962,393)
Net income		51,822,256	56,673,224
Other comprehensive income	4, 6.(26)		
Not to be reclassified to profit or loss in subsequent periods:			
Remeasurements of defined benefit plans		274,469	(798,222)
Revaluation gains on property		-	308,226
Valuation losses on equity instruments at fair value through other comprehensive income		(3,411,158)	-
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk		2,402,577	(1,579,937)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method - not to be reclassified to profit or loss in subsequent periods		(37,030)	183,172
Income tax relating to the components not to be reclassified to profit or loss in subsequent periods		132,936	339,698
To be reclassified to profit or loss in subsequent periods:			
Exchange differences resulting from translating the financial statements of a foreign operation		(1,214,591)	(2,957,083)
Unrealized gains from available-for-sale financial assets		-	53,167,715
Losses on hedging instruments/Effective portion of gains on hedging instruments in cash flow hedges		(28,747)	14,595
Valuation losses on debt instruments at fair value through other comprehensive income		(78,386,306)	-
Share of other comprehensive income of associates and joint ventures accounted for using the equity method - to be reclassified to profit or loss in subsequent periods		(392,263)	(1,201,786)
Other comprehensive losses reclassified using overlay approach		(118,076,539)	-
Income tax relating to the components to be reclassified to profit or loss in subsequent periods		23,553,489	(3,122,032)
Other comprehensive (loss) income, net of tax		(175,183,163)	44,354,346
Total comprehensive (loss) income		\$(123,360,907)	\$101,027,570
Net income attributable to:			
Owners of parent		\$51,467,243	\$56,306,735
Non-controlling interests		355,013	366,489
Subtotal		\$51,822,256	\$56,673,224
Total comprehensive income attributable to:			
Owners of parent		\$(123,867,466)	\$100,990,096
Non-controlling interests		506,559	37,474
Subtotal		\$(123,360,907)	\$101,027,570
Earnings per share (expressed in dollars) :	6.(28)		
Basic earnings per share:		\$3.95	\$4.47

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars)

Items	Equity attributable to owners of parent															Total	Non-controlling interests	Total equity
	Capital stock			Retained earnings				Other equity										
	Common stock	Preferred stock	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of a foreign operation	Unrealized gains (losses) form financial assets at fair value through other comprehensive income	Unrealized gains (losses) from available-for-sale financial assets	Gains (losses) on hedging instruments / Effective portion of gains (losses) on hedging instruments in cash flow hedges	Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	Remeasurements of defined benefit plans	Revaluation gains on property	Other comprehensive income (losses) reclassified using overlay approach				
Balance on 1 January 2017	\$125,632,102	\$8,333,000	\$130,448,697	\$30,577,724	\$149,108,336	\$73,001,761	\$(7,274,912)	\$-	\$4,023,159	\$191,534	\$120,321	\$(945,933)	\$10,108,783	\$-	\$523,324,572	\$6,499,449	\$529,824,021	
Appropriations and distribution for 2016																		
Legal reserve				4,762,117		(4,762,117)									-		-	
Cash dividends						(25,126,420)									(25,126,420)		(25,126,420)	
Cash dividends of preferred stock						(124,585)									(124,585)		(124,585)	
Reversal of special reserve					(1,365)	1,365									-		-	
Other additional paid-in capital																		
Share of changes in net assets of associates and joint ventures accounted for using the equity method			(804)												(804)		(804)	
Net income for the years ended 31 December 2017 (Note 1)						56,306,735									56,306,735	366,489	56,673,224	
Other comprehensive income for the years ended 31 December 2017							(3,548,330)		49,766,641	12,113	(1,311,348)	(503,746)	268,031		44,683,361	(329,015)	44,354,346	
Comprehensive income for the years ended 31 December 2017	-	-	-	-	-	56,306,735	(3,548,330)	-	49,766,641	12,113	(1,311,348)	(503,746)	268,031	-	100,990,096	37,474	101,027,570	
Share-based payment			4,212												4,212		4,212	
Increase in non-controlling interests																2,866,549	2,866,549	
Balance on 31 December 2017	\$125,632,102	\$8,333,000	\$130,452,105	\$35,339,841	\$149,106,971	\$99,296,739	\$(10,823,242)	\$-	\$53,789,800	\$203,647	\$(1,191,027)	\$(1,449,679)	\$10,376,814	\$-	\$599,067,071	\$9,403,472	\$608,470,543	
Balance on 1 January 2018	\$125,632,102	\$8,333,000	\$130,452,105	\$35,339,841	\$149,106,971	\$99,296,739	\$(10,823,242)	\$-	\$53,789,800	\$203,647	\$(1,191,027)	\$(1,449,679)	\$10,376,814	\$-	\$599,067,071	\$9,403,472	\$608,470,543	
Effects on retrospective application and restatement	-	-	-	-	-	(3,653,038)	-	37,343,476	(53,789,800)	-	-	-	-	55,941,777	35,842,415	8,904	35,851,319	
Balance on 1 January 2018 (Adjusted)	125,632,102	8,333,000	130,452,105	35,339,841	149,106,971	95,643,701	(10,823,242)	37,343,476	-	203,647	(1,191,027)	(1,449,679)	10,376,814	55,941,777	634,909,486	9,412,376	644,321,862	
Appropriations and distribution for 2017																		
Legal reserve				5,636,280		(5,636,280)									-		-	
Special reserve					234,146	(234,146)									-		-	
Cash dividends						(31,408,025)									(31,408,025)		(31,408,025)	
Cash dividends of preferred stock						(1,899,924)									(1,899,924)		(1,899,924)	
Other additional paid-in capital																		
Share of changes in net assets of associates and joint ventures accounted for using the equity method			(5,066)												(5,066)		(5,066)	
Net income for the years ended 31 December 2018 (Note 2)						51,467,243									51,467,243	355,013	51,822,256	
Other comprehensive income for the years ended 31 December 2018							(1,326,629)	(67,359,757)		(30,358)	1,965,111	128,541	46,241	(108,757,858)	(175,334,709)	151,546	(175,183,163)	
Comprehensive income for the years ended 31 December 2018	-	-	-	-	-	51,467,243	(1,326,629)	(67,359,757)	-	(30,358)	1,965,111	128,541	46,241	(108,757,858)	(123,867,466)	506,559	(123,360,907)	
Issue of preferred stock		7,000,000	35,000,000												42,000,000		42,000,000	
Share-based payment transaction			2,325												2,325		2,325	
Disposal of equity instrument at fair value through other comprehensive (losses) income						(12,429,335)		12,429,335							-		-	
Decrease in non-controlling interests																(361,270)	(361,270)	
Others					5,002	50,142							(55,144)		-		-	
Balance on 31 December 2018	\$125,632,102	\$15,333,000	\$165,449,364	\$40,976,121	\$149,346,119	\$95,553,376	\$(12,149,871)	\$(17,586,946)	\$-	\$173,289	\$774,084	\$(1,321,138)	\$10,367,911	\$(52,816,081)	\$519,731,330	\$9,557,665	\$529,288,995	

Note1: For the year ended 2017, the remuneration to directors and supervisors in the amount of \$2,700 thousand and employees' compensation in the amount of \$5,812 thousand have been deducted from the Statement of Comprehensive Income.

Note2: For the year ended 2018, the remuneration to directors and supervisors in the amount of \$2,700 thousand and employees' compensation in the amount of \$5,307 thousand have been deducted from the Statement of Comprehensive Income.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31	Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Cash flows from operating activities			Cash generated from operations	<u>(277,775,511)</u>	<u>(60,343,267)</u>
Profit before income tax from continuing operations	\$55,598,774	\$59,635,617	Interest received	197,642,031	181,281,421
Adjustments :			Dividends received	27,398,355	25,553,382
Income and other adjustments with no cash flow effects			Interest paid	(21,430,883)	(16,301,176)
Depreciation expenses	2,613,588	2,455,658	Income taxes paid	<u>(12,359,661)</u>	<u>(8,551,542)</u>
Amortization expenses	3,061,034	2,968,590	Net cash (used in) flows from operating activities	<u>(86,525,669)</u>	<u>121,638,818</u>
Expected credit impairment losses/Bad debt expense	4,599,086	3,459,544	Cash flows from investing activities		
Net losses (gains) on financial assets and liabilities at fair value through profit or loss	150,840,786	(89,225,729)	Acquisition of financial assets at fair value through other comprehensive income	(25,434,215)	-
Interest expenses	22,085,810	17,627,041	Disposal financial assets at fair value through other comprehensive income	22,077,990	-
Net gains on financial assets measured at amortized cost	(4,751,007)	-	Acquisition of financial assets at fair value through profit or loss	(891,465)	(55,986)
Interest revenue	(202,714,029)	(186,087,791)	Disposal of financial assets at fair value through profit or loss	254,582	103,091
Dividend income	(26,655,496)	(24,966,314)	Acquisition of financial assets available for sale	-	(852,826)
Net changes in insurance liabilities and provisions	364,185,579	373,941,773	Disposal of financial assets available for sale	-	739,288
Net changes of other liabilities and provisions	5,486,151	1,717,660	Acquisition of financial assets measured at cost	-	(8,241)
Share of gain of associates and joint ventures accounted for using the equity method	(1,003,585)	(1,297,864)	Acquisition of investments accounted for using the equity method	(7,312,307)	(2,676,067)
Other comprehensive income reclassified using overlay approach	(118,076,539)	-	Disposal of investments accounted for using the equity method	119,873	49,503
Losses on disposal or scrapping of property and equipment	31,906	24,546	Cash returned by capital deduction from investments accounted for using equity method	123,600	258,202
Gains on disposal of investment properties	(28,263)	(71,271)	Acquisition of property and equipment	(3,507,295)	(4,004,004)
Losses on disposal of intangible assets	-	42	Disposal of property and equipment	35,992	22,643
Gains on disposal of investments	(10,421,220)	(64,750,343)	Increase in guarantee deposits paid	(46,449)	(15,600)
Losses on disposal of investments accounted for using the equity method	10,773	-	Decrease in guarantee deposits paid	-	837
Impairment losses on financial assets	1,150,946	130,099	Acquisition of intangible assets	(386,589)	(409,008)
Unrealized foreign exchange losses (gains)	45,334	(104,460)	Acquisition of investment properties	(4,681,144)	(7,078,139)
Revaluation losses on investment properties	998,435	830,441	Disposal of investment properties	616,032	362,453
Others	2,325	6,471	Increase in other assets	(8,643,908)	(66,980)
Subtotal	<u>191,461,614</u>	<u>36,658,093</u>	Decrease in other assets	-	9,947,501
Changes in operating assets and liabilities			Dividends received	94,642	73,518
Changes in operating assets			Net cash used in investing activities	<u>(27,580,661)</u>	<u>(3,609,815)</u>
Increase in due from the Central Bank and call loans to banks	(4,155,043)	(1,745,444)	Cash flows from financing activities		
Decrease (increase) in financial assets at fair value through profit or loss	83,799,548	(28,862,398)	(Decrease) increase in short-term borrowings	(116,829)	373,758
Decrease in financial assets at fair value through other comprehensive income	10,538,572	-	Increase in commercial paper payable	11,520,000	9,890,000
Increase in debt instruments investments measured at amortized cost	(439,727,572)	-	Issue of corporate bonds	-	35,000,000
Decrease in available-for-sale financial assets	-	8,729,797	Decrease in bills and bonds sold under agreements to repurchase	-	(46,444)
Decrease in derivative financial assets for hedging	1,087	419	Issue of financial debentures	-	11,450,000
Decrease (increase) in accounts receivable	20,689,901	(15,197,878)	Repayment of financial debentures	(7,750,000)	-
(Increase) decrease in loans	(141,377,587)	1,076,679	(Decrease) increase in other liabilities	(1,855,319)	934,650
(Increase) decrease in reinsurance contract assets	(384,386)	1,509,584	Cash dividends paid	(33,679,517)	(25,544,994)
Increase in financial assets held to maturity	-	(17,319,381)	Increase in cash capital	42,000,000	-
Increase in other financial assets	(233,919)	(235,789,020)	Net cash flows from financing activities	<u>10,118,335</u>	<u>32,056,970</u>
(Increase) decrease in other assets	<u>(16,639,689)</u>	<u>5,838,196</u>	Effects of exchange rate changes on cash and cash equivalents	<u>(431,676)</u>	<u>542,862</u>
Subtotal	<u>(487,489,088)</u>	<u>(281,759,446)</u>	(Decrease) increase in cash and cash equivalents	<u>(104,419,671)</u>	<u>150,628,835</u>
Changes in operating liabilities			Cash and cash equivalents at the beginning of periods	<u>415,218,017</u>	<u>264,597,958</u>
(Decrease) increase in due to the Central Bank and call loans from banks	(9,178,733)	14,125,626	Cash and cash equivalents at the end of periods	<u>\$310,798,346</u>	<u>\$415,226,793</u>
Decrease in financial liabilities at fair value through profit or loss	(100,551,949)	(28,321,989)			
(Decrease) increase in securities purchased under agreements to repurchase	(53,336,545)	53,550,968	The components of cash and cash equivalents		
(Decrease) increase in payables	(559,747)	4,713,247	Cash and cash equivalents presented in balance sheet	\$206,576,054	\$245,354,768
Increase in deposits	123,020,644	65,913,584	Due from the Central Bank and call loans to banks satisfied the definition of cash and cash equivalents under IAS No.7	45,009,393	70,168,447
Increase (decrease) in provisions for the liabilities of employee benefits	238,063	(571,994)	Bills sold under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7	59,212,899	99,703,578
(Decrease) increase in reserves for the operations and liabilities	(246,726)	47,776	Cash and cash equivalents at the end of periods	<u>\$310,798,346</u>	<u>\$415,226,793</u>
Increase in other financial liabilities	10,558,949	4,490,837			
(Decrease) increase in other liabilities	<u>(7,290,767)</u>	<u>11,174,414</u>			
Subtotal	<u>(37,346,811)</u>	<u>125,122,469</u>			
Subtotal of Changes in operating assets and liabilities	<u>(524,835,899)</u>	<u>(156,636,977)</u>			
Subtotal of Adjustment	<u>(333,374,285)</u>	<u>(119,978,884)</u>			

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

English Translation of Financial Statement Originally issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

31 December 2018 and 2017

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

1. Organization and business scope

On 31 December 2001, Cathay Life Insurance Co., Ltd. (“Cathay Life”) was reincorporated as Cathay Financial Holding Co., Ltd. (the “Company”) through stock conversion pursuant to the Republic of China (“ROC”) Financial Holding Company Act (“Financial Holding Company Act”) and its shares were listed on the Taiwan Stock Exchange Corporation (TWSE) on the same day. On 22 April 2002, Cathay Century Insurance Co., Ltd. (“Cathay Century”) and Cathay United Bank Co., Ltd. (“Cathay United Bank”) became subsidiaries of the Company through stock conversion approved by the government. On 18 December 2002, United World Chinese Commercial Bank Co., Ltd. (“UWCCB”) also became a subsidiary of the Company through stock conversion approved by the government. UWCCB and Cathay United Bank merged on 27 October 2003, in accordance with the relevant laws and regulations. UWCCB was the surviving company and was re-named Cathay United Bank Co., Ltd. (“Cathay United Bank”). On 12 May 2004, the Company established Cathay Securities Corporation (“Cathay Securities”) as a wholly owned subsidiary. On 30 September 2005, the Company invested in Lucky Bank, Inc. (“Lucky Bank”) which was approved as a strategic investment by the Financial Supervisory Commission (“FSC”), Executive Yuan. Lucky Bank became a subsidiary of the Company by stock conversion on 25 August 2006. Cathay United Bank merged with Lucky Bank on 1 January 2007. Cathay United Bank acquired specific assets, liabilities, and business of China United Trust & Investment Corporation (“CUTIC”) on 29 December 2007 to improve competitiveness. Cathay Venture Inc. (“Cathay Venture”) was incorporated on 10 April 2003, under the Company Act. Cathay Venture is the surviving company from the merger with Cathay Venture, Cathay II Venture and Cathay Capital Management on 10 August 2009. On 13 June 2011, the Company obtained the acquisition approval of Cathay Securities Investment Trust Co., Ltd. (Cathay Securities Investment Trust) from FSC of Executive Yuan and acquired all shares of Cathay Securities Investments Trust by cash purchase on 24 June 2011. On 29 July 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs). The Company mainly engages in financial holding business.

Cathay Life has participated and won the bid, which was held by the Taiwan Insurance Guaranty Fund, for the takeover of the assets, liabilities and operations of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. Cathay Life entered into the general assignment and assumption agreement on 27 March 2015. Cathay Life assumed all assets, liabilities and operations of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd., except for their reserved assets and liabilities on 1 July 2015.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2. Date and procedures of authorization of financial statements for issue

The consolidated financial statements of the Company and subsidiaries (the Group) for the years ended 31 December 2018 and 2017 were authorized for issue in accordance with a resolution of the board of directors on 21 March 2019.

3. Newly issued or revised standards and interpretations

- (1) Changes in accounting policies resulting from applying for the first time certain standards and amendments.

The Group applied for the first time International Financial Reporting Standards (“IFRS”), International Accounting Standards (“IAS”), and interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after 1 January 2018. The nature and the impact of each new standard and amendment is described below. Only paragraph A has a material effect on the Group.

A. IFRS 9 “*Financial Instruments*” (including the adoption of overlay approach of IFRS 9 “*Financial Instruments*” under IFRS 4 “*Insurance Contracts*”) supersedes IAS 39 “*Financial Instruments: Recognition and Measurement*”. In accordance with the transition provision in IFRS 9 “*Financial Instruments*”, the Group elected not to restate prior periods at the date of initial application (1 January 2018). The adoption of IFRS 9 “*Financial Instruments*” has the following impacts on the Group:

- (A) The Group adopted IFRS 9 “*Financial Instruments*” on 1 January 2018 and they adopted IAS 39 “*Financial Instruments: Recognition and Measurement*” before 1 January 2018. Please refer to Note 4 for more details on accounting policies.
- (B) In accordance with the transition provision in IFRS 9 “*Financial Instruments*”, the assessment of the business model and classification of financial assets to the appropriate categories are based on the facts and circumstances that existed as at 1 January 2018. The classifications of financial assets and their carrying amounts as at 1 January 2018 are as follows:

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

IAS 39		IFRS 9	
Measurement categories	Carrying amounts	Measurement categories	Carrying amounts
Fair value through profit or loss		Fair value through profit or loss	
Financial assets at fair value through profit or loss	\$365,808,158	Financial assets at fair value through profit or loss	\$1,518,823,024
Derivative financial assets for hedging	246,444	Financial assets for hedging	246,444
Subtotal	366,054,602	Subtotal	1,519,069,468
Fair value through other comprehensive income		Fair value through other comprehensive income	
Available-for-sale financial assets	1,681,125,738	Financial assets at fair value through other comprehensive income	1,208,739,971
At amortized cost		At amortized cost	
Cash and cash equivalents (petty cash and cash on hand excluded)	227,032,625	Cash and cash equivalents (petty cash and cash on hand excluded)	227,030,124
Due from the Central Bank and call loans to banks	125,163,780	Due from the Central Bank and call loans to banks	125,154,825
Securities purchased under agreements to resell	99,703,578	Financial assets measured at amortized cost	2,244,523,940
Receivables - net	169,202,260	Securities purchased under agreements to resell	99,697,303
Loans - net	2,038,528,190	Receivables - net	169,369,984
Debt instrument investments for which no active market exists	2,783,306,758	Loans - net	2,038,528,190
Held-to-maturity financial assets	98,759,110	Other financial assets	563,585,656
Other financial assets	564,600,543	Other assets	38,375,709
Other assets	37,656,509		
Subtotal	6,143,953,353	Subtotal	5,506,265,731
Allowance for impairment of off Balance Sheet items		Allowance for impairment of off Balance Sheet items	
Reserve for losses on guarantees	(72,897)	Reserve for losses on guarantees	(72,897)
The letters of credit receivables	(5,993)	The letters of credit receivables	(5,993)
Reserve for financing commitments	-	Reserve for financing commitments	(116,847)
Subtotal	(78,890)	Subtotal	(195,737)
Total	\$8,191,054,803	Total	\$8,233,879,433

(C) The transition adjustments from IAS 39 “*Financial Instruments: Recognition and Measurement*” to IFRS 9 “*Financial Instruments*” for the classifications of financial assets and financial liabilities as at 1 January 2018 are as follows:

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

IAS 39		IFRS 9		Differences	Retained earnings adjustments	Other equity adjustments
Items	Carrying amounts	Items	Carrying amounts			
Financial assets at fair value through profit or loss						
Designated at fair value through profit or loss	\$239,368	Financial assets mandatorily measured at fair value through profit or loss	\$362,753,438	\$(141)	\$(141)	\$-
Held for trading	365,568,790	Debt instruments at fair value through other comprehensive income	3,054,578	(1)	(21,366)	21,365
Subtotal	365,808,158	Subtotal	365,808,016	(142)	(21,507)	21,365
Derivative financial assets for hedging	246,444	Financial assets for hedging	246,444	-	-	-
Available-for-sale financial assets						
		Financial assets at fair value through profit or loss	1,072,283,997	(583,595)	(2,574,091)	1,990,496
		Equity instruments at fair value through other comprehensive income	83,353,521	1,731,099	40,446	1,690,653
		Debt instruments at fair value through other comprehensive income	441,712,358	-	(195,295)	195,295
		Financial assets measured at amortized cost	82,310,738	(2,612,628)	(24,241)	(2,588,387)
Subtotal	1,681,125,738	Subtotal	1,679,660,614	(1,465,124)	(2,753,181)	1,288,057
Debt instrument investments for which no active market exists						
		Financial assets at fair value through profit or loss	72,256,152	1,185,080	9,988	1,175,092
		Equity instruments at fair value through other comprehensive income	3,537	531	-	531
		Debt instruments at fair value through other comprehensive income	652,467,428	41,498,552	(376,440)	41,874,992
		Financial assets measured at amortized cost	2,099,818,823	(1,444,981)	(1,444,981)	-
Subtotal	2,783,306,758	Subtotal	2,824,545,940	41,239,182	(1,811,433)	43,050,615
Held-to-maturity financial assets						
		Financial assets at fair value through profit or loss	10,542,694	(168,018)	(168,018)	-
		Debt instruments at fair value through other comprehensive income	28,138,297	2,492,201	(4,588)	2,496,789
		Financial assets measured at amortized cost	62,394,379	(7,923)	(7,923)	-
Subtotal	98,759,110	Subtotal	101,075,370	2,316,260	(180,529)	2,496,789
Other financial assets						
		Financial assets at fair value through profit or loss	986,743	(13,257)	-	(13,257)
		Equity instruments at fair value through other comprehensive income	10,252	(3,734)	-	(3,734)
		Other financial assets	563,585,656	(901)	(901)	-
Subtotal	564,600,543	Subtotal	564,582,651	(17,892)	(901)	(16,991)
Cash and cash equivalents (petty cash and cash on hand excluded)	227,032,625	Cash and cash equivalents (petty cash and cash on hand excluded)	227,030,124	(2,501)	(2,501)	-
Due from the Central Bank and call loans to banks	125,163,780	Due from the Central Bank and call loans to banks	125,154,825	(8,955)	(8,955)	-
Securities purchased under agreements to resell	99,703,578	Securities purchased under agreements to resell	99,697,303	(6,275)	(6,275)	-
Receivables - net	169,202,260	Receivables - net	169,369,984	167,724	167,724	-
Loans - net	2,038,528,190	Loans - net	2,038,528,190	-	-	-
Other assets	37,656,509	Other assets	38,375,709	719,200	582,469	136,731
Allowance for impairment of off Balance Sheet items		Allowance for impairment of off Balance Sheet items				
Reserve for losses on guarantees	(72,897)	Reserve for losses on guarantees	(72,897)	-	-	-
The letters of credit receivables	(5,993)	The letters of credit receivables	(5,993)	-	-	-
Reserve for financing commitments	-	Reserve for financing commitments	(116,847)	(116,847)	(116,847)	-
Subtotal	(78,890)	Subtotal	(195,737)	(116,847)	(116,847)	-
Total	\$8,191,054,803	Total	\$8,233,879,433	\$42,824,630	\$(4,151,936)	\$46,976,566

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(D) The transition adjustments from IAS 39 “*Financial Instruments: Recognition and Measurement*” to IFRS 9 “*Financial Instruments*” for the balance of loss allowance under expected credit loss model as at 1 January 2018 are as follows:

Items and measurement categories	Balance of impairment provision under IAS 39	Reclassifications	Remeasurements	Balance of loss allowance under IFRS 9
Due from the Central Bank and call loans to banks	\$-	\$-	\$8,955	\$8,955
Receivables	2,631,722	-	(167,541)	2,464,181
Loans	29,392,495	-	-	29,392,495
Financial assets at fair value through profit or loss (Note 1)				
Classified to financial assets at fair value through other comprehensive income (Note 2)	-	-	781	781
Available-for-sale financial assets (Note 1)				
Classified to financial assets at fair value through profit or loss (Note 2)	185,987	(185,987)	-	-
Classified to financial assets at fair value through other comprehensive income (Note 2)	146,379	(146,379)	195,295	195,295
Classified to financial assets measured at amortized cost (Note 2)	-	-	24,309	24,309
Debt instrument investments for which no active market exists (Note 1)				
Classified to financial assets at fair value through profit or loss (Note 2)	388,024	(388,024)	-	-
Classified to financial assets at fair value through other comprehensive income (Note 2)	-	-	376,440	376,440
Classified to financial assets measured at amortized cost (Note 2)	-	-	1,446,117	1,446,117
Held-to-maturity financial assets (Note 1)				
Classified to financial assets at fair value through profit or loss (Note 2)	15,932	(15,932)	-	-
Classified to financial assets at fair value through other comprehensive income (Note 2)	-	-	4,588	4,588
Classified to financial assets measured at amortized cost (Note 2)	-	-	7,923	7,923
Other financial assets	-	-	901	901
Reserve for financing commitments	-	-	116,847	116,847
Other (Note 3)	13	-	10,069	10,082
Total	<u>\$32,760,552</u>	<u>\$(736,322)</u>	<u>\$2,024,684</u>	<u>\$34,048,914</u>

Note 1: Items under IAS 39 “*Financial Instruments: Recognition and Measurement*”.

Note 2: Items under IFRS 9 “*Financial Instruments*”.

Note 3: Items include that cash and cash equivalents, securities purchased under agreements to resell, other financial assets and other assets.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(E) Effects on the date of initial application

In accordance with classification and measurement of financial assets and impairment assessment in IFRS 9 “*Financial Instruments*”, the Group’s assets increased by \$43,184,723 thousand, liabilities increased by \$7,345,149 thousand, retained earnings decreased by \$3,661,800 thousand, other equity increased by \$39,495,453 thousand and non-controlling interests increased by \$5,921 thousand on the date of initial application (1 January 2018). The related explanation is as follows:

a. Classification and measurement of financial assets

Some of debt instrument investments for which no active market exists are reclassified as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income and thus reflected the adjustments to unrealized gains of debt instrument investments for which no active market exists. The assets increased by \$44,270,129 thousand; the liabilities increased by \$7,153,151 thousand; retained earnings decreased by \$1,898,911 thousand, other equity increased by \$39,009,968 thousand and non-controlling interests increased by \$5,921 thousand. The explanation for classification and measurement is as follows:

Financial assets at fair value through profit or loss

Financial assets which are classified as held-for-trading derivative instruments in financial assets at fair value through profit or loss and mixed instruments designated at fair value through profit or loss in accordance with IAS 39 “*Financial Instruments: Recognition and Measurement*” are classified as financial assets at fair value through profit or loss under IFRS 9 “*Financial Instruments*”.

Available-for-sale financial assets

Classified as available-for-sale financial assets according to IAS 39 “*Financial Instruments: Recognition and Measurement*”, including beneficiary certificates, stocks and bonds. The related explanation of change in classification is as follows:

(a) Beneficiary certificates

As the cash flow characteristics for beneficiary certificates are not solely payments of principal and interest on the principal amount outstanding, beneficiary certificates are classified as financial assets measured at fair value through profit or loss in accordance with IFRS 9 “*Financial Instruments*”. As at the date of initial application, the Group will reclassify available-for-sale financial assets to financial assets measured at fair value through profit or loss.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(b) Stocks

Upon de-recognition of equity investments currently classified as available-for-sale measured at fair value, the accumulated gains or losses previously recognized in other comprehensive income was recycled to profit or loss from equity. However, under IFRS 9 “*Financial Instruments*”, subsequent fair value changes of the aforementioned equity investments are recognized in other comprehensive income and cannot be recycled to profit or loss. Upon de-recognition, the accumulated amounts in other component of equity is reclassified to retained earnings (reclassification to profit or loss is not allowed).

Based on the facts and circumstances that existed as on 1 January 2018, aside from part of the financial assets which are not held-for-trading investments designated to measure at fair value through other comprehensive income, the others should be reclassified as financial assets at fair value through profit or loss. No difference from carrying amount exists when stocks are measured at fair value.

(c) Bonds

As the cash flow characteristics for bonds are solely payments of principal and interest on the principal amount outstanding, based on the facts and circumstances that existed as on 1 January 2018, bonds should be reclassified from available-for-sale financial assets to financial assets measured at amortized cost in accordance with IFRS 9 “*Financial Instruments*” if the financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. The difference between fair value and amortized cost previously recognized will be adjusted to other equity and the carrying amount of the reclassified financial assets. The financial assets should also be assessed for impairment in accordance with IFRS 9 “*Financial Instruments*”.

Bond investments held within a business model whose objective is to hold financial assets in order to collect contractual cash flows should be classified as financial assets at fair value through other comprehensive income under IFRS 9 “*Financial Instruments*”. No difference from carrying amount exists, and the aforementioned assets should be assessed for impairment in accordance with IFRS 9 “*Financial Instruments*”.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Bond investments whose cash flow characteristics for beneficiary certificates are not solely payments of principal and interest on the principal amount outstanding should be classified as financial assets at fair value through profit or loss under IFRS 9 “*Financial Instruments*”. The reclassification doesn’t result in any difference from carrying amount.

The Group chose to express profit or loss of the designated financial assets in overlay approach under IFRS 4 “*Insurance Contracts*” since their application of IFRS 9 “*Financial Instruments*”. The reclassification of available-for-sale financial assets to financial assets at fair value through profit or loss and designated to apply overlay approach did not result in any difference in carrying amount.

Held-to-maturity financial assets and debt instrument investments for which no active market exists

Bond investments classified as held-to-maturity financial assets and loans and receivables (placed in debt instrument investments for which no active market exists) according to IAS 39 “*Financial Instruments: Recognition and Measurement*” and whose cash flow characteristics are solely payments of principal and interest on the principal amount outstanding, based on the facts and circumstances that existed as at the date of initial application, should be reclassified from held-to-maturity financial assets and debt instrument investments for which no active market exists to financial assets measured at amortized cost in accordance with IFRS 9 “*Financial Instruments*” if the financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. No difference from carrying amount exists, and the aforementioned assets should be assessed for impairment in accordance with IFRS 9 “*Financial Instruments*”.

Held-to-maturity financial assets and debt instrument investments for which no active market exists held within a business model whose objective is to hold financial assets in order to collect contractual cash flows should be reclassified as financial assets at fair value through other comprehensive income under IFRS 9 “*Financial Instruments*”. The reclassification of business model will increase other equity and the carrying amount of the reclassified financial assets. The aforementioned assets should also be assessed for impairment in accordance with IFRS 9 “*Financial Instruments*”.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Bond investments classified as loans and receivables (placed in debt instrument investments for which no active market exists) according to IAS 39 “*Financial Instruments: Recognition and Measurement*” and whose cash flow characteristics are not solely payments of principal and interest on the principal amount outstanding should be classified as financial assets at fair value through profit or loss.

The Group chose to express profit or loss of the designated financial assets in overlay approach under IFRS 4 “*Insurance Contracts*” since its application of IFRS 9 “*Financial Instruments*” and thus, the abovementioned reclassification results in an increase in other equity reclassified.

b. Impairment assessment of financial assets

The Group recognized adjustments of expected credit losses of debt instruments, which decreased assets by \$1,085,406 thousand, increased liabilities by \$191,998 thousand, decreased retained earnings by \$1,762,889 thousand and increased other equity by \$485,485 thousand.

As for financial assets that are not measured at fair value through profit or loss, the impairment of debt instruments is evaluated by applying expected credit risk model in accordance with IFRS 9. If the credit risk of the financial assets doesn’t increase significantly after the initial recognition, the allowance for losses will be measured at 12-month expected credit losses. If the credit risk of the financial assets increases significantly after the initial recognition and is not low credit risk, the allowance for losses will be measured at credit losses during remaining term to maturity. For receivables and contractual assets arose from the transactions in the scope of IFRS 15, credit losses are evaluated by simplified method. The aforementioned rule of impairment assessment is different from incurred losses model applied currently.

c. Hedge Accounting

The applicable conditions of hedge accounting under IFRS 9 “*Financial Instruments*” are amended in order to better reflect the business’s actual risk management activities on financial reports applicable to hedge accounting. However, when an entity first applies IFRS 9, it may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 “*Financial Instruments: Recognition and Measurement*” or apply hedge accounting policy of IFRS 9 “*Financial Instruments*” prospectively. The Group chooses to apply hedge accounting policy of IFRS 9 “*Financial Instruments*” prospectively when applying IFRS 9 for the first time.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(F) Please refer to Notes 4, 5, 6 and 12 for the related disclosures required by IFRS 7 “*Financial Instruments: Disclosures*” and IFRS 9 “*Financial Instruments*”.

B. Prepayment Features with Negative Compensation – Amendments to IFRS 9 “*Financial Instruments*”

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income. The amendment has been issued by International Accounting Standards Board (“IASB”) but not yet endorsed by FSC (the effective date issued by IASB is beginning on or after 1 January 2019). In accordance with the question and answer set issued on 12 December 2017 by the FSC, the Group elected to early apply the amendment on 1 January 2018 after considering that it was necessary.

The Group assessed that the application of this standard had no significant impact.

C. The explanation related to the application of IFRS 15 “*Revenue from Contracts with Customers*” (including Amendments to IFRS 15 Clarifications to IFRS 15 “*Revenue from Contracts with Customers*”) is as follows:

IFRS 15 “*Revenue from Contracts with Customers*” supersedes IAS 11 “*Construction Contracts*”, IAS 18 “*Revenue*” and the related interpretations. The Group elected to recognize the cumulative effect of initially applying IFRS 15 “*Revenue from Contracts with Customers*” at the date of initial application (1 January 2018). The Group also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

In accordance with IFRS 15 “*Revenue from Contracts for Customers*”, the Group’s assets on the initial application date (1 January 2018) increased by \$16,619 thousand, liabilities increased by \$4,874 thousand, retained earnings increased by \$8,762 thousand and non-controlling interests increased by \$2,983 thousand.

The Group assessed that the application of this standard had no material impact.

Please refer to Notes 4, 5 and 6 for the related disclosures required by IFRS 15 “*Revenue from Contracts for Customers*”.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- (2) Standards or interpretations issued, revised or amended by IASB which are endorsed by FSC, but not yet adopted by the Group as at the end of the reporting period are listed below:

Items	Newly issued revised or amended standards and interpretations	Effective date issued by IASB
A.	IFRS 16 <i>“Leases”</i>	1 January 2019
B.	IFRIC 23 <i>“Uncertainty Over Income Tax Treatments”</i>	1 January 2019
C.	IAS 28 <i>“Investment in Associates and Joint Ventures”</i> - Amendments to IAS 28	1 January 2019
D.	Improvements to International Financial Reporting Standards (2015-2017 cycle)	1 January 2019
E.	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019

A. IFRS 16 *“Leases”*

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease.

B. IFRIC 23 *“Uncertainty Over Income Tax Treatments”*

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 *“Income Taxes”* when there is uncertainty over income tax treatments.

C. IAS 28 *“Investment in Associates and Joint Ventures” — Amendments to IAS 28*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28.

D. *Improvements to International Financial Reporting Standards (2015-2017 cycle):*

IFRS 3 *“Business Combinations”*

The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

IFRS 11 “*Joint Arrangements*”

The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

IAS 12 “*Income Taxes*”

The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

IAS 23 “*Borrowing Costs*”

The amendments clarify that an entity should treat as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale.

E. *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset.

The abovementioned standards and interpretations issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after 1 January 2019. Apart from item A. explained below, the remaining standards and interpretations have no material impact on the Group.

A. IFRS 16 “*Leases*”

IFRS 16 “Leases” replaces IAS 17 “Lease”. IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leasing - Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. The impact arising from the adoption of IFRS 16 on the Group are summarized as follows:

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- (A) For the definition of a lease, the Group elects not to reassess whether a contract is, or contains, a lease at the date of initial application (1 January 2019) in accordance with the transition provision in IFRS 16. Instead, the Group is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Group recognizes the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

The Group expects that on 1 January 2019, the leases classified as operating lease when applying IAS 17 will be measure and recognize the lease liability at the present value of the remaining lease payment (using the interest rate of the lessee on 1 January 2019); And chooses one of the following amounts to measure and recognize the right-of-use asset based on individual leases:

For leases that were classified as operating leases applying IAS 17, the Group expects to measure and recognize those leases as lease liability on 1 January 2019 at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on 1 January 2019 and; the Group chooses, on lease liability basis, to measure all prepaid lease or lease payable (balance sheet which is recognized before 1 January 2019) and recognize the right-of-use asset.

The Group expects the investment property will increase by \$9,014,035 thousand, the right-of-use asset will increase by \$4,143,676 thousand, prepayment will reduce by \$362,993 thousand, the lease liability will increase by \$12,865,946 thousand and other payable will reduce by \$71,288 thousand, respectively, on 1 January 2019.

- (B) The additional disclosures of lessee and lessor required by IFRS 16 will be disclosed in the relevant notes.
- (3) Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Group's financial statements are listed below.

Items	Newly issued revised or amended standards and interpretations	Effective date issued by IASB
A.	Amendments to IFRS 10 " <i>Consolidated Financial Statements</i> " and IAS 28 " <i>Investments in Associates and Joint Ventures</i> " - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
B.	IFRS 17 " <i>Insurance Contracts</i> "	1 January 2021
C.	Amendments to IFRS 3 " <i>Business Combinations</i> " – Definition of a Business	1 January 2020
D.	Amendments to IAS 1 and 8 – Definition of Material	1 January 2020

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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

The amendments address the inconsistency between the requirements in IFRS 10 “*Consolidated Financial Statements*” and IAS 28 “*Investments in Associates and Joint Ventures*”, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 “*Investments in Associates and Joint Ventures*” restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 “*Consolidated Financial Statements*” requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 “*Investments in Associates and Joint Ventures*” was amended so that the gains or losses resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

IFRS 10 “*Consolidated Financial Statements*” was also amended so that the gains or losses resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors’ interests in the associate or joint venture. The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

B. IFRS 17 “*Insurance Contracts*”

IFRS 17 supersedes IFRS 4 and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued, reinsurance contracts held and investment contracts with discretionary participation features issued. IFRS 17 requires an entity to divide a portfolio of insurance contracts issued into a minimum of a group of contracts that are onerous at initial recognition, a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, and a group of the remaining contracts in the portfolio. An entity shall recognize a group of insurance contracts it issues from the earliest of the following: the beginning of the coverage period of the group of contracts, the date when the first payment from a policyholder in the group becomes due, and for a group of onerous contracts, when the group becomes onerous.

On initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- (A) estimates of future cash flows;
- (B) Discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and
- (C) a risk adjustment for non-financial risk.

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts. IFRS 17 is effective for annual periods beginning on or after 1 January 2021.

C. Amendments to IFRS 3 “*Business Combinations*” – Definition of a Business

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

IFRS 3 continues to adopt a market participant’s perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

D. Amendments to IAS 1 and 8 – Definition of Material

The main amendment is to clarify new definition of material. It states that “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Group’s financial statements were authorized for issue, the local effective dates are to be determined by FSC. The Group is still currently determining the potential impact of the standards and interpretations.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Group for the years ended 31 December 2018 and 2017 have been prepared in accordance with the “*Regulations Governing the Preparation of Financial Reports by Financial Holding Companies*”, the “*Regulations Governing the Preparation of Financial Reports by Securities Issuers*”, and IAS 34 “*Interim Financial Reporting*” as endorsed by FSC of the Republic of China.

(2) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments and investment properties that have been measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars (“NT\$”) unless otherwise stated.

(3) Basis of consolidation

Preparation principle of consolidated financial statement

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

- A. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- B. exposure, or rights, to variable returns from its involvement with the investee, and
- C. the ability to use its power over the investee to affect its returns

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- A. the contractual arrangement with the other vote holders of the investee
- B. rights arising from other contractual arrangements
- C. the Group’s voting rights and potential voting rights

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Group loses control of a subsidiary, it:

- A. Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- B. Derecognizes the carrying amount of any non-controlling interest
- C. Recognizes the fair value of the consideration received
- D. Recognizes the fair value of any investment retained
- E. Recognizes any surplus or deficit in profit or loss
- F. Reclassifies the Company's share of components previously recognized in other comprehensive income to profit or loss

The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	2018.12.31	2017.12.31	Notes
The Company	Cathay Life Insurance Co., Ltd. ("Cathay Life")	Life insurance	100.00	100.00	Cathay Life was incorporated in Taiwan on 23 October 1962, under the ROC Company Act (the "Company Act").
The Company	Cathay United Bank Co., Ltd. ("Cathay United Bank")	Commercial banking operations	100.00	100.00	UWCCB was enfranchised by the ROC government on 4 January 1975. On 27 October 2003, UWCCB was merged with the former Cathay United Bank which was dissolved after the merger; the merged entity was renamed Cathay United Bank. The new Cathay United Bank merged with Lucky Bank on 1 January 2007.
The Company	Cathay Century Insurance Co., Ltd. ("Cathay Century")	Property and casualty insurance	100.00	100.00	Cathay Century was incorporated in Taiwan on 19 July 1993, under the Company Act. Cathay Century changed its name from "Tong Tai Insurance Co., Ltd." to "Cathay Century Insurance Co., Ltd." on 2 August 2002.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Investor	Subsidiary	Business nature	2018.12.31	2017.12.31	Notes
The Company	Cathay Securities Corporation (“Cathay Securities”)	Securities	100.00	100.00	Cathay Securities was incorporated on 12 May 2004, under the Company Act. The securities department and the securities agent (Taipei branch) of Cathay United Bank were assigned to Cathay Securities along with its business, assets and liabilities. The assignment date was 13 August 2004.
The Company	Cathay Venture Inc. (“Cathay Venture”)	Venture capital investment	100.00	100.00	Cathay Venture was incorporated on 10 April 2003, under the Company Act. Cathay Venture is the surviving company from the merger with Cathay Venture, Cathay II Venture and Cathay Capital Management on 10 August 2009.
The Company	Cathay Securities Investment Trust Co., Ltd. (“Cathay Securities Investment Trust”)	Securities investment trust	100.00	100.00	Cathay Securities Investment Trust was incorporated on 11 February 2000.
Cathay Life	Cathay Lujiazui Life Insurance Company Limited. (“Cathay Lujiazui Life”)	Life insurance	50.00	50.00	Cathay Lujiazui Life was incorporated on 29 December 2004. Cathay Life and Shanghai Lujiazui Finance Trade Zone Development Co., Ltd. each owns 50% interest in Cathay Lujiazui Life.
Cathay Life	Cathay Life Insurance (Vietnam) Co., Ltd. (“Cathay Life (Vietnam)”)	Life insurance	100.00	100.00	Cathay Life (Vietnam) was incorporated on 21 November 2007.
Cathay Life	Lin Yuan (Shanghai) Real Estate Co., Ltd (“Lin Yuan”)	Office equipment leasing company	100.00	100.00	Lin Yuan was incorporated on 15 August 2012.
Cathay Life	Cathay Woolgate Exchange Holding 1 Limited	Real estate investment and management	100.00	100.00	Cathay Woolgate Exchange Holding 1 Limited was incorporated on 30 July 2014.
Cathay Life	Cathay Woolgate Exchange Holding 2 Limited	Real estate investment and management	100.00	100.00	Cathay Woolgate Exchange Holding 2 Limited was incorporated on 30 July 2014.
Cathay Life	Cathay Walbrook Holding 1 Limited	Real estate investment and management	100.00	100.00	Cathay Walbrook Holding 1 Limited was incorporated on 31 March 2015.
Cathay Life	Cathay Walbrook Holding 2 Limited	Real estate investment and management	100.00	100.00	Cathay Walbrook Holding 2 Limited was incorporated on 31 March 2015.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Investor	Subsidiary	Business nature	2018.12.31	2017.12.31	Notes
Cathay Life	Conning Holdings Limited	Holding company	100.00	100.00	Conning Holdings Limited was incorporated on 10 June 2015.
Conning Holdings Limited	Conning U.S. Holdings, Inc.	Holding company	100.00	100.00	Conning U.S. Holdings, Inc. was incorporated on 10 June 2015.
Conning Holdings Limited	Conning Asset Management Ltd.	Wealth Management	100.00	100.00	Conning Asset Management Ltd. was incorporated on 16 October 1998.
Conning Holdings Limited	Conning Japan Limited	Wealth Management	100.00	100.00	Conning Japan Limited was incorporated on 3 September 2015.
Conning Holdings Limited	Conning (Germany) GmbH	Risk management software	100.00	100.00	Conning (Germany) GmbH was incorporated on 10 January 2012.
The Company & Conning Holdings Limited	Conning Asia Pacific Limited	Wealth Management	100.00	100.00	Cathay Conning Asset Management Limited was incorporated on 6 July 2011.
Conning U.S. Holdings, Inc.	Conning Holdings Corp.	Holding company	100.00	100.00	Conning Holdings Corp. was incorporated on 5 June 2009.
Conning Holdings Corp.	Conning & Company	Holding company	100.00	100.00	Conning & Company was incorporated on 10 July 1986.
Conning & Company	Conning Inc.	Wealth Management	100.00	100.00	Conning Inc. was incorporated on 13 September 1982.
Conning & Company	Goodwin Capital Advisors, Inc.	Wealth Management	100.00	100.00	Goodwin Capital Advisors, Inc. was incorporated on 14 March 1930.
Conning & Company	Conning Investments Products, Inc.	Securities	100.00	100.00	Conning Investments Products, Inc. was incorporated on 13 February 2002.
Conning & Company	Octagon Credit Investors, LLC	Investment consulting services	81.8946	82.05	Octagon Credit Investors, LLC was incorporated on 29 December 1998.
Octagon Credit Investors, LLC	Octagon Multi-Strategy Corporate Credit GP, LLC	Fund management services	100.00	100.00	Octagon Multi-Strategy Corporate Credit GP, LLC was incorporated on 13 June 2014.
Octagon Credit Investors, LLC	Octagon Funds GP LLC	Fund management services	100.00	100.00	Octagon Funds GP LLC was incorporated on 13 November 2014.
Octagon Credit Investors, LLC	Octagon Funds GP II LLC	Fund management services	100.00	100.00	Octagon Funds GP II LLC was incorporated on 21 January 2016.
Octagon Credit Investors, LLC	Octagon Funding I, LLC	Fund management services	100.00	100.00	Octagon Funding I, LLC was incorporated on 17 January 2017.
Octagon Credit Investors, LLC	Octagon Funding II, LLC	Fund management services	100.00	100.00	Octagon Funding II, LLC was incorporated on 16 June 2017.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Investor	Subsidiary	Business nature	2018.12.31	2017.12.31	Notes
Octagon Credit Investors, LLC	Octagon Funding III, LLC	Fund management services	100.00	100.00	Octagon Funding III, LLC was incorporated on 19 December 2017.
Cathy Century	Cathay Insurance (Vietnam) Co., Ltd. (“Cathay Century (Vietnam)”)	Property and casualty insurance	100.00	100.00	Cathay Century (Vietnam) was incorporated on 2 November 2010.
Cathay United Bank	Indovina Bank Limited (“Indovina Bank”)	Wholesale banking	50.00	50.00	Indovina Bank was incorporated in Vietnam on 29 October 1992. Cathay United Bank and Vietinbank each owns 50% interest of Indovina Bank.
Cathay United Bank	Cathay United Bank (Cambodia) Corporation Limited (“CUBC Bank”)	Wholesale banking	100.00	100.00	SBC Bank was incorporated in Cambodia on 25 July 1993 and renamed CUBC Bank on 14 January 2014.
Cathay United Bank	Cathay United Bank (China) Coporation Limited (“CUBCN Bank”)	Wholesale banking	100.00	-	CUBCN Bank was incorporated in China on 3 September 2018. (Note)
Cathay Securities	Cathay Futures Co., Ltd. (“Cathay Futures”)	Futures related business	99.99	99.99	Cathay Futures, former Seaward Futures Agency Co., Ltd., was incorporated on 29 December 1993, under the Company Act and was renamed Seaward Futures Corp. on 6 March 1998. On 24 December 2003, Seaward Futures Corp. changed its name to Cathay Futures Corp. On 10 February 2006, Cathay United Bank sold all stocks of Cathay Futures to Cathay Securities.
Cathay Securities	Cathay Securities (Hong Kong) Corporation Limited (“Cathay Securities (Hong Kong)”)	Securities agent	100.00	100.00	Cathay Securities (Hong Kong), formerly Horizon Securities (Hong Kong) Co., Ltd., was incorporated on 22 March 2007 and was renamed as Cathay Securities (Hong Kong) Co., Ltd. after the acquisition on 4 September 2015.
Cathay Securities Investment Trust	Cathay Private Equity Co., Ltd. (“Cathay Private Equity”)	Private equity	100.00	100.00	Cathay Private Equity was incorporated on 15 November 2017.

Note: CUBCN was combined form Cathay United Bank’s Shanghai branch, Cathay United Bank’s Qingdao branch and Cathay United Bank’s Shenzhen branch that was approved by authority. Related combination information refer to Note 5.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

The consolidated financial statements excluded the following subsidiaries as the respective total assets and operating revenues were considered immaterial to the Group.

Investor	Investee	Business	2018.12.31 Ownership interest	2017.12.31 Ownership interest	Notes
Cathay Life	Cathay Insurance (Bermuda) Co., Ltd. (Note1) (“Cathay Insurance (Bermuda)”)	Class 3 general business insurers and Class C long-term insurer	-	100.00	Cathay Insurance (Bermuda) was incorporated on 10 November 1999.
Cathay Life	Cathay Securities Investment Consulting Co., Ltd. (“Cathay Securities Investment Consulting”)	Securities investment consulting	100.00	100.00	Cathay Securities Investment Consulting was incorporated on 25 November 2002.
Cathay Securities	Cathy Investment Consulting (Shanghai) Co., Ltd.(Note2)	Investment Consulting	100.00	100.00	Cathy Investment Consulting (Shanghai) Co., Ltd. was incorporated on 11 June 2014.

Note1: Cathay Insurance (Bermuda) Co., Ltd was dissolved on 8 May 2018, and has completed liquidation on 21 May 2018.

Note2: Cathay Investment Consulting (Shanghai) Co., Ltd has completed liquidation on 26 February 2019.

(4) Foreign currency transactions

The Group’s consolidated financial statements are presented in NT\$, which is also the Company’s functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- B. Foreign currency items within the scope of IAS 39 "*Financial Instruments: Recognition and Measurement*" are accounted for based on the accounting policy for financial instruments.
- C. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(5) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT\$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. When the partial disposal involves the loss of control of a subsidiary that includes a foreign operation, and the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or joint arrangement that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(6) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid time deposits or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Group classifies time deposits as cash equivalents when they have maturities of less than 12 months and can be readily convertible to known amounts of cash and be subject to an insignificant risk of changes in value.

(7) The transaction of Repo notes and bonds

The transaction of notes and bonds with repurchase or reverse repurchase is recognized as liabilities of notes and bonds with repurchase agreement and investment of notes and bonds with reverse repurchase agreement according to the law of financing; the difference between book value and strike price is recognized as interest revenue or interest expense.

(8) Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities within the scope of IFRS 9 “*Financial Instruments*” (Before 1 January 2018: IAS 39 “*Financial Instruments: Recognition and Measurement*”) are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable to transaction costs.

A. Financial assets: Recognition and Measurement

The accounting policy from 1 January 2018 is as follows:

The Group accounts for regular way purchase or sales of financial assets on the trade date.

The Group classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

- (A) the Group’s business model for managing the financial assets and
- (B) the contractual cash flow characteristics of the financial asset

Financial assets measured at amortized cost

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, trade receivables financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

- (A) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows
- (B) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- (A) purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition
- (B) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods

Financial asset measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- (A) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- (B) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

- (A) A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- (B) When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
- (C) Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:
 - a. Purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
 - b. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

In addition, for the equity instruments within the scope of application in IFRS 9 “*Financial Instruments*” but neither held for trading nor applicable to the contingent consideration recognized by the acquirer in IFRS 3 “*Business Combinations*”, an irrevocable election can be made at initial recognition to recognize subsequent changes in fair value in other comprehensive income. The amount recognized in other comprehensive income should not be subsequently transferred to profit or loss (the accumulated amount included in the other equity items should be transferred to retained earnings directly upon the disposal of such equity instruments), but should be presented as financial assets at fair value through other comprehensive income in the balance sheet. Dividends on investments are recognized in profit or loss unless the dividends clearly represent a recovery of part of the investment costs.

Financial assets at fair value through profit or loss

All financial assets are measured at fair value through profit or loss except that the aforementioned ones that meet specific criteria are measured at amortized cost or at fair value through other comprehensive income, and presented as financial assets at fair value through profit or loss in the balance sheet.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss.

In addition, to reduce the fluctuation in profit or loss due to applying IFRS 9 “*Financial Instruments*” earlier than IFRS 17 “*Insurance Contracts*”, the Company and Subsidiaries elected to remove profit or loss arising from changes in fair value in subsequent measurement and placed it in other comprehensive income based on overlay approach under IFRS 4 “*Insurance Contracts*”. Overlay approach is applied to financial assets if all of the following conditions are met:

- (A) the financial assets are held in respect of activities related to IFRS 4 “*Insurance Contracts*”.
- (B) the financial assets are measured at fair value through profit or loss applying IFRS 9 “*Financial Instruments*”, but would not have been measured at fair value through profit or loss in its entirety applying under IAS 39 “*Financial Instruments: Recognition and Measurement*”.
- (C) the financial assets designated to apply overlay approach at initial recognition when an entity first applies IFRS 9 “*Financial Instruments*” or when a new financial asset is initially recognized or when a financial asset newly meets the criteria having previously not met.

The accounting policy before 1 January 2018 is as follows:

The Group accounts for regular way purchase or sales of financial assets on the trade date.

Financial assets of the Group are classified as financial assets at fair value through profit or loss, held-to-maturity investments, investments in debt securities with no active market, available-for-sale financial assets, derivative financial assets for hedging and loans and receivables. The Group determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as at fair value through profit or loss.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

A financial asset is classified as held for trading if:

- (A) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term.
- (B) On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.
- (C) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- (A) it eliminates or significantly reduces a measurement or recognition inconsistency; or
- (B) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Group is provided internally on that basis to the key management personnel.

Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

If financial assets do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

If equity instrument investments do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity, other than those that are designated as available-for-sale, classified as financial assets at fair value through profit or loss, or meet the definition of loans and receivables.

After initial measurement held-to-maturity financial assets are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or debt instrument investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Derivative financial assets for hedging

Derivative financial assets that have been designated in hedge accounting and are effective hedging instruments are measured at fair value.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Investments in debt securities with no active market

Investment in debt securities with no active market are non-derivative financial assets with fixed or determinable collections that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized when these investments are derecognized or impaired, as well as through the amortization process.

B. Impairment of financial assets

The accounting policy from 1 January 2018 is as follows:

The Group recognizes a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and not reduce the carrying amount in the statement of financial position.

The Group measures expected credit losses of a financial instrument in a way that reflects:

- (A) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- (B) the time value of money
- (C) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions

The loss allowance is measured as follows:

- (A) At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Group measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.
- (B) At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
- (C) For trade receivables or contract assets arising from transactions within the scope of IFRS 15 “*Revenue from Contracts with Customers*”, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

At each reporting date, the Group needs to assess whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

The accounting policy before 1 January 2018 is as follows:

The Group assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

- (A) significant financial difficulty of the issuer or counterparty
- (B) a breach of contract, such as a default or delinquency in interest or principal payments
- (C) it becoming probable that the debtor will enter bankruptcy or other financial reorganization
- (D) the disappearance of an active market for that financial asset because of financial difficulties

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in Equity.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

C. Derecognition of financial assets

A financial asset is derecognized when:

- (A) The rights to receive cash flows from the asset have expired
- (B) The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred
- (C) The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

D. Reclassification of financial assets

The accounting policies from 1 January 2018 are as follows:

Financial instruments of the Group are reclassified in accordance with IFRS 9 “*Financial Instruments*”:

- (A) When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets.
- (B) An entity shall not reclassify any liability.

The accounting policies before 1 January 2018 are as follows:

In accordance with IAS 39 “*Financial Instruments: Recognition and Measurement*”:

- (A) The Group shall not reclassify a derivative out of the fair value through profit or loss category while it is held or issued.
- (B) The Group shall not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated by the Group as at fair value through profit or loss.
- (C) The Group shall not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.
- (D) If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and remeasured at fair value, and the difference between its carrying amount and fair value shall be recognized in other comprehensive income.
- (E) If, during the current financial year or during the two preceding financial years, there have been sales or reclassification of more than an insignificant amount of held-to-maturity investments, any remaining held-to-maturity investments shall be reclassified as available for sale.

E. Financial liabilities and equity

Classification between liabilities or equity

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Compound instruments

The Group evaluates the terms of the convertible bonds issued to determine whether it contains both a liability and an equity component. Furthermore, the Group assesses if the economic characteristics and risks of the put and call options contained in the convertible bonds are closely related to the economic characteristics and risk of the host contract before separating the equity element.

For the liability component excluding the derivatives, its fair value is determined based on the rate of interest applied at that time by the market to instruments of comparable credit status. The liability component is classified as a financial liability measured at amortized cost before the instrument is converted or settled.

For the embedded derivative that is not closely related to the host contract (for example, if the exercise price of the embedded call or put option is not approximately equal on each exercise date to the amortized cost of the host debt instrument), it is classified as a liability component and subsequently measured at fair value through profit or loss unless it qualifies for an equity component. The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. Its carrying amount is not remeasured in the subsequent accounting periods. If the convertible bond issued does not have an equity component, it is accounted for as a hybrid instrument in accordance with the requirements under IFRS 9 “*Financial Instruments*” (before 1 January 2018: IAS 39 “*Financial Instruments: Recognition and Measurement*”).

Transaction costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized.

On conversion of a convertible bond before maturity, the carrying amount of the liability component being the amortized cost at the date of conversion is transferred to equity.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Financial liabilities

Financial liabilities within the scope of IFRS 9 “*Financial Instruments*” (before 1 January 2018: IAS 39 “*Financial Instruments: Recognition and Measurement*”) are classified as financial liabilities at fair value through profit or loss, derivative financial liabilities or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- (A) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (B) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (C) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- (A) it eliminates or significantly reduces a measurement or recognition inconsistency; or
- (B) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

For financial liabilities designated as at fair value through profit and loss, the recognition of the full amount of change in the fair value in profit or loss only if the presentation of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Before 1 January 2018, if the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

F. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(9) Derivative instrument

The Group uses derivative instruments to hedge its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as financial assets or liabilities at fair value through profit or loss (held for trading) except for derivatives that are designated effective hedging instruments which are classified as derivative financial assets or liabilities for hedging.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in equity.

Before 1 January 2018, derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are separated from the host contract and accounted for as a derivative. The aforementioned policy is applicable to host contracts as financial liabilities or non-financial assets on 1 January 2018.

(10) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- A. In the principal market for the asset or liability, or
- B. In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(11) Investments accounted for using the equity method

The Group's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Group has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

Under the equity method, the investment in the associate or an investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group's related interest in the associate or joint venture.

When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affect the Group's percentage of ownership interests in the associate or joint venture, the Group recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a pro rata basis.

When the associate or joint venture issues new stock, and the Group's interest in an associate or a joint venture is reduced or increased as the Group fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in additional paid in capital and investment accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Group disposes of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 28 *“Investments in Associates and Joint Ventures”* (before 1 January 2018: IAS 39 *“Financial Instruments: Recognition and Measurement”*). If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the ‘share of profit or loss of an associate’ in the statement of comprehensive income in accordance with IAS 36 *“Impairment of Assets”*. In determining the value in use of the investment, the Group estimates:

- A. Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment
- B. The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal

Because goodwill that forms part of the carrying amount of an investment in an associate or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 *Impairment of Assets*.

Upon loss of significant influence over the associate or joint venture, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

(12) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 *Property, plant and equipment*. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings	5~70 years
Computer equipment	3~8 years
Transportation equipment	3~7 years
Other equipment	2~15 years
Leasehold improvements	The shorter of lease terms or economic useful lives
Leased assets	3~5 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

(13) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured using fair value model, with changes in the fair value under the fair value model being recognized in profit or loss according to the requirements of IAS 40, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Assets are transferred to or from investment properties when there is a change in use.

Properties are transferred to or from investment properties when the properties meet, or cease to meet, the definition of investment property and there is evidence of the change in use.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(14) Leases

Group as a lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

The depreciation policy for depreciable leased assets is consistent with the Company and Subsidiaries' normal depreciation policy for similar assets, and depreciation is calculated in accordance with IAS 16 "*Property, Plant and Equipment*" and IAS 38 "*Intangible Assets*".

Lease income from operating leases is recognized in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

(15) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Licenses

The licenses were acquired in business combination. The costs of the two licenses are amortized on a straight-line basis over the useful life (6.5 and 20 years).

Customer relationships

Customer relationships were acquired in business combination and are amortized on a straight-line basis over the useful life (5 to 15 years).

Computer software

The cost of computer software is amortized on a straight-line basis over the estimated useful life (2 to 10 years).

Other intangible assets

Other intangible assets were acquired in business combination and are amortized on a straight-line basis over the useful life (3 to 6 years).

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(16) Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 “*Impairment of Assets*” may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (“CGU”) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset’s or cash-generating unit’s recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(17) Provisions

Insurance liabilities

A. Cathay Life

Business reserved funds for insurance contracts and financial instruments whether with or without discretionary participation feature are made in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises.” Furthermore, they have been validated by the certified actuarial professionals approved by FSC. The required amount to be reserved for short-term group insurance is based upon the greater of premium received or calculated premium following the regulations established by the authorities. Reserved amount for the rest of other provisions is addressed below:

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Moreover, an insurance contract with discretionary participation feature is classified as liability.

(A) Unearned premium reserve

For the insurance policy which period is within one year and has not met the due date or accidental insurance policy over one year, the amount of reserve required is based upon the risk calculation.

(B) Reserve for claims

It is mainly a reserve for the unpaid claims and unreported claims. The unpaid claims reserve is assessed upon the basis that the relevant information of each case and the amount deposited is further classified by the type of insurance. Unreported claims reserve is calculated and deposited based upon the past experiences and expenses occurred and in accordance with the actuarial principles for each injury insurance and health or life insurance with a policy period within 1 year.

(C) Reserve for life insurance liabilities

Based upon the life table and projected interest rates in the manual provided by the authority for each type of insurance, life insurance reserve is calculated and recognized according to the calculation method provided in Article 12 of “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises”, the manual of each insurance product reported to the competent authority and the relevant calculation methods approved by the competent authority.

Starting from policy year 2003, for valid insurance contract whose bonus calculation is stipulated by the regulations established by the competent authorities, the downward adjustments of bonus due to the offset between mortality gain (loss) and gain (loss) from difference of interest rates should be calculated and recognized according to the regulations provided by the competent authorities.

In accordance with Jin-Guan-Bao-Cai-Zi No. 10102500530 announced on 19 January 2012, life insurance enterprises shall reclassify allowance for doubtful account originally recognized in special reserve to “life insurance reserve - allowance for doubtful account pertinent to 3% business tax cut” account. The allowance was recognized as a result of the 3% business tax cut. Also, life insurance enterprises shall reclassify the recoverable special reserve for major incidents defined in Article 19 of “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” to “life insurance reserve - recover from major incident reserve” account.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

When an insurer that opts to measure investment property at fair value, the value of its insurance liabilities at the same time must also be measured at fair value. If the results of the measurements indicate that the fair value of the insurance liabilities exceeds book value, the life insurer must set aside the difference to reserve for life insurance liabilities and decrease retained earnings. Cathay Life changes its accounting policy for subsequent measurement of investment property from cost to fair value starting from 2014. The value of insurance liabilities at the same time is measured at fair value in accordance with Jin-Guan-Bao-Cai-Zi No. 10302501161 announced on 21 March 2014. The results of the measurements indicate that the fair value of the insurance liabilities doesn't exceed book value, therefore insurance liabilities doesn't have to be increased.

(D) Special reserve

- a. For the retained businesses with policy period within one year and injury insurance with policy period longer than one year, the special reserve is classified into two categories, "Special Capital Reserve—Special Reserve for Major Incidents" and "Special Capital Reserve—Special Reserve for Fluctuation of Risks." The dollar amount of reserve required is addressed as follows:

(a) Special capital reserve—Special reserve for major incidents

All types of insurance should follow the special catastrophe reserve rates set by authorities. Upon occurrence of the catastrophic events, actual claims on retained business in excess of \$30,000 thousand can be withdrawn from the reserve. If the reserve has been set aside for over 15 years, the Company could have its plan of the recovering process of the reserve assessed by certified actuaries and submit the plan to the authority for reference. The post-tax amount of the recovery determined in accordance with IAS 12 *Income Taxes* can be recorded in the special capital reserve for major incidents under equity.

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

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

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

When the actual amount paid for indemnity minus the offsetting amount from special reserve for major incidents is greater than the anticipated dollar amount need to be paid, the exceeded amount can be used for writing down the special reserve for fluctuation of risks. If the total amount of special reserves for fluctuation of risks is not enough to be written down, special reserve for major incidents for other types of insurance can be used. Also, the type of insurance and total dollar amount written-down should be reported to the authority for inspection purposes. When accumulative dollar amount of special reserve for fluctuation of risks exceeds 30% of self-retention earned premium, the exceeded amount will be recovered. To promote the sustainable development of insurance industry, the authority may designate or restrict the use of the recovered amount. The post-tax amount of written-down or recovery determined in accordance with IAS 12 *Income Taxes* can be recorded in the special capital reserve for fluctuation of risks under equity.

For special reserves addressed previously, the balance of the annual reserve net of tax (in accordance with IAS 12 “*Income Taxes*”) needs to be recorded in special capital reserve under equity.

- b. Cathay Life sells participating life insurance policy. According to the “Rule Governing application of revenues and expenses related to participating / non-participating policy”, Cathay Life is required to set aside special reserve for dividend participation based on income before tax and dividend. On the date of declaration, dividend should be withdrawn from this account. The excess dividend should be accounted as special reserve for dividend risks.
- c. According to Article 32 of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, if there are increments after estimating property in fair value, in addition to offsetting adverse effects of the first-time adoption of TIFRS on other accounts, the exceeds shall be recognized as special reserve for revaluation increments of property under liabilities.

According to the regulations established by the authorities on 30 November 2012, the aforementioned special reserve for revaluation increments of property can be transferred to the reserve for life insurance liabilities — fair value of insurance contract liabilities after strengthening the reserve for life insurance liabilities calculated based on the regulations established by the authorities on 27 November 2012. If there is excess, 80% of it can be recovered in the first year or next five years and reserved to special capital reserve under equity. The amount which can be recovered and reserved to special capital reserve under equity each year, is limited to NT\$10 billion.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(E) Premium deficiency reserve

For the contracts over one year of life insurance, health insurance, or annuities contracts commencing on 1 January 2001, the following rules applied: If the written premiums are lower than those of providing policy reserves, the special premium deficiency reserve will be set aside based on the premium deficiencies.

In addition, for the insurance policy which period is within one year and has not met the due date or accidental insurance policy over one year, the following rules applied: If the probable indemnities and expenses are greater than the aggregate of unearned premium serves and collectable premiums in the future, the premium deficiency reserve is set aside based on the difference thereof.

(F) Other reserve

Pursuant to IFRS 3 “*Business Combinations*”, the Company and subsidiaries will recognize other reserve in a business combination to reflect the fair value of life insurance contract assumed as long as the identifiable assets and assumed liabilities acquired from the business combination are recognized at fair value.

(G) Liability adequacy reserve

This is the reserve that is set aside based on the adequacy test of liability required by IFRS 4 “*Insurance Contracts*”.

(H) Reserves for insurance contract with feature of financial instruments

Reserve for non-separate account insurance product that is also classified as financial products without discretionary participation features follows “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and Depository Accounting.

(I) Foreign exchange volatility reserve

The beginning balance of foreign exchange volatility reserve of Cathay Life was \$4,511,406 thousand which was appropriated in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and “Direction for foreign exchange volatility reserve by Life Insurance Enterprises”. As of 31 December 2018, the amount set aside was \$17,075,289 thousand.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(J) Liability adequacy test

Liability adequacy test is based on integrated insurance contract and related regulations following “ASP of IFRS 4 - Contract classification and liability adequacy test”. This test compares reserve for insurance contract net with deferred acquisition cost and related intangible assets and anticipated present value of insurance contract cash flow at each reporting date. If net book value is insufficient, recognize all insufficient amounts as expense and loss at that period is applicable.

B. Cathay Century

Insurance liabilities are set aside in accordance with “Regulations for the Management of the Various Reserves by Insurance Enterprises”, “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance” and “Regulations for the Management of the Various Reserves for Nuclear energy insurance”, “Regulations for the Management of the Various Reserves for Commercial Earthquake and Typhoons Flood Insurance by Property and Casualty Insurance Enterprises” and “Precautions of strengthening disaster insurance of property insurance industry (commercial earthquake and typhoons flood insurance)”. Also, the booked reserves shall be validated by the certified actuarial professionals approved by FSC.

(A) Unearned premium reserve

The reserve for unearned premiums represents the portion of premiums written related to the unexpired terms of coverage, which shall be set aside based on each unexpired underlying risk.

(B) Claims reserve

It is mainly for the unpaid claim reserve and incurred but not reported (IBNR) claim reserves, which is calculated and deposited based upon the past indemnity experiences and expenses occurred to meet the actuarial principle. The notified but unpaid claim reserve is assessed case by case as well as its relevant information obtained and deposited by each type of insurance.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(C) Special reserve

The special reserve is classified into two categories, “Special reserve for major incident” and “Special reserve for fluctuation of risks”. For the special reserves set aside by the Company before 1 January 2011, they should be shown as a liability item on the balance sheet. Since 1 January 2011, the after-tax addressed amount of the special reserve should be placed in the special reserve under stock holder’s equity. The recovery of special reserve can be charged against the special reserve under liabilities if sufficient. If the recovery amount exceeds the balance of the special reserve under liabilities, the after-tax excess amount can be recovered from the special reserve under stock holder’s equity.

According to the “Precautions of Strengthening Natural Disaster Insurance Reserve of Property Insurance Industry (Commercial Earthquake and Typhoon Flood Insurance)”, the industry that offers these insurance products shall, from 1 January 2013, set aside special reserve recognized under liability prior to 31 December 2012 for the Company’s commercial earthquake insurance and typhoons flood insurance, excluding compulsory automobile liability insurance, nuclear energy insurance, government-directed housing earthquake insurance, commercial earthquake insurance and typhoons flood insurance. The decrease or withdrawal of special reserve for major incident and special reserve for fluctuation of risks of commercial earthquake insurance and typhoons flood insurance should follow the Precautions.

a. Special reserve for major incident

All types of insurance shall follow the special reserve for major incident rates set by the authorities.

Upon occurrence of catastrophic events, the actual retained claims in excess of \$30,000 thousand individually and the aggregate payment of loss of the whole property and casualty insurers in excess of \$2,000 million, the fund of the claims can be withdrawn from the special reserve.

If the reserve has been set aside for over 15 years, the Company could have its plan of recovering process of the reserve accessed by certified actuaries and submit the plan to the authority for reference.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Special reserve for fluctuation of risks

When the actual claim paid for each insurance product categories minus the offsetting amount from special reserve of major incidents is less than the anticipated loss, 15% of this difference shall be reserved in special reserve for fluctuation of risks.

When the actual claim paid for each insurance product categories minus the offsetting amount from special reserve of major incidents is greater than the anticipated loss, the excessive amount can be used for writing down the special reserve for fluctuation of risks. If the total amount of the special reserve is not enough to be written down, special reserve for fluctuation of risks of other insurance product categories can be used. Additionally, the type of insurance and total dollar amount written-down shall be reported to the authority for inspection purposes.

When accumulative dollar amount of the special reserve for fluctuation of risks exceeds 60% of its retained earned premium, the excess shall be recalled and recognized as income for the current year.

(D) Premiums deficiency reserve

If the probable claims and expenses of the unexpired insurance contracts are greater than the aggregate amount of unearned premium reserves and collectable premiums in the future, the premium deficiency reserve should be set aside based on the difference thereof.

(E) Liability reserve

The minimum liability reserve for health insurance that the insurance period is greater than one year is set aside using full preliminary term reserving method. However, the method of setting aside minimum liability reserve for health insurance with special nature shall be approved by the competent authority.

C. Cathay Lujiazui Life

In accordance with the Insurance Act of the People's Republic of China, the insurance liabilities (including unearned premium reserves, claim reserves and life policy reserves) are required and are calculated based on the actuarial reports.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

D. Cathay Life (Vietnam)

In accordance with the Insurance Act of Vietnam, the insurance liabilities (including unearned premium reserves, claim reserves and life policy reserves) are required and are calculated based on the actuarial reports.

Other provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

(18) Treasury stocks

Own equity instruments which are reacquired (treasury stocks) are recognized at cost and deducted from equity. Any difference between the carrying amount and the consideration is recognized in equity.

(19) Post-employment benefits

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries. Therefore fund assets are not included in the Group's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

Defined contribution plan

For the defined contribution plan, the Company and domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. The overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Defined benefit plan

Post-employment benefit plan that is classified as a defined benefit plan uses the projected unit credit method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to other equity in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

- A. the date of the plan amendment or curtailment, and
- B. the date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

Employee preferential interest rate deposits

Cathay United Bank offers its employees with preferential deposit, including providing finite amount preferential interest rate deposits to current employees and providing the preferential interest rate deposits to current employees and retired employees after their retirement. The difference between the interest rate of preferential deposits and the market rate is recognized as employee benefits.

The finite amount preferential deposits that Cathay United Bank paid to its current employees are calculated monthly on accrual basis. The difference between the interest rate of preferential deposit and the market rate is recorded as “Employee benefits expenses”. In accordance with Article 30 of the “Regulations Governing the Preparation of Financial Reports by Public Banks”, when the interest incurred from preferential interest rate deposits exceed the interest generated from market rate, it shall be considered the actuarial amount according to defined benefit plan regulated on IAS 19 “*Employee Benefits*” since the employee’s retirement date.

(20) Revenue recognition

Cathay Life and its subsidiaries

A. Cathay Life

For Cathay Life’s insurance contracts and financial instruments with discretionary participation features, the initial and renewal premium are only recognized as revenue after completing collection and underwriting procedures, and completing subsequent session of collection, respectively. In terms of the acquisition cost such as commission expenses and brokerage expenses, the related expenses will be recognized in that period after commencement of the insurance contract.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

For non-separate account insurance product that is also classified as financial products without discretionary participation features, the insurance revenue collected is recognized on the balance sheet as “reserves for insurance contract with feature of financial instruments”.

For separate account insurance product that is also classified as financial products without discretionary participation features, the balance of insurance revenue collected less preprocess expense or investment management fee, etc., is fully recognized on the balance sheet as separate account product liabilities. In terms of the investment management related deferred acquisition costs such as commissions and incremental costs directly attributable to the issue of new type of contracts, the amount is recognized on the balance sheet as “deferred acquisition costs” and amortized on a straight-line basis over the service period. The amortization is recognized as an expense under “other operating costs”.

B. Cathay Lujiazui Life

In accordance with “The General Accounting System for Insurance Companies” issued by local government, Cathay Lujiazui Life records direct premiums as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on an accrual basis.

C. Cathay Life (Vietnam)

In accordance with the local government’s accounting guidance applicable to insurance companies, Cathay Life (Vietnam) records direct premiums as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on accrual basis.

Cathay United Bank and its subsidiaries

Interest income

Interest income is recognized over the period by applying the interest rate method and measured except for delinquent accounts and troubled accounts whose interest is recognized when received.

Handling fee revenue

The revenues from contracts between Cathay United Bank and its subsidiaries and customers mainly include the service fee and award credits and deferred income.

Cathay United Bank and its subsidiaries charge customers by providing a variety of services.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

The award credits and deferred income represents the award credits granted to the credit card holders by Cathay United Bank and its subsidiaries. The accounting treatments are described respectively as follows:

The accounting treatments from 1 January 2018 are as follows:

Cathay United Bank and its subsidiaries earn service fee and award credits and deferred income from services provided at a specific time point or over a period of time or from transaction services provided, and recognizes them as revenue. A contract asset is recognized where it has transferred services to customers but has not yet obtained the right to receive the consideration unconditionally. While, in some cases, Cathay United Bank and its subsidiaries has received part of consideration from customers when signing contracts, Cathay United Bank and its subsidiaries shall bear the obligation to provide services subsequently, then contract liability is recognized.

Generally, the aforementioned contract liability of Cathay United Bank and its subsidiaries should be transferred into income within one year, so there is no significant financial component resulted.

The accounting treatments before 1 January 2018 are as follows:

Cathay United Bank and its subsidiaries earn service fee from services provided at a specific time point or over a period of time or from transaction services provided, and recognizes them as revenue. Award credits and deferred income is recognized as deferred income at its fair value. The related part of redeemed or expired award credits in deferred income are re-recognized as income when the award credits are redeemed or expired.

Cathay Century's and its subsidiaries

Direct premiums are recognized on the date when the policies became effective. Policy related expenses are recognized when incurred. Reinsurance premiums and reinsurance commission expenses are recognized upon the assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized upon notification that claim payments are due.

The reserve for unearned premiums represents the portion of premiums written related to the unexpired terms of coverage, which shall be set aside based on each unexpired underlying risk.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

The amount of unearned premium reserve for compulsory automobile liability insurance is set aside pursuant to “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”.

The amount of unearned premium reserve for the residential earthquake insurance is set aside pursuant to “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”.

The amount of unearned premium reserve for the nuclear insurance is set aside pursuant to “Regulations for the Management of the Various Reserves for the Nuclear Insurance”.

Calculation of unearned premium reserve is determined by actuaries based on characteristics of insurances and cannot be changed without the authority’s approval unless otherwise regulated by law. The amount of unearned premium reserve should be audited by a certified actuary.

Taxes related to the insurance premium revenues are recognized pursuant to “Value-added and Non-value-added Business Tax Act” and “Stamp Tax Act” on an accrual basis.

Cathay Securities and its subsidiaries

The accounting treatments from 1 January 2018 are as follows:

Revenue from Contracts with Customers of Cathay Securities and its subsidiaries was mainly from rendering of services, and the accounting treatments are as follows:

The services provided by Cathay Securities its subsidiaries are mainly made from providing brokerage, underwriting and advisor services. The services that are stand-alone price or negotiated are provided based on time of services belonging to satisfy performance obligations at a point in time, therefore the revenue is recognized while satisfying performance obligations.

The accounting treatments before 1 January 2018 are as follows:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to Cathay Securities and its subsidiaries, and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Revenue from services of Cathay Securities and its subsidiaries is recognized when rendering of service was most completed and the revenue was already realized or realizable. The major service revenues are brokerage fee revenue, underwriting fee revenue and future commission revenue.

Related interest income/expense on margin loans and short sales of securities and bonds purchased under resale agreements, bonds sold under repurchase agreements are recognized respectively over the loan period on an accrual basis.

Dividends income is recognized when Cathay Securities and its subsidiaries have right to receive the payment is established.

(21) Share-based payment transactions

The cost of equity-settled share-based payment transactions between the Group and its employee is recognized based on the fair value of the equity instruments granted. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled share-based payment transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

The cost of restricted stocks issued is recognized as salary expense based on the fair value of the equity instruments on the grant date, together with a corresponding increase in other capital reserves in equity, over the vesting period. The Group recognized unearned employee salary which is a transitional contra equity account; the balance in the account will be recognized as salary expense over the passage of vesting period.

(22) Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- A. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- B. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- A. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- B. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

In accordance with Article 49 of the Financial Holding Company Act, the Company and its qualifying subsidiaries have selected the consolidated income tax return for tax filings and pay a surcharge on their undistributed retained earnings under the consolidated income tax return. If there are any tax effects due to the adoption of the consolidated tax system, the Company can proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable (tax refund receivable) among the Company and its subsidiaries.

Effective from 1 January 2006, the Company and subsidiaries have considered the impact of the “Alternative Minimum Tax Act” to estimate their income tax liabilities.

(23) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred, the identifiable assets acquired and liabilities assumed are measured at acquisition date fair value. For each business combination, the acquirer measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred and are classified under administrative expenses.

When the Group acquires business, it will assess the adequacy of classification and appointment of assets and liabilities according to the contract terms, the economic situation and other relevant factors. The evaluation includes whether to separate the embedded derivatives contained in the master contract.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

The transfer price of acquirer will be measured by fair value on the transaction date. After transaction date, the transfer price, classified as asset or liability, will be revaluated through profit or loss, or other comprehensive income, according to IFRS 9 “*Financial Instruments*” (before 1 January 2018: IAS 39 “*Financial Instruments: Recognition and Measurement*”). If the transaction price is classified as equity, it will not be remeasured until it is settled in equity.

The initial recognition of goodwill is the sum of transfer price and non-controlling interest, in excess of the fair value of identified assets and liabilities acquired by the Group. If the initial recognition is less than the fair value of net assets, the difference will be recognized through profit or loss.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the group at which the goodwill is monitored for internal management purpose and is not larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation. Goodwill disposed of in this circumstance is measured based on the relative recoverable amounts of the operation disposed of and the portion of the cash-generating unit retained.

(24) Earnings per share

Basic earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding plus dilutive potential ordinary shares during the year. The employees' bonuses are regarded as potential common stock. If the potential common stock has dilutive effect, both basic earnings per share and diluted earnings per share are presented; otherwise, only basic earnings per share is disclosed.

5. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(1) Judgment

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

A. The classification of financial assets

The management must make judgment for the classification of financial assets which would affect the method of accounting, the financial position of the Company and the outcome of operation.

B. Investment properties

Certain properties of the Group comprise a portion that is held to earn rentals or for capital appreciation and another portion that is owner-occupied. If these portions could be sold separately, the Group accounts for the portions separately as investment properties and property, plant and equipment. If the portions could not be sold separately, the property is classified as investment property in its entirety only if the portion that is owner-occupied is under 5% of the total property.

C. Operating lease commitment — Group as the lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, retaining all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

D. The significant degree of risk transform measured by the risk ratio of Cathay Century's insurance policy

The risk ratio of insurance policy = (amount to insurance company's payment when insurance accident occur/amount to insurance company's payment when insurance accident do not occur - 1) × 100%

The insurance policies which meet one of the following conditions are defined as insurance contracts:

- (A) The insurance period is greater than or equal to 5 years, and at least 5 more policy year meet insurance risk ratio is greater than 10% (or 5%);
- (B) The insurance period is less than 5 years, and more than half of the policy year meet insurance risk ratio is greater than 10% (or 5%).

According to the calculation formula of insurance risk ratio, insurance policies often obviously satisfy the conditions of significant risk transfer. Therefore insurers do not have to calculate the risk ratio and can define property insurance policy as insurance contracts.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- E. The significant degree of risk transfer measured by the risk ratio of Cathay Century's re-insurance policy

The risk ratio of re-insurance policy = $(\Sigma \text{PV amount to assumed re-insurer occur net loss} \times \text{the ratio of occurrence} / \text{PV of premium that assumed re-insurer expected}) \times 100\%$

When the risk ratio of a re-insurance policy is greater than 1%, the policy is defined as re-insurance contracts.

(2) Estimates and assumptions

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

A. Impairment losses on loans and receivables

The accounting policies from 1 January 2018 are as follows:

The estimate of impairment losses on loans and receivables of the Group is measured by the amount of expected credit losses during the remaining term to maturity. Under the contract, the present value of the difference between the contractual cash flow (carrying amount) and the expected cash flow (assessment of prospective information) is credit loss, which is measured by the undiscounted difference in case that the impact from discounting of short-term loans and receivables is insignificant. When the future actual cash flow is lower than expected, it may result in significant impairment loss. Please refer to Note 12 for further details.

The accounting policies before 1 January 2018 as follows:

The Group review their loans and receivables to assess whether an impairment loss should be recorded in profit or loss on a monthly basis. When the Group determines whether to recognize impairment losses, they mainly decide if there is any observable evidence indicating possible impairment. The evidence may include observable information indicating unfavorable changes in debtor payment status, or sovereign or the local economic situation related to debt payment. While analyzing expected cash flow, the estimates by the management are based on past losses experience on the assets of similar credit risk characteristics. The Group periodically reviews methods and assumptions behind the amount and schedule of expected cash flow, to reduce the difference between expected and actual loss.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

B. Impairment loss estimation on debt instruments investments

The accounting treatments from 1 January 2018 are as follows:

Estimation of the impairment loss on debt instrument investments is measured at the amount of expected credit losses. The present value of the difference between the contractual cash flows that are due to an entity in accordance with the contract (carrying amount) and the cash flows that the entity expects to receive (after considering the forward-looking information) is recognized as credit losses. The Group takes the historic experience, current market conditions and forward-looking information into consideration, and thus, make assumptions on the default rate and expected loss ratio and select the impairment assessment inputs. If actual future cash flows are less than expected, material impairment loss may occur.

The accounting treatments before 1 January 2018 are as follows:

When there are objective evidences identified showing impairment indicators, the Group takes the estimation of future cash flows into consideration. The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses which have not been incurred) discounted at the financial asset's original effective interest rate. If actual future cash flows are less than expected, material impairment loss may occur.

C. Fair value of financial instruments

Where the fair value of financial instruments cannot be derived from an active market or a quoted price, it is determined using a valuation technique. Observable market data for similar financial instruments is utilized as inputs to measure fair value. If observable inputs are not available, prudent assumptions are used for estimating fair value. In applying valuation techniques, the Group adopts pricing models in accordance with its procedure for valuation. All models are adjusted to ensure that their results reflect actual data and market prices.

D. Fair value of investment property

The fair value of investment property is derived from valuation techniques, including earning value method (such as discounted cash flow model and direct capitalization approach), comparison approach, cost approach, and market method, and assumptions which are used in applying valuation techniques will have impacts on the fair value of investment property.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

E. Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs that would be directly attributable to the disposal of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Cathay United Bank and Cathay Securities test the impairment of goodwill every year and whenever an impairment of goodwill is possible. Cathay United Bank and Cathay Securities need to estimate the recoverable amounts of cash generating units that are appropriated from the goodwill. Cash flows derived from the cash generating units require projections and the appropriate discount rate should be determined to calculate the present value of the future cash flows.

F. Pension benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions including the determination of the discount rate, future salary increases, mortality rates and future pension increases.

According to internal regulation of Cathay United Bank or hiring agreement, IAS 19 "*Employee Benefit*" applies to the excess interest of retiring employee preferential interest rate deposits once the employee is retired.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

G. Insurance contract liabilities (including investment contract liabilities with discretionary participation feature of financial instruments)

Cathay Life

The liability for insurance contracts and investment contracts with discretionary participation feature of financial instruments is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time. All contracts are subject to a liability adequacy test, which reflects management's best current estimate of future cash flows. The main assumptions used relate to mortality, morbidity, investment returns, expenses and surrender rates. Cathay Life bases its assumptions on the standards published by the Actuarial Institute of the Republic of China, adjusted when appropriate to reflect Cathay Life's unique risk exposure, product characteristics and own experiences from target markets.

Best estimates of future investment income from the assets backing such contracts are based on current market returns, as well as expectations about future economic developments. Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation, if appropriate. Surrender rates are based on Cathay Life's historical experience.

Cathay Century's and its subsidiaries

Insurance contract liabilities are based on assumptions of current period or the assumptions established in contract to reflect the best estimate at that time. All contracts were through liability adequacy tests do holistic assessment and assumptions to reflect the current period best estimate of cash flows in the future. The main assumptions are expected ultimate loss ratio, the maintaining cost ratio, persistency rates, discount ratio and reimbursement ratio.

H. Award credits and deferred income

The accounting policy after 1 January 2018 is as follows:

As to customer loyalty program, Cathay United Bank recognizes the fair values of all the related consideration received and receivable, and also evaluates the cost and the liabilities that might derive from bonus points and other consideration. The income that is derived from points would be deferred and recognized as contract liabilities. It would be recognized as income only when the obligation of Cathay United Bank is performed. During the period when the points issued are still valid, there is major uncertainty concerning this evaluation.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

The accounting policy before 1 January 2018 is as follows:

Cathay United Bank recognizes the fair value of all considerations received or receivable as revenue at the time of sale, and estimates the cost and related liabilities resulting from the awards given. The consideration allocated to the award credits should be deferred and only recognized as revenue when award credits are redeemed and Cathay United Bank fulfils its obligations to supply awards. As points issued under the program do not expire, such estimates are subject to significant uncertainty.

I. Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets are recognized for all carry forward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

6. Contents of significant accounts

(1) Cash and cash equivalents

	2018.12.31	2017.12.31
Petty cash and cash on hand	\$17,257,240	\$18,322,143
Cash in banks	80,146,106	98,762,675
Time deposits	52,709,964	74,298,091
Cash equivalents	5,608,762	6,119,932
Checks for clearance	7,060,146	7,025,587
Due from commercial banks	43,812,218	40,826,340
Less: allowance for doubtful accounts	(18,382)	(Note)
Total	<u>\$206,576,054</u>	<u>\$245,354,768</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Time deposits include deposits that have maturities of 12 months from the date of acquisition and can be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value.

(2) Financial assets at fair value through profit or loss

	2018.12.31	2017.12.31 (Note)
Mandatorily measured at fair value through profit or loss:		
Common stock	\$673,969,471	
Funds and beneficiary certificates	293,491,136	
Government bonds	25,763,954	
Corporate bonds	7,429,409	
Financial debentures	25,818,154	
Overseas debentures	188,524,736	
Short-term notes	162,478,515	
Margin for futures trading-own funds	433,813	
Derivative financial instruments	50,914,861	
Total	<u>\$1,428,824,049</u>	
	2018.12.31 (Note)	2017.12.31
Designated financial assets at fair value through profit or loss at initial recognition:		
Beneficiary certificates		\$155,197
Overseas stocks		84,171
Subtotal		<u>239,368</u>
Held for trading:		
Common stock		17,846,019
Funds and beneficiary certificates		17,703,649
Government bonds		39,912,927
Corporate bonds		32,125,221
Financial debentures		37,411,528
Overseas debentures		98,240
Short-term notes		170,563,632
Margin for futures trading-own funds		538,593
Derivative financial instruments		49,368,981
Subtotal		<u>365,568,790</u>
Total		<u>\$365,808,158</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

A. At the same time, the Group chose to express profit or loss of the designated financial assets in overlay approach under IFRS 4 “*Insurance Contracts*” on its application of IFRS 9 on 1 January 2018. Financial assets designated to apply overlay approach by the Group for investment activities relating to insurance contracts issued by the Group are as follows:

	2018.12.31
Mandatorily measured at fair value through profit or loss	
Common stock	\$660,063,193
Funds and beneficiary certificates	277,643,018
Financial debentures	17,859,589
Overseas debentures	187,795,448
Total	<u>\$1,143,361,248</u>

Reclassification from profit or loss to other comprehensive income of the financial assets designated to apply overlay approach for the year ended 31 December 2018 is addressed below:

	2018.1.1~ 2018.12.31
Gains due to applying IFRS 9 to profit or loss	\$(31,827,184)
Less: Gains if applying IAS 39 to profit or loss	(86,249,355)
Gains from reclassification due to the application of overlay approach	<u>\$(118,076,539)</u>

Loss from financial assets at fair value through profit or loss was \$120,944,083 thousand for the year ended 31 December 2018; gains from reclassification due to the application of overlay approach was \$118,076,539 thousand for the year ended 31 December 2018.

B. As of 31 December 2018 and 31 December 2017, Cathay United Bank and its subsidiaries sold certain financial assets at fair value through profit or loss under repurchase agreements with notional amounts of \$583,927 thousand and \$46,143,100 thousand, respectively. Such repurchase agreements amounting to \$523,342 thousand and \$43,634,657 thousand, were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements are settled at \$523,725 thousand and \$43,732,175 thousand, prior to 31 January 2019 and 28 February 2018, respectively.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

C. As of 31 December 2018 and 31 December 2017, Cathay Securities and its subsidiaries sold certain financial assets at fair value through profit or loss under repurchase agreements with notional amounts of \$0 thousand and \$2,700,000 thousand.

D. Please refer to Note 8 for related information on the above financial assets at fair value through profit or loss being pledged as collaterals as of 31 December 2018 and 31 December 2017.

(3) Available-for-sale financial assets

	2018.12.31 (Note)	2017.12.31
Common stock		\$714,122,499
Beneficiary certificates		351,825,972
Funds and beneficiary Securities		541,355
Real Estate Investment Trust		12,136,777
Government bonds		163,947,314
Corporate bonds		43,332,216
Financial debentures		105,872,531
Asset-backed securities		581,533
Overseas debentures		289,856,391
Subtotal		1,682,216,588
Less: Litigation deposits		(57,075)
Less: Securities serving as deposits paid-bonds		(1,033,775)
Total		<u>\$1,681,125,738</u>

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

A. As of 31 December 2017, Cathay United Bank and its subsidiaries sold certain available-for-sale financial asset under repurchase agreement with notional amount of \$29,926,975 thousand. Such repurchase agreement amounting to \$29,338,529 thousand, was recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreement was settled at \$29,404,419 thousand, prior to 30 June 2018.

B. Cathay Life and its subsidiaries adopted IAS 39 for impairment assessment before 1 January 2018. An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with domestic stocks and beneficiary certificates held by Cathay Life and its Subsidiaries. As of 31 December 2017, Cathay Life and its subsidiaries have recognized impairment losses amounting to \$185,987 thousand.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

C. Cathay United Bank and its subsidiaries adopted IAS 39 for impairment assessment before 1 January 2018. An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with certain available-for-sale financial assets held by Cathay United Bank and its subsidiaries. As of 31 December 2018, Cathay United Bank and its subsidiaries have recognized impairment losses amounting to \$146,379 thousand.

D. Please refer to Note 8 for related information on the above available-for-sale financial assets pledged as collaterals as of 31 December 2017.

(4) Financial assets at fair value through other comprehensive income

	2018.12.31	2017.12.31 (Note)
Equity instrument investments at fair value through other comprehensive income		
Common stock	\$43,192,054	
Debt instrument investments at fair value through other comprehensive income		
Government bonds	160,794,200	
Corporate bonds	45,668,682	
Financial debentures	76,406,003	
Asset-backed securities	3,191,683	
Overseas debentures	800,838,518	
Subtotal	1,086,899,086	
Less: Litigation deposits	(1,720)	
Less: Securities serving as deposits	(2,111,016)	
Less: Derivative instruments collateral	(168,134)	
Total	\$1,127,810,270	

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

A. Some of the investments in equity instruments held by the Group are not held for trading, and thus were designated as financial assets at fair value through other comprehensive income.

B. For equity instrument investments measured at fair value through other comprehensive income, the Group recognized dividends in the amount of \$3,149,048 thousand for the year ended 31 December 2018, of which \$1,714,680 thousand related to investments held at the end of the reporting period and the remaining amount related to investments derecognized during the reporting period.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

In consideration of the Group's investment strategy, the Group disposed the investments which were reported under equity instrument investments measured at fair value through other comprehensive income during the period. Upon derecognition, the fair value of the investments was \$70,623,416 thousand, and transferred the cumulative disposal gain or loss of \$12,429,335 thousand from other components of equity to retained earnings for the year period ended 31 December 2018.

- C. As of 31 December 2018, Cathay United Bank and its subsidiaries sold certain financial assets at fair value through other comprehensive income under repurchase agreement with notional amount of \$46,355,590 thousand. Such repurchase agreement amounting to \$42,613,744 thousand was recorded in the account "Securities sold under agreements to repurchase" on the balance sheets. Repurchase agreement was settled at \$42,764,361 thousand, as of 31 March 2019.
- D. As of 31 December 2018, Cathay Securities and its subsidiaries sold certain financial assets at fair value through other comprehensive income under repurchase agreement with notional amount of \$3,325,000 thousand.
- E. Please refer to Note 8 for related information on the above financial assets at fair value through other comprehensive income pledged as collaterals as of 31 December 2018.
- F. Please refer to Note 12. (7) for more details on loss allowance and credit risk of the debt instrument investments at fair value through other comprehensive income.

(5) Financial assets measured at amortized cost

	2018.12.31	2017.12.31 (Note1)
Time deposits	\$611,285	
Beneficiary certificates	1,143,199	
Government bonds	41,021,039	
Corporate bonds	32,239,336	
Financial debentures	73,300,796	
Overseas debentures	2,161,607,143	
Asset-backed securities	47,973,170	
Short-term notes	348,485,689	
Subtotal	2,706,381,657	
Less: Litigation deposits	(1,345,625)	
Less: Securities serving as deposits	(8,383,555)	
Less: Derivative instruments collateral	(6,075,419)	
Less: Loss allowance (Note 2)	(2,355,270)	
Total	<u>\$2,688,221,788</u>	

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Note 1: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Note 2: Loss allowance for guarantee deposits paid in bonds amounting to \$910 thousand is not included.

A. As of 31 December 2018, Cathay United Bank and its subsidiaries sold certain available-for-sale financial asset under repurchase agreement with notional amount of \$19,718,692 thousand. Such repurchase agreement amounting to \$11,447,258 thousand was recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreement was settled at \$11,477,549 thousand as of 31 March 2019.

B. The Group early disposed of bonds and losses on the disposal amounting to \$1,027,382 thousand were incurred due to the increase in credit risk for the year ended 31 December 2018; bonds early disposed of because more than an infrequent number of such sales were made out of a portfolio and those sales were more than insignificant in value (either individually or in aggregate) resulted in gains on disposal amounting to \$5,906,106 thousand; bonds disposed of stemming from repayments due or other situations resulted in loss on disposal amounting to \$127,717 thousand.

C. Please refer to Note 8 for related information on the above financial assets measured at amortized cost pledged as collaterals as of 31 December 2018.

D. Please refer to Note 12.(7) For more details on loss allowance and credit risk of the financial assets measured at amortized cost.

(6) Receivable – net

	2018.12.31	2017.12.31
Notes receivable	\$527,630	\$755,878
Accounts receivable	78,908,803	72,261,539
Interest receivable	54,509,930	49,248,421
Acceptances	1,591,399	785,112
Factoring receivable	2,607,455	2,248,622
Others	25,424,903	46,544,711
Total	163,570,120	171,844,283
Adjustment for discounts and premiums	(9,465)	(10,301)
Less: Allowance for bad debts	(2,344,465)	(2,631,722)
Net amount	\$161,216,190	\$169,202,260

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

A. the Group adopted IFRS 9 to assess impairments on 1 January 2018. The information on bad and doubtful accounts from 1 January 2018 to 31 December 2018 is as follows:

	Stage 1	Stage 2		Stage 3		Subtotal		
				Lifetime expected credit losses	Lifetime expected credit losses		Difference from impairment charged in accordance with	
		Lifetime expected credit losses	Lifetime expected credit losses	(Not purchased or originated credit-impaired financial asset)	(Purchased or originated credit-impaired financial assets)	Impairment charged in accordance with IFRS 9	Guidelines for Handling Assessment of Assets	Total
Beginning balance	\$78,157	\$63,923	\$-	\$2,106,749	\$-	\$2,248,829	\$14,830	\$2,263,659
Changes due to financial instruments recognized as at 1 January								
Transfer to lifetime expected credit losses	(1,861)	64,210	-	(1,634)	-	60,715	-	60,715
Transfer to credit-impaired financial assets	(377)	(637)	-	62,160	-	61,146	-	61,146
Transfer to 12-month expected credit losses	1,251	(19,979)	-	(2,667)	-	(21,395)	-	(21,395)
Financial assets that have been derecognized during the period	(53,572)	(37,863)	-	(296,585)	-	(388,020)	-	(388,020)
New financial assets originated or purchased	80,911	54,338	-	287,174	-	422,423	-	422,423
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	-	37,522	37,522
Bad Loans Write-offs	-	-	-	(442,217)	-	(442,217)	-	(442,217)
Foreign exchange and other movements	21,513	(7,027)	-	55,512	-	69,998	(1,882)	68,116
Ending balance	\$126,022	\$116,965	\$-	\$1,768,492	\$-	\$2,011,479	\$50,470	\$2,061,949

In addition, the Group measures the loss allowance of certain receivables based upon simplified approach. The information on bad and doubtful accounts from 1 January 2018 to 31 December 2018 is as follows:

	2018.1.1~ 2018.12.31
Balance, beginning of the period (under IAS 39)	\$200,258
Adjustment of beginning retained earnings balance	264
Balance, beginning of the period (under IFRS 9)	200,522
Change for the current period	127,629
Write off	(45,635)
Balance, end of the period	\$282,516

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

B. Information on bad and doubtful accounts from 1 January 2017 to 31 December 2017 is as follows:

	2017.1.1~ 2017.12.31
Balance, beginning of the period	\$3,932,424
Provision of doubtful accounts	52,966
Write-offs	(1,657,010)
Debt counseling recoveries	110,658
Recoveries	459,889
Reclassification	(253,351)
Effect of exchange rates change	(13,854)
Balance, end of the period	<u>\$2,631,722</u>

C. Allowance for bad debt receivables are shown as follows:

Items		Accounts Receivable
		2017.12.31
Objective evidence of impairment exists individually	Individual assessment of impairment	\$756,846
	Collective assessment of impairment	191,529
Objective evidence of impairment does not exist individually	Collective assessment of impairment	170,895,908

Items		Allowance for doubtful account
		2017.12.31
Objective evidence of impairment exists individually	Individual assessment of impairment	\$144,573
	Collective assessment of impairment	137,996
Objective evidence of impairment does not exist individually	Collective assessment of impairment	2,349,153

Note: Total receivables equal the original amount before subtracting (adding) the allowance for bad debts and adjustment for discount (premium).

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(7) Loans - net

	2018.12.31	2017.12.31
Inward-outward documentary bills	\$1,722,435	\$1,339,549
Loans	2,200,778,857	2,060,873,608
Overdrafts	2,031,672	2,191,344
Delinquent accounts	3,276,192	3,126,604
Total	2,207,809,156	2,067,531,105
Adjustment for discounts and premiums	205,483	389,580
Less: Allowance for bad debts	(31,238,732)	(29,392,495)
Net amount	<u>\$2,176,775,907</u>	<u>\$2,038,528,190</u>

A. The Group adopted IFRS 9 to assess impairments on 1 January 2018. The information on bad and doubtful accounts from 1 January 2018 to 31 December 2018 is as follows:

	Stage 1	Stage 2	Stage 3	Subtotal			
			Lifetime expected credit losses (Not purchased or originated credit- impaired financial asset)	Lifetime expected credit losses (Purchased or originated credit- impaired financial assets)	Impairment charged in accordance with IFRS 9	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	Total
Beginning balance	\$3,833,569	\$1,037,720	\$-	\$5,291,811	\$-	\$10,163,100	\$19,229,395
Changes due to financial instruments recognized as at 1 January							
Transfer to lifetime expected credit losses	(99,368)	1,014,534	-	(11,229)	-	903,937	903,937
Transfer to credit-impaired financial assets	(31,835)	(47,018)	-	3,067,723	-	2,988,870	2,988,870
Transfer to 12-month expected credit losses	108,103	(544,875)	-	(96,533)	-	(533,305)	(533,305)
Financial assets that have been derecognized during the period	(1,858,885)	(172,649)	-	(689,120)	-	(2,720,654)	(2,720,654)
New financial assets originated or purchased	1,992,330	516,685	-	1,221,290	-	3,730,305	3,730,305
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	524,315	524,315
Bad Loans Write-offs	-	-	-	(3,070,128)	-	(3,070,128)	(3,070,128)
Foreign exchange and other movements	61,155	(136,875)	-	(209,711)	-	(285,431)	22,897
Ending balance	<u>\$4,005,069</u>	<u>\$1,667,522</u>	<u>\$-</u>	<u>\$5,504,103</u>	<u>\$-</u>	<u>\$11,176,694</u>	<u>\$20,062,038</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

B. Information on bad and doubtful accounts from 1 January 2017 to 31 December 2017 is as follows:

	2017.1.1~ 2017.12.31
Balance, beginning of the period	\$25,985,968
Provision of doubtful accounts	3,606,056
Write-offs	(1,577,218)
Debt counseling recoveries	102,707
Recoveries	1,333,840
Reclassification	253,351
Effect of exchange rates change	(312,209)
Balance, end of the period	<u>\$29,392,495</u>

C. Assessment for loans are showed as follows:

Items		Total loans 2017.12.31
Objective evidence of impairment exists individually	Individual assessment of impairment	\$11,445,983
	Collective assessment of impairment	11,050,334
Objective evidence of impairment does not exist individually	Collective assessment of impairment	2,045,034,788

Items		Allowance for bad debts 2017.12.31
Objective evidence of impairment exists individually	Individual assessment of impairment	\$3,300,196
	Collective assessment of impairment	2,039,718
Objective evidence of impairment does not exist individually	Collective assessment of impairment	24,052,581

Note: Total loans equal the original amount before subtracting (adding) the allowance for bad debts and adjustment for discount (premium).

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(8) Held-to-maturity financial assets

	2018.12.31	
	(Note)	2017.12.31
Government bonds		\$48,098,511
Corporate bonds		7,465,184
Financial debentures		12,588,995
Asset-backed securities		9,843,981
Overseas debentures		24,087,773
Short-term notes		5,221,668
Subtotal		107,306,112
Less: Court security deposit		(1,376,984)
Less: Securities serving as deposits paid-bonds		(7,170,018)
Total		<u>\$98,759,110</u>

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

A. As of 31 December 2017, Cathay United Bank and its subsidiaries sold certain held-to-maturity financial asset under repurchase agreement with notional amount of \$32,683,560 thousand. Such repurchase agreement amounting to \$23,242,069 thousand, was recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreement was settled at \$23,319,479 thousand as of 31 March 2018.

B. Cathay Life and its subsidiaries adopted IAS 39 for impairment assessment before 1 January 2018. Cathay Life and its subsidiaries recognized impairment as there was objective evidence that the overseas debentures held by Cathay Life and its subsidiaries were showing signs of impairment. As of 31 December 2017, Cathay Life and its subsidiaries recognized impairment losses amounting to \$15,932 thousand.

C. Please refer to Note 8 for related information on the above held-to-maturity financial asset as of 31 December 2017, being pledged as collaterals.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(9) Investments accounted for using the equity method – net

Investee	2018.12.31		2017.12.31	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Investments in subsidiaries exclude from consolidated:				
Cathay Securities Investment Consulting	\$278,780	100.00	\$257,159	100.00
Cathay Insurance (Bermuda)	-	-	121,671	100.00
Cathay Investment Consulting (Shanghai) Co., Ltd.	9,293	100.00	11,020	100.00
Subtotal	288,073		389,850	
Investments in associates:				
WK Technology Fund VI Co., Ltd	50,014	21.43	81,873	21.43
Taiwan Real-estate Management Corp.	103,185	30.15	101,936	30.15
Taiwan Finance Corp.	1,665,689	24.57	1,642,111	24.57
Tien-Tai Management Consulting Co., Ltd.	3,420	28.20	2,382	28.20
CDBS Cathay Asset Management Co., Ltd	458,070	33.30	513,502	33.30
Syphon Information Co., Ltd.	429,450	49.12	438,807	49.12
Da Sheng Venture Inc.	1,763,971	25.00	1,514,974	25.00
KHL IV Venture Capital Co., Ltd.	791,667	21.43	756,353	21.43
Dun-Yang Energy Corp.	45,551	32.20	44,668	32.20
Yong-Chang Energy Corp.	47,248	32.32	46,790	32.32
RI-Zhao Energy Corp.	46,051	32.32	49,160	32.32
Tien-Tai Optronics Corporation (Note)	136,778	33.64	132,945	33.64
Nan-Gang International 1 Corp.	676,108	45.00	675,812	45.00
Nan-Gang International 2 Corp.	675,088	45.00	675,232	45.00
CM Energy Co., Ltd.	274,352	45.00	272,256	45.00
Rizal Commercial Banking Corporation	15,743,568	23.35	13,749,705	23.35
PT Bank Mayapada Internasional Tbk	13,733,069	40.00	12,447,700	40.00
Hsin Jih Tai Corporation	697,801	45.00	673,599	45.00
Cathay Century (China)	2,346,424	49.00	2,469,714	49.00
Cathay Sunrise Corporation	696,378	45.00	676,284	45.00
Ding Teng Co., Ltd.	765,935	27.36	-	-
Global Evolution Holding ApS	2,711,173	45.00	-	-
PSS Co., Ltd.	782,943	36.94	-	-
Subtotal	44,643,933		36,965,803	
Total	\$44,932,006		\$37,355,653	

Note: Tien-Tai Optronics Corporation is newly incorporated as a result of the joint share exchange with shares of Tien-Tai Energy Corp., Tien-Tai One Energy Corp., Chi-Chia Energy Corp. and Chao-Yang Energy Corp. on 3 January 2017.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

The Group's investments in the associates were not significant. As of 31 December 2018 and 31 December 2017, the carrying amount of investments in associates accounted for using the equity method amounted to \$44,643,933 thousand and \$36,965,803 thousand. The aggregate financial information of the Group's investments in the associates is as follows:

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Profit or loss from continuing operations	\$885,498	\$1,188,349
Other comprehensive income (post-tax)	(437,898)	(1,008,317)
Total comprehensive income	<u>\$447,600</u>	<u>\$180,032</u>

A. The share of the profits (losses) of these associates accounted for using the equity method in investees whose financial statements were unaudited amounted to \$900,018 thousand and \$1,205,510 thousand for the years ended 31 December 2018 and 2017, respectively. The share of the profits (losses) of these associates accounted for using the equity method in investees whose financial statements were unaudited amounted to \$(412,856) thousand and \$(1,028,025) thousand for the years ended 31 December 2018 and 2017, respectively. The remaining balance of related investment amounted to \$41,786,704 thousand and \$31,717,860 thousand as of 31 December 2018 and 31 December 2017, respectively.

B. No investment in the associates was pledged.

On 29 June 2017, Cathay United Bank sold the shares of Seaward Card Co., Ltd. to Symphox Information Co., Ltd. as approved by the board of director. The board of Cathay United Bank authorized the chairman of the board to deal with the follow-up issues.

Cathay United Bank sold the shares of Seaward Card Co., Ltd. in the amount of \$46,800 thousand, at \$15.6 per share. The related gain on sale of investments amounted to \$7,755 thousand on 21 July 2017.

Cathay Investment Consulting (Shanghai) Co., Ltd. was dissolved on 8 November 2017 by a resolution of the board of directors, and has completed liquidation on 26 February 2019.

Cathay Insurance (Bermuda) Co., Ltd. was dissolved on 8 May 2018, and has completed liquidation on 21 May 2018.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(10) Other financial assets

	2018.12.31	2017.12.31
Separate account product assets	\$546,964,261	\$555,269,179
Structured time deposits	2,000,000	4,500,000
Financial assets carried at cost	(Note)	13,986
Investments in debt securities with no active market	(Note)	2,783,306,758
Other miscellaneous financial assets	6,776,864	4,817,378
Less: Loss allowance	(594)	(Note)
Total	<u>\$555,740,531</u>	<u>\$3,347,907,301</u>

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Please refer to Note 12.(7) for more details on loss allowance and credit risk of the other financial assets.

Investments in debt securities with no active market

	2018.12.31	2017.12.31
	(Note)	
Common stocks		\$1,898,721
Government bonds		82,687
Corporate bonds		19,727,333
Financial debentures		73,380,080
Structured debentures		2,984,800
Asset-backed securities		27,141,758
Overseas debentures		2,337,169,955
Time deposit		318,956,977
Beneficiary Securities		1,964,447
Total		<u>\$2,783,306,758</u>

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

A. The Group adopted IAS 39 before 1 January 2018. An impairment provision is recognized as some objective evidences were identified showing impairment indications associated with overseas debentures held by Cathay Life and its subsidiaries. As of 31 December 2017, Cathay Life and its subsidiaries recognized impairment losses amounting to \$388,024 thousand.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

B. As of 31 December 2017, Cathay United Bank sold certain investments in debt securities with no active market classified as bonds under repurchase agreement with the notional amounts of \$22,555,953 thousand. Such repurchase agreement amounting to \$13,726,170 thousand, was recorded in the account “securities sold under agreements to repurchase” on the balance sheet. The repurchase agreement will be settled at \$13,763,664 thousand as of 31 January 2018.

C. Please refer to Note 8 for related information on the above investments in debt securities with no active market pledged as collaterals as of 31 December 2017.

(11) Investment property

	Land	Buildings	Construction	Prepayments for buildings	Total
1 January 2018	\$226,503,504	\$87,366,614	\$3,546,004	\$690,203	\$318,106,325
Additions from acquisitions	38,074	6,926	3,780,125	708,349	4,533,474
Additions from subsequent expenditure	-	-	147,670	-	147,670
Transfers from property and equipment	-	(764,214)	-	-	(764,214)
Transfers to (from) investment property under construction and prepayments for buildings and land	348,277	5,011,205	(4,683,656)	(675,866)	(40)
Losses generated from fair value adjustments	(186,345)	(812,090)	-	-	(998,435)
Disposals	(148,769)	(439,000)	-	-	(587,769)
Exchange differences	(419,677)	(794,780)	-	-	(1,214,457)
31 December 2018	<u>\$226,135,064</u>	<u>\$89,574,661</u>	<u>\$2,790,143</u>	<u>\$722,686</u>	<u>\$319,222,554</u>

	Land	Buildings	Construction	Prepayments for buildings	Total
1 January 2017	\$219,938,108	\$87,386,769	\$3,305,346	\$383,904	\$311,014,127
Additions from acquisitions	-	-	3,259,037	3,690,884	6,949,921
Additions from subsequent expenditure	-	-	128,829	-	128,829
Transfers from property and equipment	506,525	191,005	-	-	697,530
Transfers to (from) investment property under construction and prepayments for buildings and land	3,381,908	3,149,274	(3,147,208)	(3,384,585)	(611)
Gains (losses) generated from fair value adjustments	2,763,991	(3,594,432)	-	-	(830,441)
Disposals	(284,156)	(7,026)	-	-	(291,182)
Exchange differences	197,128	241,024	-	-	438,152
31 December 2017	<u>\$226,503,504</u>	<u>\$87,366,614</u>	<u>\$3,546,004</u>	<u>\$690,203</u>	<u>\$318,106,325</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Rental income from investment properties	\$10,740,853	\$10,160,111
Less: Direct operating expense from investment properties		
generating rental income	(668,312)	(737,755)
Direct operating expense from investment properties		
not generating rental income	(147,154)	(160,703)
Total	\$9,925,387	\$9,261,653

A. Cathay Life and its subsidiaries' valuation of investment property has been performed by appraisers listing below from professional valuation agencies based on Regulations on Real Estate Appraisal, and valuation dates are 31 December 2018 and 31 December 2017:

Names	2018.12.31	2017.12.31
DTZ Real Estate Appraiser Firm	Chang-da, Yang; Gen-yuan, Li; Chun-chun, Hu	Chang-da, Yang; Gen-yuan, Li; Chun-chun, Hu
Savills plc Real Estate Appraiser Firm	Guang-ping, Dai; Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang	Guang-ping, Dai; Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang
REPro KnightFrank Real Estate Appraiser Firm	Hong-xu, Wu; Zhi-hao, Wu; Fu-xue, Shi	Hong-xu, Wu; Zhi-hao, Wu; Fu-xue, Shi
V-LAND Real Estate Appraiser Firm	Xi-zhong, Wang; You-qi, Liang	Xi-zhong, Wang; Yu-zhi, Gao
Shang-shang Real Estate Appraiser Firm	Hong-yuan, Wang	Hong-yuan, Wang
Sinyi Real Estate Appraiser Firm	Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang	Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang
Elite Real Estate Appraiser Firm	Yu-lin, Chen	Yu-lin, Chen
Colliers International Real Estate Appraiser Firm -		Xiu-ying, Zhan

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

The recognized fair value is supported by observable evidence in the market. The main appraisal approaches applied include sales comparison approach, income approach – direct capitalization method, income approach – discounted cash flow method, cost approach and the method of land development analysis. Commercial office buildings and residences are valued by sales comparison approach and income approach mostly because of the market liquidity and comparable sales and rental cases in the neighboring areas. Hotels, department stores and marketplaces are valued by income approach – direct capitalization method and income approach – discounted cash flow method mostly because of the stable rental income in the long run. Industrial plants for lease are valued by sales comparison approach and cost approach. Wholesale stores located in industrial district are valued by cost approach since the buildings are constructed for specific purposes, thus few similar transactions could be referred to in the market. Vacant land and buildings under construction of logistics parks located in industrial and commercial integrated district are valued by cost approach. Urban renewal land with permit of construction is valued by sales comparison approach and income approach based on value of real estate right arising from urban renewal program. The real estate right may include but not limited to right for long-held buildings and hotels.

The main inputs used are as follows:

	2018.12.31	2017.12.31
Direct capitalization rate (net)	0.62%~4.39%	0.46%~4.39%
Discount rate	3.14%~4.23%	3.14%~4.23%

External appraisers use market extraction method, search several comparable properties which are identical with or similar to the subject property, consider the liquidity risk and risk premium when disposed of in the future, and then decide the direct capitalization rate and discount rate.

Cathay Life and its subsidiaries recognized its investment property at fair value subsequent to initial recognition and related fair value is categorized as 3rd level of fair value hierarchy. The fair value of investment property will decrease as either one of the main input, direct capitalization rate and discount rate, of direct capitalization method increases. On the contrary, the fair value of investment property will increase if either of the main input decreases.

- B. Cathay United Bank appointed appraisers from REPro Valuation and Professional Services (Fu-Xue Shi, Zhi-Hao Wu, Hong-Xu Wu, You-Xiang Cai) to evaluate the fair value of investment property based on the “Regulations on Real Estate Appraisal” on 31 December 2018 and 31 December 2017, respectively.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Fair value has been supported by observable evidences in the market. The appraisal approaches used are mainly the income approach (such as discounted cash flow model and direct capitalization approach), sales comparison approach and cost approach, etc, and the fair value is categorized as 3rd level of fair value hierarchy.

(A) Office building has market liquidity and their rent level is more comparable with similar items from the same neighborhood. The fair value has been determined by sales comparison approach and income approach.

Net income is based on the current market practices, assuming an annual rent increase of between 0% to 1.5% to extrapolate the total income of the underlying property, excluding losses as a result of idle and other reasons and related operation costs.

According to the R.O.C. Real Estate Appraisers Association Gazette No.5, the house tax is determined based on the reference tables of current house values assessed for each city/county to estimate the total current house value assessed. House tax is calculated based on the tax rates provided by the House Tax Act and the actual payment date.

Land value tax is calculated by evaluating the announced land value in the future through changes in the announced land values of underlying property in the past few years and the actual land tax paid.

The replacement allowance is calculated renovation cost based on 15% construction cost, presume the useful life of 20 years, according to the R.O.C. Real Estate Appraisers Association Gazette No.5, the replacement allowance is based on 0.5% to 1.5% of construction or building cost.

The main parameters are as follows:

	2018.12.31	2017.12.31
Direct capitalization rate	1.98%~5.73%	2.03%~5.83%
Overall capital interest rate	0.76%~2.89%	0.76%~2.89%

(B) Being restricted by law, with lower development efficiency and without significant changes in the market recently, the fair value of land in hillside conservation zones, farming and pastoral land and land in scenic areas has been determined mainly by land development analysis approach and comparison approach.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2018.12.31	2017.12.31
Rate of return	15%	15%~20%
Overall capital interest rate	2.11%	1.63%~2.11%

C. Cathay Securities and its subsidiaries appointed an appraiser from Elite Appraisers Firm (Yu-Lin Chen) to evaluate the fair value of the investment property based on the “Regulations on Real Estate Appraisal” on 31 December 2018 and 2017, respectively.

The recognized fair value is supported by observable evidence in the market. The fair value has been determined by discounted cash flow (DCF) method.

Office buildings have market liquidity and their rent level is more comparable with similar items from the same neighborhood. The fair value has been determined by discounted cash flow method. Future cash inflows and outflows were estimated as follows:

	2018.12.31	2017.12.31
Estimated future cash inflows	\$436,792	\$440,515
Estimated future cash outflows	(18,314)	(32,000)
Estimated future net cash flows	\$418,478	\$408,515

The abovementioned estimated future cash inflows mainly consist of reasonable income from investment property and the estimated future cash outflows consist of property tax, land tax and reset appropriation fee.

Net income is based on the current market practices, assuming an annual rent increase of 1.07% and 1.19% to extrapolate the total income of the underlying property, excluding losses as a result of idle and other reasons and related operation costs on 31 December 2018 and 31 December 2017, respectively.

According to the R.O.C. Real Estate Appraisers Association Gazette No.5, the house tax has been determined based on the reference tables of current house values assessed for each city/county to estimate the total current house value assessed. House tax is calculated based on the tax rates provided by the House Tax Act.

Land value tax is based on the changes in the announced land values of the underlying property in the past few years, to further extrapolate the announced land value in the future.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

The replacement allowance is calculated based on the significant construction maintenance expense, which is 15% of the construction fee, under the assumption of 20 useful years, according to the R.O.C. Real Estate Appraisers Association Gazette No. 5.

The parameters used are as follows:

	2018.12.31	2017.12.31
Direct Capitalization rate (net)	2.56%	2.60%
Discount Rate	2.045%	2.045%

Pursuant to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the discount rate is determined based on an interest rate not lower than the floating interest rate on a 2-year time deposit of petty cash as posted by the Chunghwa Post Co., Ltd., plus the risk premium.

External appraisers use market extraction method, search several comparable properties which are identical with or similar to the subject property, consider the liquidity risk and risk premium when disposed of in the future, and then decide the direct capitalization rate and discount rate.

- D. The real estate investments are held mainly for leasing purposes.
- E. All lease agreements of the Group's lease business are operating leases. The primary terms of lease agreements are the same with general lease agreement.
- F. Rents from real estate investment are received annually, semi-annually, quarterly, monthly or in lump sum.
- G. Please refer to Note 4 for the property and equipment amounting more than \$300 million which the Group acquire and disposal.
- H. Please refer to Note 8 for related information on the above investment property being pledged as collaterals as of 31 December 2018 and 31 December 2017.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(12) Property and equipment

		Building and	Computer	Transport	Other	Leasehold		Construction in	
		construction	equipment	equipment	equipment	improvement	Leased assets	progress and	
Cost:	Land							prepayment for	Total
								real estate	
1 January 2018	\$123,888,389	\$57,812,084	\$6,885,863	\$120,132	\$12,439,403	\$712,137	\$276,131	\$708,564	\$202,842,703
Additions	84	-	1,399,371	3,006	460,506	166,964	-	1,495,034	3,524,965
Transfers	432,542	855,796	134,234	-	444,076	580	-	(1,255,698)	611,530
Disposal	(6,126)	(4,896)	(663,154)	(4,622)	(732,402)	(15,541)	-	-	(1,426,741)
Others (Note)	(2,400)	-	-	-	-	-	-	-	(2,400)
Exchange difference	3,837	(41,921)	13,281	3,013	11,590	5,184	4	2,574	(2,438)
31 December 2018	<u>\$124,316,326</u>	<u>\$58,621,063</u>	<u>\$7,769,595</u>	<u>\$121,529</u>	<u>\$12,623,173</u>	<u>\$869,324</u>	<u>\$276,135</u>	<u>\$950,474</u>	<u>\$205,547,619</u>
1 January 2017	\$122,044,101	\$58,247,920	\$6,491,507	\$127,720	\$12,019,249	\$673,049	\$276,169	792,853	\$200,672,568
Additions	-	545	967,243	4,820	404,825	73,159	-	2,558,596	4,009,188
Transfers	1,808,085	(367,436)	(1,692)	4,104	518,973	(41,612)	-	(2,637,201)	(716,779)
Disposal	(5,284)	(18,672)	(515,487)	(8,018)	(479,611)	(13,308)	-	-	(1,040,380)
Others	52,027	(5,503)	-	-	-	-	-	-	46,524
Exchange difference	(10,540)	(44,770)	(55,708)	(8,494)	(24,033)	20,849	(38)	(5,684)	(128,418)
31 December 2017	<u>\$123,888,389</u>	<u>\$57,812,084</u>	<u>\$6,885,863</u>	<u>\$120,132</u>	<u>\$12,439,403</u>	<u>\$712,137</u>	<u>\$276,131</u>	<u>\$708,564</u>	<u>\$202,842,703</u>
Depreciation and impairment:									
1 January 2018	\$103,134	\$21,459,719	\$5,252,487	\$83,011	\$10,154,500	\$418,285	\$275,877	\$-	\$37,747,013
Depreciation	-	1,181,675	651,538	9,556	676,601	94,137	81	-	2,613,588
Transfers	-	(551)	-	-	(182)	-	-	-	(733)
Disposal	-	(3,168)	(645,767)	(4,201)	(690,082)	(15,541)	-	-	(1,358,759)
Exchange difference	-	(1,427)	85,237	2,256	4,445	(2,330)	2	-	88,183
31 December 2018	<u>\$103,134</u>	<u>\$22,636,248</u>	<u>\$5,343,495</u>	<u>\$90,622</u>	<u>\$10,145,282</u>	<u>\$494,551</u>	<u>\$275,960</u>	<u>\$-</u>	<u>\$39,089,292</u>
1 January 2017	\$105,610	\$20,480,174	\$5,311,076	\$86,447	\$9,931,554	\$367,694	\$275,782	\$-	\$36,558,337
Depreciation	-	1,204,519	503,352	10,064	647,001	90,614	108	-	2,455,658
Transfers	-	(202,840)	(21,302)	-	42,972	(21,670)	-	-	(202,840)
Disposal	(2,476)	(14,517)	(502,015)	(7,770)	(453,535)	(12,878)	-	-	(993,191)
Exchange difference	-	(7,617)	(38,624)	(5,730)	(13,492)	(5,475)	(13)	-	(70,951)
31 December 2017	<u>\$103,134</u>	<u>\$21,459,719</u>	<u>\$5,252,487</u>	<u>\$83,011</u>	<u>\$10,154,500</u>	<u>\$418,285</u>	<u>\$275,877</u>	<u>\$-</u>	<u>\$37,747,013</u>
31 December 2018	<u>\$124,213,192</u>	<u>\$35,984,815</u>	<u>\$2,426,100</u>	<u>\$30,907</u>	<u>\$2,477,891</u>	<u>\$374,773</u>	<u>\$175</u>	<u>\$950,474</u>	<u>\$166,458,327</u>
31 December 2017	<u>\$123,785,255</u>	<u>\$36,352,365</u>	<u>\$1,633,376</u>	<u>\$37,121</u>	<u>\$2,284,903</u>	<u>\$293,852</u>	<u>\$254</u>	<u>\$708,564</u>	<u>\$165,095,690</u>

Note: Items include arrange fees and compensation fees of relocation for urban renewal.

A. No property and equipment were pledged as collaterals.

B. Components of building that have different useful lives are the main building structures, air conditioning units and elevators, which are depreciated within 5 to 60 years.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(13) Intangible assets

	Franchise	Trademark	Goodwill	Customer relationship	Computer software	Others	Total
Cost:							
1 January 2018	\$37,659,600	\$391,576	\$18,867,219	\$3,518,004	\$4,562,898	\$230,114	\$65,229,411
Addition-individual							
acquisition	-	-	-	-	385,053	1,536	386,589
Reduction	-	-	-	-	(128,121)	-	(128,121)
Transfers	-	-	-	-	382,466	-	382,466
Others	-	-	-	-	-	-	-
Exchange difference	-	11,610	227,623	104,310	(6,717)	6,764	343,590
31 December 2018	\$37,659,600	\$403,186	\$19,094,842	\$3,622,314	\$5,195,579	\$238,414	\$66,213,935
1 January 2017	\$37,659,600	\$423,468	\$18,919,544	\$3,804,532	\$4,160,538	\$235,458	\$65,203,140
Addition-individual							
acquisition	-	-	-	-	392,718	16,290	409,008
Reduction	-	-	-	-	(86,013)	-	(86,013)
Transfers	-	-	-	-	116,871	(3,886)	112,985
Others	-	-	597,618	-	-	-	597,618
Exchange difference	-	(31,892)	(649,943)	(286,528)	(21,216)	(17,748)	(1,007,327)
31 December 2017	\$37,659,600	\$391,576	\$18,867,219	\$3,518,004	\$4,562,898	\$230,114	\$65,229,411
Depreciation and impairment:							
1 January 2018	\$5,198,458	\$-	\$-	\$795,546	\$3,317,139	\$115,292	\$9,426,435
Amortization	2,079,383	-	-	391,108	548,587	41,956	3,061,034
Reduction	-	-	-	-	(128,121)	-	(128,121)
Exchange difference	-	-	-	31,217	(7,334)	4,237	28,120
31 December 2018	\$7,277,841	\$-	\$-	\$1,217,871	\$3,730,271	\$161,485	\$12,387,468
1 January 2017	\$3,119,075	\$-	\$-	\$441,545	\$2,975,200	\$70,077	\$6,605,897
Amortization	2,079,383	-	-	395,364	442,293	51,550	2,968,590
Reduction	-	-	-	-	(85,971)	-	(85,971)
Exchange difference	-	-	-	(41,363)	(14,383)	(6,335)	(62,081)
31 December 2017	\$5,198,458	\$-	\$-	\$795,546	\$3,317,139	\$115,292	\$9,426,435
31 December 2018	\$30,381,759	\$403,186	\$19,094,842	\$2,404,443	\$1,465,308	\$76,929	\$53,826,467
31 December 2017	\$32,461,142	\$391,576	\$18,867,219	\$2,722,458	\$1,245,759	\$114,822	\$55,802,976

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

As of 31 December 2018 and 31 December 2017, the book value of goodwill was \$10,498,082 thousand and \$10,279,814 thousand, respectively. The goodwill arose from the acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015. Cathay Life and its subsidiaries acquired 100% of Conning Holdings Limited on 18 September 2015 and 81.89% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of the Company on 1 February 2016.

An annual impairment test for goodwill is performed regularly. Cathay Life and its subsidiaries estimated the recoverable amount of the cash-generating unit that the goodwill is allocated to for the purpose of impairment test. The recoverable amount is calculated by applying a proper discount rate. Considering that the recoverable amount is higher than the book value of the cash-generating unit that the goodwill was allocated to, no impairment recognition is necessary for goodwill.

Cathay United Bank's impairment testing of goodwill:

A. Key assumptions used in value in use calculations:

The recoverable amount of the unit has been determined based on a value in use calculation, using cash flow projections based on financial budgets approved by the management of the Group covering a five-year period.

B. The calculation of value in use for the unit is most sensitive to the following assumptions:

(A) Discount rates:

Discount rates reflect the current market assessment of the risks specific to the unit. Discount rates are calculated by the Capital Assets Pricing Model (CAPM).

(B) Projected growth rates, used to extrapolate cash flows beyond the budget period:

Assumptions are based on published industry research.

C. Sensitivity to changes in assumptions:

Cathay United Bank believes that any reasonable possible changes in the key assumptions used to determine the recoverable amount segments will not result in an impairment of goodwill.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

On 4 September 2015, Cathay Securities acquired 100% of the equity of Cathay Securities (Hong Kong). The goodwill arose from the acquisition amounted to \$8,629 thousand. An annual impairment test for goodwill is performed regularly. Cathay Securities estimated the recoverable amount for purpose of impairment test based on embedded value of cash-generating unit that the goodwill is allocated to. The embedded value is calculated by applying a proper discount rate. The recoverable amount is higher than the book value of the cash-generating unit that the goodwill was allocated to, no impairment recognition is necessary for goodwill.

(14) Financial liabilities at fair value through profit or loss

	2018.12.31	2017.12.31
Designated financial liabilities at fair value through profit or loss at initial recognition:		
Bond Investment	\$51,441,482	\$53,639,010
Held for trading:		
Bond Investment	-	49,945
Derivative financial instruments	75,735,636	35,000,877
Security lending payables hedging	380,186	202,671
Security lending payables non-hedging	2,141,592	1,621,765
Subtotal	78,257,414	36,875,258
Total	\$129,698,896	\$90,514,268

A. Cathay United Bank was authorized to issue subordinated financial debentures amounting to US\$990 million in September 2014, which were issued in amounts of US\$660 million (perpetual) and US\$330 million (fifteen-years) with a fixed interest rate of 5.10% and 4.00%, respectively on 8 October 2014 with interests paid annually. Cathay United Bank was approved by the competent authorities to redeem the US\$660 million bonds at its book value upon maturity of 12 years.

B. Cathay United Bank was authorized to issue unsubordinated financial debentures amounting to US\$180 million (maturity of thirty years) on 30 March 2015. In addition to redemption by exercising callable rights, the principal of the debentures was repaid in a lump sum on maturity in the form of zero-coupon bonds with an internal rate of return of 4.20%.

C. Cathay United Bank was authorized to issue unsubordinated financial debentures amounting to US\$195 million (maturity of thirty years) on 11 April 2017. In addition to redemption by exercising callable rights, the principal of the debentures is repaid in a lump sum on maturity in the form of zero-coupon bonds with an internal rate of return of 4.30%.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

D. Cathay United Bank was authorized to issue unsubordinated financial debentures amounting to US\$300 million (maturity of thirty years) on 24 November 2017. In addition to redemption by exercising callable rights, the principal of the debentures is repaid in a lump sum on maturity in the form of zero-coupon bonds with an internal rate of return of 4.10%.

(15) Commercial paper payables

	2018.12.31	2017.12.31
Commercial paper payable	\$62,990,000	\$51,470,000
Less: Discount on commercial paper payable	(633)	(1,842)
Total	\$62,989,367	\$51,468,158
Interest rate range	0.46%~0.86%	0.39%~0.52%

(16) Deposits

	2018.12.31	2017.12.31
Check deposits	\$15,781,941	\$15,129,766
Demand deposits	499,861,928	453,949,795
Demand savings deposits	847,465,305	805,442,387
Time deposits	450,145,909	414,837,677
Negotiable Certificates of Deposit	4,313,300	3,310,000
fixed savings deposits	367,920,662	368,394,533
Remittances	1,714,041	1,888,854
Total	\$2,187,203,086	\$2,062,953,012

(17) Bonds payable

	2018.12.31	2017.12.31
Cumulative perpetual subordinated debts	\$35,000,000	\$35,000,000
Subordinated financial debentures	55,600,000	63,350,000
Total	\$90,600,000	\$98,350,000

A. Cathay United Bank issued an eight-year subordinated financial debenture totaling \$3,650,000 thousand with a stated interest rate of 2.42% in June 2009, and the interest is payable quarterly. Cathay United Bank had bought back the debenture in full in June 2017.

B. Cathay United Bank issued a ten-year subordinated financial debenture totaling \$1,500,000 thousand with a stated interest rate of 2.60% in July 2009, and the interest is payable quarterly.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- C. Cathay United Bank issued a seven-year subordinated financial debenture totaling \$3,850,000 thousand with a stated interest rate of 1.65% in March 2011 and the interest is payable quarterly. Cathay United Bank had bought back the debenture in full in March 2018.
- D. Cathay United Bank issued a ten-year subordinated financial debenture totaling \$1,500,000 thousand with a stated interest rate of 1.72% in March 2011, and the interest is payable quarterly.
- E. Cathay United Bank issued a seven-year subordinated financial debenture totaling \$3,900,000 thousand with a stated interest rate of 1.65% in June 2011, and the interest is payable quarterly. Cathay United Bank had bought back the debenture in full in June 2018.
- F. Cathay United Bank issued a ten-year subordinated financial debenture totaling \$2,500,000 thousand with a stated interest rate of 1.72% in June 2011, and the interest is payable quarterly.
- G. Cathay United Bank issued a seven-year subordinated financial debenture totaling \$200,000 thousand with a stated interest rate of 1.48% in June 2012, and the interest is payable annually.
- H. Cathay United Bank issued a ten-year subordinated financial debenture totaling \$4,200,000 thousand with a stated interest rate of 1.65% in June 2012, and the interest is payable annually.
- I. Cathay United Bank issued a ten-year subordinated financial debenture totaling \$5,600,000 thousand with a stated interest rate of 1.65% in August 2012, and the interest is payable annually.
- J. Cathay United Bank issued a seven-year subordinated financial debenture totaling \$100,000 thousand with a stated interest rate of 1.55% in April 2013, and the interest is payable annually.
- K. Cathay United Bank issued a ten-year subordinated financial debenture totaling \$9,900,000 thousand with a stated interest rate of 1.70% in April 2013, and the interest is payable annually.
- L. Cathay United Bank issued a seven-year subordinated financial debenture totaling \$3,000,000 thousand with a stated interest rate of 1.70% in May 2014, and the interest is payable annually.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- M. Cathay United Bank issued a ten-year subordinated financial debenture totaling \$12,000,000 thousand with a stated interest rate of 1.85% in May 2014, and the interest is payable annually.
- N. Cathay United Bank issued a seven-year subordinated financial debenture totaling \$2,400,000 thousand with a stated interest rate of 1.50% in April 2017, and the interest is payable annually.
- O. Cathay United Bank issued a ten-year subordinated financial debenture totaling \$12,700,000 thousand with a stated interest rate of 1.85% in April 2017, and the interest is payable annually.
- P. Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.
- Q. Pursuant to Letter Cheng-Gui-Chai-Zi No. 10600099421 issued by the Taipei Exchange, Cathay Life issued its first cumulative perpetual subordinated financial debentures on 12 May 2017 through public offering. The key terms and conditions are as follows:
- (A) Issue amount: \$35,000,000 thousand.
 - (B) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
 - (C) Years to maturity: Perpetual.
 - (D) Coupon rate: Fixed rate of 3.3% from the issue date to the tenth year, plus 1% if the bonds are not redeemed after the tenth year maturity.
 - (E) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
 - (F) Right of early redemption: If Cathay Life's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, Cathay Life may, with the approval of the competent authorities, redeem the bonds in full after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(G) Forms of bonds: Book-entry securities.

(H) Interest expense: Interest expense amounting to \$1,155,000 thousand and \$740,460 thousand for the years ended 31 December 2018 and 2017, respectively.

(18) Other financial liabilities

	2018.12.31	2017.12.31
Separate account insurance products-liabilities	\$546,964,261	\$555,269,179
Principle received from the sale of structured products	76,615,204	66,057,646
Other financial liabilities	4,235,713	2,200,487
Total	<u>\$627,815,178</u>	<u>\$623,527,312</u>

(19) Provisions

	2018.12.31	2017.12.31
Unearned premium reserve	\$28,779,799	\$27,480,991
Reserve for insurance liabilities	5,225,589,934	4,861,153,723
Special reserve	14,356,733	14,472,530
Reserve for claims	17,377,650	15,658,481
Premium deficiency reserve	22,559,651	26,244,942
Reserve for insurance contracts with feature of financial instruments	9,318,713	8,761,609
Foreign exchange volatility reserve	17,075,289	11,589,138
Reserve for Guarantees	163,715	72,897
Finance commitment reserve	233,938	-
Reserve for employee benefits liabilities	3,697,333	3,731,382
Contingent liabilities reserve	861,422	1,316,319
Other operating reserve	26,979	28,674
Other reserve	1,894,570	1,916,570
Total	<u>\$5,341,935,726</u>	<u>\$4,972,427,256</u>

A. Life insurance subsidiaries

As of 31 December 2018 and 31 December 2017, the details and changes of insurance contracts and financial instruments with discretionary participation feature are summarized below:

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(A) Reserve for life insurance liabilities:

	2018.12.31			2017.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance (Note 1)	\$4,536,368,929	\$8,236	\$4,536,377,165	\$4,231,739,400	\$954,240	\$4,232,693,640
Injury insurance	7,446,584	-	7,446,584	7,613,529	-	7,613,529
Health insurance	653,629,984	-	653,629,984	586,985,448	-	586,985,448
Annuity insurance	1,395,567	25,839,454	27,235,021	1,381,493	31,964,758	33,346,251
Investment-linked insurance	440,541	-	440,541	514,800	-	514,800
Total (Note 2)	5,199,281,605	25,847,690	5,225,129,295	4,828,234,670	32,918,998	4,861,153,668
Less ceded reserve for life insurance liabilities:						
Life insurance	365,409	-	365,409	301,806	-	301,806
Net amount	\$5,198,916,196	\$25,847,690	\$5,224,763,886	\$4,827,932,864	\$32,918,998	\$4,860,851,862

Note 1: Allowance for doubtful account pertinent to 3% of business tax cut and recovery from major incident reserve are included.

Note 2: Total reserve for life insurance liabilities after including reserve for life insurance liabilities – payables for the insured amounted to \$5,225,589,886 thousand as of 31 December 2018.

Reserve for life insurance liabilities is summarized below:

	2018.1.1~2018.12.31			2017.1.1~2017.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$4,828,234,670	\$32,918,998	\$4,861,153,668	\$4,438,878,359	\$39,592,835	\$4,478,471,194
Reserve	635,630,693	374,465	636,005,158	684,926,503	75,528	685,002,031
Recover	(290,898,770)	(7,420,310)	(298,319,080)	(225,706,949)	(6,748,056)	(232,455,005)
Losses (gains) on foreign exchange	26,315,012	(25,463)	26,289,549	(69,863,243)	(1,309)	(69,864,552)
Ending balance	5,199,281,605	25,847,690	5,225,129,295	4,828,234,670	32,918,998	4,861,153,668
Less ceded reserve for life insurance liabilities:						
Beginning balance - net	301,806	-	301,806	228,765	-	228,765
Increase	73,160	-	73,160	72,802	-	72,802
Gains (losses) on foreign exchange	(9,557)	-	(9,557)	239	-	239
Ending balance - net	365,409	-	365,409	301,806	-	301,806
Total	\$5,198,916,196	\$25,847,690	\$5,224,763,886	\$4,827,932,864	\$32,918,998	\$4,860,851,862

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(B) Unearned premium reserve:

	2018.12.31			2017.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$73,117	\$-	\$73,117	\$665,528	\$-	\$665,528
Individual injury insurance	6,497,571	-	6,497,571	5,652,009	-	5,652,009
Individual health insurance	8,843,583	-	8,843,583	8,344,463	-	8,344,463
Group insurance	1,225,893	-	1,225,893	1,208,703	-	1,208,703
Investment-linked insurance	112,153	-	112,153	107,496	-	107,496
Total	16,752,317	-	16,752,317	15,978,199	-	15,978,199
Less ceded unearned premium reserve:						
Individual life insurance	509,092	-	509,092	242,609	-	242,609
Individual injury insurance	9,703	-	9,703	6,152	-	6,152
Individual health insurance	105,542	-	105,542	51,807	-	51,807
Total	624,337	-	624,337	300,568	-	300,568
Net	\$16,127,980	\$-	\$16,127,980	\$15,677,631	\$-	\$15,677,631

Unearned premium reserve is summarized below:

	2018.1.1~2018.12.31			2017.1.1~2017.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$15,978,199	\$-	\$15,978,199	\$15,043,034	\$-	\$15,043,034
Reserve	16,748,750	-	16,748,750	15,960,004	-	15,960,004
Recover	(15,967,880)	-	(15,967,880)	(15,027,631)	-	(15,027,631)
Losses (gains) on foreign exchange	(6,752)	-	(6,752)	(4,085)	-	(4,085)
Other (Note)	-	-	-	6,877	-	6,877
Ending balance	16,752,317	-	16,752,317	15,978,199	-	15,978,199
Less ceded unearned premium reserve:						
Beginning balance - Net	300,568	-	300,568	199,829	-	199,829
Increase	323,769	-	323,769	104,746	-	104,746
Decrease	-	-	-	(3,886)	-	(3,886)
Gains (losses) on foreign exchange	-	-	-	(121)	-	(121)
Total	624,337	-	624,337	300,568	-	300,568
Ending balance - Net	\$16,127,980	\$-	\$16,127,980	\$15,677,631	\$-	\$15,677,631

Note: The amount incurred as a result of the business transferred from Cathay Insurance (Bermuda) on 15 December 2017.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(C) Reserve for claims:

	2018.12.31			2017.12.31		
	Financial			Financial		
	instruments with			instruments with		
	discretionary			discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
— Reported but not paid claim	\$1,482,412	\$9,145	\$1,491,557	\$988,671	\$2,678	\$991,349
— Unreported claim	78,293	-	78,293	72,113	-	72,113
Individual injury insurance						
— Reported but not paid claim	27,845	-	27,845	93,382	-	93,382
— Unreported claim	1,781,854	-	1,781,854	1,578,252	-	1,578,252
Individual health insurance						
— Reported but not paid claim	867,032	-	867,032	913,492	-	913,492
— Unreported claim	2,813,866	-	2,813,866	2,521,553	-	2,521,553
Group insurance						
— Reported but not paid claim	51,463	-	51,463	71,934	-	71,934
— Unreported claim	1,572,121	-	1,572,121	1,200,534	-	1,200,534
Investment-linked insurance						
— Reported but not paid claim	218,680	-	218,680	129,722	-	129,722
— Unreported claim	620	-	620	3,566	-	3,566
Total	8,894,186	9,145	8,903,331	7,573,219	2,678	7,575,897
Less ceded reserve for claims:						
Individual life insurance	8,479	-	8,479	34	-	34
Individual health insurance	14,030	-	14,030	8,712	-	8,712
Group insurance	-	-	-	938	-	938
Total	22,509	-	22,509	9,684	-	9,684
Net	\$8,871,677	\$9,145	\$8,880,822	\$7,563,535	\$2,678	\$7,566,213

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Reserve for claims is summarized below:

	2018.1.1~2018.12.31			2017.1.1~2017.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$7,573,219	\$2,678	\$7,575,897	\$6,498,808	\$1,056	\$6,499,864
Reserve	8,906,122	9,145	8,915,267	7,474,026	2,678	7,476,704
Recover	(7,582,459)	(2,678)	(7,585,137)	(6,411,017)	(1,056)	(6,412,073)
Losses (gains) on foreign exchange	(2,696)	-	(2,696)	(6,251)	-	(6,251)
Other (Note)	-	-	-	17,653	-	17,653
Ending balance	\$8,894,186	9,145	8,903,331	7,573,219	2,678	7,575,897
Less ceded reserve for claims:						
Beginning balance-Net	9,684	-	9,684	41,683	-	41,683
Increase	13,120	-	13,120	6,033	-	6,033
Decrease	-	-	-	(38,117)	-	(38,117)
Gains (losses) on foreign exchange	(295)	-	(295)	85	-	85
Total	22,509	-	22,509	9,684	-	9,684
Net	\$8,871,677	\$9,145	\$8,880,822	\$7,563,535	\$2,678	\$7,566,213

Note: The amount incurred as a result of the business transferred from Cathay Insurance (Bermuda) on 15 December 2017.

(D) Special reserve:

	2018.12.31				2017.12.31			
	Financial instruments with discretionary				Financial instruments with discretionary			
	Insurance contract	participation feature	Other	Total	Insurance contract	participation feature	Other	Total
Participating policies dividends reserve	\$(62,254)	\$-	\$-	\$(62,254)	\$(59,358)	\$-	\$-	\$(59,358)
Dividends reserve	63,184	-	-	63,184	60,247	-	-	60,247
Special reserve for revaluation increments of property	-	-	11,083,324	11,083,324	-	-	11,083,324	11,083,324
Total	\$930	\$-	\$11,083,324	\$11,084,254	\$889	\$-	\$11,083,324	\$11,084,213

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Special reserve is summarized below:

	2018.1.1~2018.12.31				2017.1.1~2017.12.31			
	Financial instruments with discretionary participation				Financial instruments with discretionary participation			
	Insurance contract	feature	Other	Total	Insurance contract	feature	Other	Total
Beginning balance	\$889	\$-	\$11,083,324	\$11,084,213	\$1,639	\$-	\$15,416,619	\$15,418,258
Effects on retrospective and restatement on IFRS 9	(395)	-	-	(395)	-	-	-	-
Reserves for participating policies dividends reserve	5,488	-	-	5,488	15,837	-	-	15,837
Participating policies dividends recover	(7,990)	-	-	(7,990)	(8,177)	-	-	(8,177)
Dividends reserve (recovery)	2,938	-	-	2,938	(8,410)	-	-	(8,410)
Recover from special reserve for revaluation increments of property (Note)	-	-	-	-	-	-	(4,333,295)	(4,333,295)
Ending balance	\$930	\$-	\$11,083,324	\$11,084,254	\$889	\$-	\$11,083,324	\$11,084,213

Note: Pursuant to Letter Jin-Guan-Bao-Shou-Zi No.10600400550 issued on 2 February 2017 by the FSC, Cathay Life may recover special reserve for revaluation increments of real property monthly, and the total recovered amount in 2017 was \$4.33 billion.

(E) Premium deficiency reserve:

	2018.12.31			2017.12.31		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance	\$20,966,673	\$-	\$20,966,673	\$24,537,677	\$-	\$24,537,677
Individual injury insurance	1,229	-	1,229	-	-	-
Individual health insurance	1,508,079	-	1,508,079	1,639,247	-	1,639,247
Group insurance	72,323	-	72,323	55,393	-	55,393
Total	\$22,548,304	\$-	\$22,548,304	\$26,232,317	\$-	\$26,232,317

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Premium deficiency reserve is summarized below:

	2018.1.1~2018.12.31			2017.1.1~2017.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$26,232,317	\$-	\$26,232,317	\$29,761,081	\$-	\$29,761,081
Reserve	172,966	-	172,966	1,124,133	-	1,124,133
Recover	(3,984,323)	-	(3,984,323)	(4,013,922)	-	(4,013,922)
Losses (gains) on foreign exchange	127,344	-	127,344	(638,975)	-	(638,975)
Ending balance	\$22,548,304	\$-	\$22,548,304	\$26,232,317	\$-	\$26,232,317

(F) Other reserve:

	2018.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Others	\$1,894,570	\$-	\$1,894,570

	2017.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Others	\$1,916,570	\$-	\$1,916,570

Other reserve is summarized below:

	2018.1.1~2018.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$1,916,570	\$-	\$1,916,570
Recover	(22,000)	-	(22,000)
Ending balance	\$1,894,570	\$-	\$1,894,570

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2017.1.1~2017.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$1,938,792	\$-	\$1,938,792
Recover	(22,222)	-	(22,222)
Ending balance	\$1,916,570	\$-	\$1,916,570

(G) Liability adequacy reserve:

	Insurance contract and financial instruments with discretionary participation feature	
	2018.12.31	2017.12.31
Reserve for life insurance liabilities	\$5,225,129,295	\$4,861,153,668
Unearned premium reserve	16,752,317	15,978,199
Premium deficiency reserve	22,548,304	26,232,317
Other reserve	1,894,570	1,916,570
Total	\$5,266,324,486	\$4,905,280,754
Book value of insurance liabilities	\$5,266,324,486	\$4,905,280,754
Estimated present value of cash flows	\$4,244,307,094	\$4,158,559,601
Balance of liability adequacy reserve	\$-	\$-

Note 1: Shown by the range of the liability adequacy test carried out (tested on the entire contracts).

Note 2: Reserve for claims and special reserve are not included in the liability adequacy test. Reserve for claims is determined based on claims incurred before valuation date and therefore not included in the test.

Note 3: Cathay Life has completed the acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. Thus, the value of the acquired business, i.e. other reserve, shall be considered in the book value of insurance liability included in the liability adequacy test.

Note 4: There are no instances of merger or transfer of insurance contracts for Cathay Lujiazui Life and Cathay Life (Vietnam). As such, the book value of related intangible assets shall not be deducted from book value of insurance liability for liability adequacy reserve test.

Note 5: The expense assumption under estimated present value of cash flows of Cathay Life (Vietnam) started to adopt actual expense in the calculation of estimated present value of cash flows from 30 June 2017.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Cathay Life's liability adequacy testing methodologies are listed as follows:

	2018.12.31	2017.12.31
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing
Assumptions		
a. Information of policies	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.
b. Discount rate	Under assets allocation plan on 30 September 2018, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2017, with neutral assumption for discount rates after 30 years.	Under assets allocation plan on 30 September 2017, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2016, with neutral assumption for discount rates after 30 years.

Cathay Lujiazui Life's liability adequacy testing methodology is listed as follows:

	2018.12.31	2017.12.31
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing
Assumptions		
a. Information of policies	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.
b. Discount rate	Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2017, with neutral assumption for discount rates after 30 years.	Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2016, with neutral assumption for discount rates after 30 years.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(H) Reserve for insurance contract with feature of financial instruments:

Life insurance subsidiaries issue non-investment-linked insurance contracts without discretionary participation feature of financial instruments. As of 31 December 2018 and 31 December 2017, reserve for insurance contracts with feature of financial instruments is summarized below:

	2018.12.31	2017.12.31
Life insurance	\$8,475,663	\$8,421,434
Investment-linked insurance	843,050	340,175
Total	<u>\$9,318,713</u>	<u>\$8,761,609</u>
	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Beginning balance	\$8,761,609	\$10,320,750
Premiums received	2,442,568	3,550,568
Insurance claim payments	(309,262)	(4,615,860)
Net recovery of statutory reserve	(1,381,439)	(456,520)
Losses on foreign exchange	(194,763)	(37,329)
Ending balance	<u>\$9,318,713</u>	<u>\$8,761,609</u>

(I) Foreign exchange volatility reserve

a. The hedge strategy and risk exposure:

Based on the principle of risk control and to maintain the consistent level of foreign exchange volatility reserve, Cathay Life consistently adjusts the hedge ratios and risk exposure position under the risk control.

b. Adjustment in foreign exchange volatility reserve:

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Beginning balance	\$11,589,138	\$9,871,478
Reserve:		
Compulsory reserve	5,712,886	4,434,707
Extra reserve	6,990,539	3,558,983
Subtotal	<u>12,703,425</u>	<u>7,993,690</u>
Recover	<u>(7,217,274)</u>	<u>(6,276,030)</u>
Ending balance:	<u>\$17,075,289</u>	<u>\$11,589,138</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

c. Effects due to foreign exchange volatility reserve:

2018.1.1~2018.12.31			
Items	Inapplicable amount (1)	Applicable amount (2)	Effects (3)=(2)-(1)
Consolidated income	\$56,211,177	\$51,822,256	(4,388,921)
Earnings per share	4.29	3.95	(0.34)
Foreign exchange volatility reserve	-	17,075,289	17,075,289
Equity	539,346,329	529,288,995	(10,057,334)

2017.1.1~2017.12.31			
Items	Inapplicable amount (1)	Applicable amount (2)	Effects (3)=(2)-(1)
Consolidated income	\$58,098,882	\$56,673,224	\$(1,425,658)
Earnings per share	4.59	4.47	(0.12)
Foreign exchange volatility reserve	-	11,589,138	11,589,138
Equity	614,138,956	608,470,543	(5,668,413)

B. Century Insurance subsidiaries

(A) Unearned premiums reserve

a. Unearned premium reserve and ceded unearned premium reserve are summarized as follows:

Items	2018.12.31			
	Unearned premium reserve		Ceded unearned premium reserve	
	Assumed			
	Direct business (1)	reinsurance business (2)	Ceded reinsurance business (3)	Retained business (4)=(1)+(2)-(3)
Fire insurance	\$1,876,580	\$202,282	\$1,131,256	\$947,606
Marine insurance	160,920	7,893	105,301	63,512
Land and air insurance	4,958,232	1,117	207,212	4,752,137
Liability insurance	741,928	998	266,606	476,320
Bonding insurance	51,296	680	36,484	15,492
Other property insurance	676,105	76,291	387,989	364,407
Accident insurance	1,463,714	5,146	74,007	1,394,853
Health insurance	62,309	9,562	-	71,871
Compulsory automobile liability insurance	1,261,457	470,972	756,874	975,555
Total	\$11,252,541	\$774,941	\$2,965,729	\$9,061,753

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Items	2017.12.31			
	Unearned premium reserve		Ceded unearned premium reserve	
	Assumed		Ceded reinsurance business (3)	Retained business (4)=(1)+(2)-(3)
	Direct business (1)	reinsurance business (2)		
Fire insurance	\$1,899,499	\$155,807	\$1,129,219	\$926,087
Marine insurance	139,713	7,157	89,549	57,321
Land and air insurance	4,648,199	2,662	226,719	4,424,142
Liability insurance	649,586	1,190	217,136	433,640
Bonding insurance	45,555	881	30,975	15,461
Other property insurance	623,633	62,732	378,745	307,620
Accident insurance	1,450,237	3,287	54,793	1,398,731
Health insurance	52,174	5,343	-	57,517
Compulsory automobile liability insurance	1,270,317	484,820	762,203	992,934
Total	\$10,778,913	\$723,879	\$2,889,339	\$8,613,453

b. Reconciliation statement of unearned premium reserve and ceded unearned premium reserve

Items	2018.1.1~2018.12.31		2017.1.1~2017.12.31	
	Unearned premium reserve	Ceded unearned premium reserve	Unearned premium reserve	Ceded unearned premium reserve
Beginning balance	\$11,502,792	\$2,889,339	\$11,100,264	\$2,752,276
Others	-	-	3,566	-
Reserve	12,026,512	2,965,186	11,506,609	2,891,151
Recover	(11,503,079)	(2,889,475)	(11,098,759)	(2,749,504)
Effects of exchange rate changes	1,257	679	(8,888)	(4,584)
Ending balance	\$12,027,482	\$2,965,729	\$11,502,792	\$2,889,339

(B) Claims reserve

a. Claims reserve and ceded claims reserve

Items	2018.12.31			
	Claims reserve		Ceded claims reserve	
	Direct underwriting business	Assumed reinsurance business	Ceded reinsurance business	Retained business
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Claims reported but not paid off	\$3,670,166	\$330,733	\$1,231,776	\$2,769,123
Unreported claims	4,026,955	446,465	1,113,251	3,360,169
Total	\$7,697,121	\$777,198	\$2,345,027	\$6,129,292

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.12.31				
Items	Claims reserve		Ceded claims reserve	Retained business (4)=(1)+(2)-(3)
	Direct underwriting business	Assumed reinsurance business	Ceded reinsurance business	
	(1)	(2)	(3)	
	(1)	(2)	(3)	
Claims reported but not paid off	\$3,557,040	\$286,595	\$1,342,214	\$2,501,421
Unreported claims	3,796,257	442,692	1,132,260	3,106,689
Total	<u>\$7,353,297</u>	<u>\$729,287</u>	<u>\$2,474,474</u>	<u>\$5,608,110</u>

b. Net changes for claims reserve and ceded claims reserve

2018.1.1~2018.12.31								
Items	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve (5)=(1)-(2)+(3)-(4)	Ceded reinsurance business		Net change for ceded claims reserve (8)=(6)-(7)
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)		(6)	(7)	
	(1)	(2)	(3)	(4)		(6)	(7)	
Claims reported but not paid off	\$3,669,107	\$3,557,618	\$330,733	\$286,595	\$155,627	\$1,230,864	\$1,342,737	\$(111,873)
Unreported claims	4,026,858	3,796,287	446,465	442,692	234,344	1,113,202	1,132,273	(19,071)
Total	<u>\$7,695,965</u>	<u>\$7,353,905</u>	<u>\$777,198</u>	<u>\$729,287</u>	<u>\$389,971</u>	<u>\$2,344,066</u>	<u>\$2,475,010</u>	<u>\$(130,944)</u>

2017.1.1~2017.12.31								
Items	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve (5)=(1)-(2)+(3)-(4)	Ceded reinsurance business		Net change for ceded claims reserve (8)=(6)-(7)
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)		(6)	(7)	
	(1)	(2)	(3)	(4)		(6)	(7)	
Claims reported but not paid off	\$3,564,752	\$5,923,908	\$286,595	\$235,435	\$(2,307,996)	\$1,349,185	\$3,252,095	\$(1,902,910)
Unreported claims	3,796,651	3,257,979	442,692	417,005	564,359	1,132,442	937,807	194,635
Total	<u>\$7,361,403</u>	<u>\$9,181,887</u>	<u>\$729,287</u>	<u>\$652,440</u>	<u>\$(1,743,637)</u>	<u>\$2,481,627</u>	<u>\$4,189,902</u>	<u>\$(1,708,275)</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

c. Reported claims but not paid off or unreported claims liabilities for policyholder

Items	2018.12.31		
	Claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$801,557	\$15,818	\$817,375
Marine insurance	238,811	2,757	241,568
Land and air insurance	1,385,474	1,329,879	2,715,353
Liability insurance	432,229	737,982	1,170,211
Bonding insurance	70,043	67,414	137,457
Other property insurance	414,592	155,267	569,859
Accident insurance	131,876	557,243	689,119
Health insurance	2,058	48,746	50,804
Compulsory automobile liability insurance	524,259	1,558,314	2,082,573
Total	\$4,000,899	\$4,473,420	\$8,474,319

Items	2017.12.31		
	Claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$1,213,571	\$12,107	\$1,225,678
Marine insurance	282,955	2,673	285,628
Land and air insurance	970,397	1,280,293	2,250,690
Liability insurance	407,046	620,734	1,027,780
Bonding insurance	49,574	93,893	143,467
Other property insurance	400,702	102,292	502,994
Accident insurance	84,084	509,467	593,551
Health insurance	933	49,001	49,934
Compulsory automobile liability insurance	434,373	1,568,489	2,002,862
Total	\$3,843,635	\$4,238,949	\$8,082,584

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

d. Reinsurance asset-ceded claims reserve for policyholder

Items	2018.12.31		
	Ceded claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$354,864	\$7,644	\$362,508
Marine insurance	146,021	675	146,696
Land and air insurance	75,958	38,139	114,097
Liability insurance	259,524	258,328	517,852
Bonding insurance	32,831	40,365	73,196
Other property insurance	151,157	51,462	202,619
Accident insurance	4,764	34,967	39,731
Health insurance	-	-	-
Compulsory automobile liability insurance	206,657	681,671	888,328
Total	\$1,231,776	\$1,113,251	\$2,345,027

Items	2017.12.31		
	Ceded claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$550,259	\$5,457	\$555,716
Marine insurance	190,450	812	191,262
Land and air insurance	60,768	77,285	138,053
Liability insurance	231,297	217,576	448,873
Bonding insurance	29,331	78,160	107,491
Other property insurance	130,131	30,718	160,849
Accident insurance	4,857	35,844	40,701
Health insurance	-	324	324
Compulsory automobile liability insurance	145,121	686,084	831,205
Total	\$1,342,214	\$1,132,260	\$2,474,474

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

e. Reconciliation statement of claims reserve and ceded claims reserve

Items	2018.1.1~2018.12.31		2017.1.1~2017.12.31	
	Claims reserve	Ceded claims reserve	Claims reserve	Ceded claims reserve
Beginning balance	\$8,082,584	\$2,474,474	\$9,843,664	\$4,198,314
Others	-	-	367	170
Reserve	8,473,163	2,344,066	8,090,690	2,481,627
Recover	(8,083,192)	(2,475,010)	(9,834,327)	(4,189,902)
Effects of exchange rate changes	1,764	1,497	(17,810)	(15,735)
Ending balance	\$8,474,319	\$2,345,027	\$8,082,584	\$2,474,474

(C) Special reserve

a. Special reserve - Compulsory automobile liability insurance

Items	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Beginning balance	\$1,575,128	\$1,530,609
Reserve	116,093	121,427
Recover	(213,205)	(76,908)
Ending balance	\$1,478,016	\$1,575,128

b. Special reserve - Non-compulsory automobile liability insurance

Items	Liability					
	2018.1.1~2018.12.31			2017.1.1~2017.12.31		
	Major incidents	Fluctuation of risks	Total	Major incidents	Fluctuation of risks	Total
Beginning balance	\$468,172	\$1,345,017	\$1,813,189	\$486,899	\$1,345,017	\$1,831,916
Reserve	-	-	-	-	-	-
Recover	(18,726)	-	(18,726)	(18,727)	-	(18,727)
Ending balance	\$449,446	\$1,345,017	\$1,794,463	\$468,172	\$1,345,017	\$1,813,189

“Precautions of Strengthening Disaster Insurance of Property Insurance Industry (Commercial Earthquake and Typhoons Flood Insurance)”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”, “Regulations for the Management of the Various Reserves for the nuclear Insurance”, and other rules governing reserves had impact on Cathay Century and its subsidiaries’ income before tax by decreasing in \$18,727 thousand, the special reserve under liabilities by decreasing in \$1,485,963 thousand and equity by increasing in \$508,108 thousand, respectively. The effect of not paying attention to the earnings per shareholder was decreasing \$0.05.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(D) Premiums deficiency reserve

a. Premiums deficiency reserve and ceded premium deficiency reserve

2018.12.31				
Items	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Fire insurance	\$-	\$-	\$-	\$-
Marine insurance	2,253	714	-	2,967
Land and air insurance	7,512	868	-	8,380
Liability insurance	-	-	-	-
Bonding insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-
Total	\$9,765	\$1,582	\$-	\$11,347

2017.12.31				
Items	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Fire insurance	\$-	\$-	\$-	\$-
Marine insurance	1,144	103	-	1,247
Land and air insurance	8,446	2,932	2,578	8,800
Liability insurance	-	-	-	-
Bonding insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-
Total	\$9,590	\$3,035	\$2,578	\$10,047

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Net loss recognized for premiums deficiency reserve- Net change for premium deficiency reserve and ceded premiums deficiency reserve

2018.1.1~2018.12.31									
Items	Direct underwriting business		Assumed reinsurance business		Net change for premiums	Ceded reinsurance business		Net change for ceded premiums	Recognized net loss (gain) for premiums
	Reserve	Recover	Reserve	Recover	deficiency reserve	Reserve	Recover	deficiency reserve	deficiency reserve
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Marine insurance	2,253	1,144	714	103	1,720	-	-	-	1,720
Land and air insurance	7,512	8,446	868	2,932	(2,998)	-	2,578	(2,578)	(420)
Liability insurance	-	-	-	-	-	-	-	-	-
Bonding insurance	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-	-	-	-	-	-
Total	\$9,765	\$9,590	\$1,582	\$3,035	\$(1,278)	\$-	\$2,578	\$(2,578)	\$1,300

2017.1.1~2017.12.31									
Items	Direct underwriting business		Assumed reinsurance business		Net change for premiums	Ceded reinsurance business		Net change for ceded premiums	Recognized net loss (gain) for premiums
	Reserve	Recover	Reserve	Recover	deficiency reserve	Reserve	Recover	deficiency reserve	deficiency reserve
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Marine insurance	1,144	-	103	-	1,247	-	-	-	1,247
Land and air insurance	8,446	1,640	2,932	8,893	845	2,578	-	2,578	(1,733)
Liability insurance	-	-	-	-	-	-	-	-	-
Bonding insurance	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-	-	-	-	-	-
Total	\$9,590	\$1,640	\$3,035	\$8,893	\$2,092	\$2,578	\$-	\$2,578	\$(486)

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- c. Reconciliation statement for premium deficiency reserve and ceded premium deficiency reserve

Items	2018.1.1~2018.12.31		2017.1.1~2017.12.31	
	Premiums deficiency reserve	Ceded premiums deficiency reserve	Premiums deficiency reserve	Ceded premiums deficiency reserve
Beginning balance	\$12,625	\$2,578	\$10,533	\$-
Reserve	11,347	-	12,625	2,578
Recover	(12,625)	(2,578)	(10,533)	-
Ending balance	<u>\$11,347</u>	<u>\$-</u>	<u>\$12,625</u>	<u>\$2,578</u>

- d. Effects for the change of estimation and assumption

Cathay Century's premium deficiency reserve is a measurement of present value for future expenditure. The expected final loss ratio referred to the loss experience in the past three years, spectacular compensation case and the trend of loss. The expected operation expense ratio referred to the insurance expense exhibits of Cathay Century in the past three years excluding entertainment expense and membership fee. The actual rate of return on investment may not be the same as the expected rate due to the uncertainty of estimation and assumption.

(E) Liability reserve

- a. Liability reserve and liability-ceded reserve

Item	2018.12.31			
	Liability reserve		Liability-ceded reserve	
	Direct written business	Reinsurance ceded-in	Reinsurance ceded-out	Retention
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Health insurance	\$48	\$-	\$-	\$48

Item	2017.12.31			
	Liability reserve		Liability-ceded reserve	
	Direct written business	Reinsurance ceded-in	Reinsurance ceded-out	Retention
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Health insurance	\$55	\$-	\$-	\$55

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Net change for liability reserve and liability reserve ceded

2018.1.1~2018.12.31								
Item	Direct written business		Reinsurance ceded-in		Net change for liability reserve	Reinsurance ceded-out		Net change for liability reserve ceded
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)
Health insurance	\$21	\$28	\$-	\$-	\$(7)	\$-	\$-	\$-

2017.1.1~2017.12.31								
Item	Direct written business		Reinsurance ceded-in		Net change for liability reserve	Reinsurance ceded-out		Net change for liability reserve ceded
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)
Health insurance	\$25	\$12	\$-	\$-	\$13	\$-	\$-	\$-

(20) Post-employment benefits

A. Defined contribution plans

The Company and its domestic subsidiaries adopt a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company and its domestic subsidiaries will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company and its domestic subsidiaries have made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

The Company's subsidiary located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts.

Pension benefits for employees of the Group's overseas subsidiaries and branches are provided in accordance with the local regulations.

Expenses under the defined contribution plan recognized by the Group for the years ended 31 December 2018 and 2017 are \$1,573,731 thousand and \$1,533,681 thousand, respectively.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

B. Defined benefit plans

The Company and its domestic subsidiaries adopt a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the six months of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company and its domestic subsidiaries contribute an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Company and its domestic subsidiaries assess the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Company and its domestic subsidiaries will make up the difference in one appropriation before the end of March the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Group expects to contribute \$650,552 thousand to its defined benefit plan during the 12 months beginning after 31 December 2018.

The average duration of the defined benefits plan obligation as at 31 December 2018 and 2017, are 2028~2030 years and 2027~2030 years.

Pension costs recognized in profit or loss for the years ended 31 December 2017 and 2016:

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Current period service costs	\$472,769	\$464,079
Past period service costs	440	-
Interest expense from net defined benefit liability	(15,727)	(10,917)
Total	<u>\$457,482</u>	<u>\$453,162</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	2018.12.31	2017.12.31
Defined benefit obligation	\$19,952,668	\$19,097,444
Fair value of plan assets	(22,568,069)	(20,515,721)
Net defined benefit liability (asset)	<u>\$ (2,615,401)</u>	<u>\$ (1,418,277)</u>

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	Defined benefit obligation	Fair value of plan assets	Net Defined Benefit liability (asset)
2017.1.1	\$18,744,357	\$(19,344,726)	\$(600,369)
Current period service costs	464,079	-	464,079
Net interest expense (income)	243,864	(254,781)	(10,917)
Subtotal	<u>707,943</u>	<u>(254,781)</u>	<u>453,162</u>
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	529	-	529
Actuarial gains and losses arising from changes in financial assumptions	595,374	-	595,374
Experience adjustments	417,137	-	417,137
Remeasurements of the net defined benefit asset	-	(282,187)	(282,187)
Subtotal	<u>1,013,040</u>	<u>(282,187)</u>	<u>730,853</u>
Payments from the plan	(1,367,871)	1,363,493	(4,378)
Contributions by employer	-	(1,989,278)	(1,989,278)
Effects of exchange rate changes	(25)	-	(25)
Other	-	(8,242)	(8,242)
2017.12.31	<u>19,097,444</u>	<u>(20,515,721)</u>	<u>(1,418,277)</u>
Current period service costs	472,769	-	472,769
Past period service costs	440	-	440
Net interest expense (income)	194,084	(209,811)	(15,727)
Subtotal	<u>667,293</u>	<u>(209,811)</u>	<u>457,482</u>
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	381	-	381
Actuarial gains and losses arising from changes in financial assumptions	930,511	-	930,511
Experience adjustments	337,765	-	337,765
Remeasurements of the net defined benefit asset	-	(1,626,917)	(1,626,917)
Subtotal	<u>1,268,657</u>	<u>(1,626,917)</u>	<u>(358,260)</u>
Payments from the plan	(1,080,714)	1,083,132	2,418
Contributions by employer	-	(1,298,752)	(1,298,752)
Effects of exchange rate changes	(12)	-	(12)
2018.12.31	<u>\$19,952,668</u>	<u>\$ (22,568,069)</u>	<u>\$ (2,615,401)</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	2018.12.31	2017.12.31
Discount rate	0.90%~1.36%	1.01%~1.60%
Expected rate of salary increases	1.50%~3.50%	1.00%~3.00%

A sensitivity analysis for significant assumption as at 31 December 2017 and 2016 is, as shown below:

	2018.1.1~ 2018.12.31		2017.1.1~ 2017.12.31	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate decrease (increase) by 0.5%	\$1,044,937	(963,074)	\$1,033,684	\$(961,811)
Future salary increase (decrease) by 0.5%	1,004,863	(943,104)	1,007,234	(942,715)

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

Employee preferential interest rate deposits plan

Cathay United Bank has the obligation to pay the preferential interest deposits for current employees and retired employees as according to the “Regulation for Employee Preferential Interest Rate Deposits of Cathay United Bank”.

Expenses under preferential interest rate deposits plan amounted to \$283,966 thousand and \$271,804 thousand were recognized for the years ended 31 December 2018 and 2017, and recorded as “Employee benefits expenses”, respectively.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Pension costs recognized in profit or loss for the years ended 31 December 2018 and 2017:

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Current period service costs	\$-	\$-
Interest expense	21,449	21,363
Total	<u>\$21,449</u>	<u>\$21,363</u>

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	2018.12.31	2017.12.31
Defined benefit obligation	\$(595,751)	\$(579,063)
Fair value of plan assets	-	-
Other non-current liabilities - Net defined benefit liability	<u>\$(595,751)</u>	<u>\$(579,063)</u>

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	Defined benefit obligation
2017.1.1	\$576,083
Defined benefit cost recognized in profit or loss	
Net interest expense	21,363
Subtotal	<u>21,363</u>
Defined benefit cost — recognized in other comprehensive income	
Experience adjustments	67,369
Subtotal	<u>67,369</u>
Payments from the plan	<u>(85,752)</u>
2017.12.31	579,063
Defined benefit cost recognized in profit or loss	
Net interest expense	21,449
Subtotal	<u>21,449</u>
Defined benefit cost — recognized in other comprehensive income	
Experience adjustments	83,789
Subtotal	<u>83,789</u>
Payments from the plan	<u>(88,550)</u>
2018.12.31	<u>\$595,751</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

The following significant actuarial assumptions are used to determine Cathay United Bank's present value of the defined benefit obligation:

	2018.12.31	2017.12.31
Discount rate	4.00%	4.00%
Expected rate of return on deposited fund	2.00%	2.00%
Withdrawal rate of preferential interest rate deposits	1.00%	1.00%

A sensitivity analysis for significant assumption as at 31 December 2018 and 2017 is, as shown below:

	Effect on the defined benefit obligation			
	2018		2017	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate decrease (increase) by 0.5%	\$31,575	\$(29,192)	\$31,269	\$(28,374)
Death rate adjusted decrease (increase) by 0.5%	5,958	(5,958)	5,791	(5,791)
Interest rate of premium deposit decrease (increase) by 0.5%	139,406	(139,406)	135,501	(135,501)

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

(21) Capital Stock

A. As of 31 December 2018 and 2017, the authorized share capital both amounted to \$180,000,000 thousand and the issued share capital amounted to \$140,965,102 thousand and \$133,965,102 thousand, respectively, both including 12,563,210 thousand common shares and including 1,533,300 thousand and 833,300 thousand preferred shares, respectively. These shares are all with par value of \$10.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

B. Issuance of Series A preferred stock

The board of directors has approved the issuance of Series A Preferred Shares on 9 September 2016. The Company issued 833,300 thousand preferred shares for cash totaled \$8,333,000 thousand, with a par value of \$10 per share issued at \$60 per share. The capital injection was approved by the FSC on 25 October 2016. The subscription date was 8 December 2016. All issued shares were registered and recognized as equity. The rights and obligations of Series A Preferred Shares Issuance are listed as follows:

- (A) 3.8% per annum for Series A Preferred Shares (7-year IRS 1.06%+2.74%) calculated pursuant to issue price per share. Interest rate per annum will be reset on the day after the 7th anniversary of the issue date (“Issue Date”) and the day after each subsequent 7-year period hereafter. Record date for interest reset shall be the previous 2 business day for financial institutions in Taipei. The 7-year IRS rate shall be the arithmetic mean of 7-year IRS quotations as published by Reuter, PYTWDFIX and COSMOS3 at 11:00 a.m. of the day of reset record date (must be a business day for Taipei’s financial institutions). If the above quotations cannot be obtained on reset record date, interest rate shall be decided by the issuer in good faith and taken into account of reasonable market rate.
- (B) Dividends for Series A Preferred Shares are distributed once per year in cash. After shareholders’ approval of issuer’s financial statements at its annual shareholders meeting, the board may set record date for distribution of available dividends from the previous year. Dividend distribution for the years of issuance and redemption (such as the shareholders’ approval of dividends declaration on shareholders meeting) shall be calculated pursuant to actual issued days of the given year.
- (C) In the year when making earnings, before Issuer can distribute dividends for Series A Preferred Shares, the Company shall first: (i) pay all taxes and dues (ii) offset its losses in previous years (iii) set aside statutory reserve, or set aside or reverse special reserve and (iv) the distribution of the remaining portion, if any, will first be distributed as preferred share dividend.
- (D) The Company has sole discretion to distribute dividend of the Preferred Shares, including its discretion to not declare dividends when no profit is recorded, or insufficient profit is recorded for Preferred Share dividends, or preferred share dividend distribution would render the Company’s RBC ratio below the level required by law or competent authorities. The Company’s cancellation of preferred share dividend distribution shall not be deemed an event of default. The Series A Preferred Shares which were issued this time are non-cumulative. Undeclared or under-declared dividends are not cumulative, and are not paid in subsequent years with profit.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- (E) Except for receipt of dividends at the aforementioned dividend rate in Paragraph (A), holders of Preferred Shares cannot participate in distribution of cash or stock dividends to holders of common shares from profit or additional paid-in capital.
- (F) Holders of Series A Preferred Shares shall have the same priority as holders of all subsequently issued preferred share in liquidation, which are prior to holders of common shares but subordinated to general creditors, to the extent of the issuance amount.
- (G) Holders of Series A Preferred Shares have no voting right at the annual shareholders meeting, and cannot elect directors. However, holders of Series A Preferred Shares have voting rights at shareholders meeting of Preferred Shares, and at annual shareholders meeting on items relating to rights of Preferred Shares holders.
- (H) Holders of Series A Preferred Shares cannot convert said preferred shares to common shares, and have no right to request the Company for redemption of Series A Preferred Shares.
- (I) Through issuance of perpetual preferred stock, on the day after the 7th anniversary of the Issue Date, the Company may redeem all or part of outstanding Preferred Shares at issue price. Rights and obligations of the unredeemed Preferred Shares shall remain the same as mentioned above.

C. Issuance of Series B preferred stock

The board of directors has approved the issuance of Series B Preferred Shares on 9 February 2018. The Company issued 700,000 thousand preferred shares for cash totaled \$7,000,000 thousand, with a par value of \$10 per share issued at \$60 per share. The capital injection was approved by the FSC on 10 May 2017. The subscription date was 27 June 2018. All issued shares were registered and recognized as equity. The rights and obligations of Series B Preferred Shares Issuance are listed as follows:

- (A) 3.55% per annum for Series B Preferred Shares (7-year IRS 1.1675%+2.3825%) calculated pursuant to issue price per share. Interest rate per annum will be reset on the day after the 7th anniversary of the issue date (“Issue Date”) and the day after each subsequent 7-year period hereafter. Record date for interest reset shall be the previous 2 business day for financial institutions in Taipei. The 7-year IRS rate shall be the arithmetic mean of 7-year IRS quotations as published by Reuter, TAIFXIRS and COSMOS3 at 11:00 a.m. of the day of reset record date (must be a business day for Taipei’s financial institutions). If the above quotations cannot be obtained on reset record date, interest rate shall be decided by the issuer in good faith and taken into account of reasonable market rate.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- (B) In the year when making earnings, before Issuer can distribute dividends for Series B Preferred Shares, the Company shall first: (i) pay all taxes and dues (ii) offset its losses in previous years (iii) set aside statutory reserve, or set aside or reverse special reserve and (iv) the distribution of the remaining portion, if any, will first be distributed as preferred share dividend.
 - (C) The Company has sole discretion to distribute dividend of the Preferred Shares, including its discretion to not declare dividends when no profit is recorded, or insufficient profit is recorded for Preferred Share dividends, or preferred share dividend distribution would render the Company's RBC ratio below the level required by law or competent authorities. The Company's cancellation of preferred share dividend distribution shall not be deemed an event of default. The Series B Preferred Shares which were issued this time are non-cumulative. Undeclared or under-declared dividends are not cumulative, and are not paid in subsequent years with profit.
 - (D) Except for receipt of dividends at the aforementioned dividend rate in Paragraph (A), holders of Preferred Shares cannot participate in distribution of cash or stock dividends to holders of common shares from profit or additional paid-in capital.
 - (E) Holders of Series B Preferred Shares shall have the same priority as holders of all subsequently issued preferred share in liquidation, which are prior to holders of common shares but subordinated to general creditors, to the extent of the issuance amount.
 - (F) Holders of Series B Preferred Shares have no voting right at the annual shareholders meeting, and cannot elect directors. However, holders of Series B Preferred Shares have voting rights at shareholders meeting of Preferred Shares, and at annual shareholders meeting on items relating to rights of Preferred Shares holders.
 - (G) Holders of Series B Preferred Shares cannot convert said preferred shares to common shares, and have no right to request the Company for redemption of Series B Preferred Shares.
 - (H) Through issuance of perpetual preferred stock, on the day after the 7th anniversary of the Issue Date, the Company may redeem all or part of outstanding Preferred Shares at issue price. Rights and obligations of the unredeemed Preferred Shares shall remain the same as mentioned above.
- D. On 31 December 2001, the Company listed its shares on Taiwan Stock Exchange Corporation (TWSE) in accordance with relevant regulations. On 29 July 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs).

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(22) Capital surplus

	2018.12.31	2017.12.31
Additional paid-in capital	\$161,523,972	\$126,523,972
Treasury share transactions	2,539,377	2,539,377
Differences between share price and book value from acquisition or disposal of subsidiaries	29,142	29,142
Additional paid-in capital-Employee stock option	209,945	207,620
Convertible bonds to convert	1,144,486	1,144,486
Others	2,442	7,508
Total	<u>\$165,449,364</u>	<u>\$130,452,105</u>

- A. The capital surplus of the Company consists of consolidation premium from share exchange, additional paid-in capital from issuance of shares for cash accumulated adjustments on paid-in capital from investment under equity method, and transactions of treasury stocks and employee stock options. Capital surplus were \$165,449,364 thousand and \$130,452,105 thousand as of 31 December 2018 and 31 December 2017, respectively
- B. According to the Ruling Letter Jin-Guan-Yin-Fa-Zi No.10200017220, capital surplus of financial holding companies from the share exchange, in compliance with Item 4, Article 47 of the Financial Holding Company Act, is allowed to be distributed as cash dividends or to be capitalized if the capital surplus was from the financial institution's undistributed earnings before the share exchange. In addition, the capitalization amount is not subject to the restrictions provided in Article 72-1 of the "Regulations Governing the Offering and Issuance of Securities by Securities Issuers".
- C. According to the Company Act, the capital surplus shall not be used except for covering the deficit of the company. When a company incurs no loss, it may distribute the capital surplus related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

(23) Retained earnings

A. Legal reserve

Pursuant to the Company Act, 10% of the Company's after-tax net income in the current year must be appropriated to legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can only be used to offset deficits. For companies with no accumulated deficits, legal reserve which exceeds 25% of the issued share capital may be used for new share issuance or return cash to shareholders with the approval of stockholders' meeting.

On 8 June 2018, the Company's board of shareholders resolved to recognize the legal capital reserves of \$5,636,280 thousand. On 16 June 2017, the Company's board of shareholders resolved to recognize the legal capital reserves of \$4,762,117 thousand.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

B. Special reserve

- (A) According to the legal interpretations No.1010012865 issued by FSC on 6 April 2012, as the first-time adoption of IFRS, entities should appropriate special reserves from unrealized increments from revaluation and gains from accumulated translation adjustments recorded under stockholders' equity with same amount to retained earnings due to the adoption of exemptions in IFRS 1 First-time Adoption of International Financial Reporting Standards. The Company is not required to appropriate special reserves because the unrealized increments of revaluation should be treated in accordance with Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and the Company did not select to recognize accumulated translation difference as zero at the date of transition to IFRS.
- (B) Cathay United Bank, Cathay Securities and Cathay Futures have reclassified appropriated trading losses reserve and default losses reserve as of 31 December 2010 as special reserve according to the relevant regulation. The special reserve can only be used to offset the accumulated deficit or be transferred to capital stock (limited to 50% of the special reserve) once the legal reserve reaches one-half of the paid-in capital. The Company set aside special reserve in the amount of \$333,598 thousand for the year ended 31 December 2011.
- (C) In accordance with IFRS 4, provisions for possible claims under contracts that are not in existence at the reporting date are prohibited. Based on the "Regulation Governing the Setting Aside of Various Reserves by Insurance Enterprises", the reserves under liability recorded before 31 December 2012 should be reclassified to special capital reserve considering the reclassification of balance after tax according to IAS 12 to retained earnings on 1 January 2013. In addition, in order to maintain the consistency and sustainability, the amount should be adjusted retrospectively to 1 January 2012. As of 1 January 2012, the "Special Reserve for Major Incidents" and "Special Reserve for Fluctuation of Risks" amounted to \$9,022,812 thousand. Half of this amount was set aside to be reclassified as the opening balance of foreign exchange volatility reserve on 1 March 2012, and the rest of it in the amount of \$4,511,405 thousand after deducting the effect of income tax was diverted to special capital reserve under retained earnings, an increase of \$3,744,467 thousand. The Company set aside the special reserve in the amount of \$3,744,467 thousand for the year ended 31 December 2013.
- (D) Cathay Life has elected to use the fair value of certain investment properties on the transition date to TIFRS as their deemed costs. In accordance with Article 32 of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, the incremental value from fair value revaluation can be used to offset the negative impact from transition and shall set aside an equal amount of retained earnings; the residual amount shall be recognized under special reserve. According to Order No. 10202508140 issued by Insurance Bureau, the abovementioned amount of \$2,994,565 thousand shall be set aside under special capital reserve in accordance with Letter Jin-Guan-Bao-Chai-Zi No.10102508861. The Company set aside special reserve in the amount of \$2,994,565 thousand for the year ended 31 December 2013.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- (E) In 2014, the Group changed the subsequent measurement of investment properties from cost model to fair value model. According to Order No. Jin-Guan-Zheng-Fa-Zi-1030006415, on the first-time adoption of fair value model for investment properties subsequent measurement, the group shall set aside an equal amount of special reserve when transferring the fair value increment of investment properties to retained earnings. As of 31 December 2018 and 31 December 2017, the special reserves amounted to \$107,509,178 thousand and \$107,270,030 thousand, respectively.
- (F) In accordance with Letter Jin-Guan-Bao-Tsai-Zi No.10402029590, Cathay Life recognized special capital reserve in the amount of \$34,764,311 thousand. The amount was originally recognized in insurance liabilities.

C. Undistributed earnings

- (A) According to the Company's Articles of Incorporation, the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated as legal capital reserve and special capital reserve. The total remaining amount plus beginning undistributed earnings are the distributable earnings. The distributable earnings must be appropriated in accordance with the resolution by the stockholders' meeting.
- (B) The Company cannot distribute overdue undistributed earnings. Before 2004, the Company had to pay an extra 10% income tax on approved taxable income. From (including) 2005, the calculation of the extra 10% income tax shall be based on current-year net income (after tax) generated according to Business Entity Accounting Act. Earnings that have been taxed will not be taxed again if the earnings are not distributed in the following years. From 1 January 2018, tax rate of the income tax for undistributed earnings has decreased to 5%.
- (C) According to Item 1, Article 41 of Securities and Exchange Act, when distributing earnings, listed companies shall appropriate, in addition to legal reserve, special reserve equal to net deductions from shareholders' equity. The special reserve for the current year's net deductions shall be appropriated from current year's net income and prior periods' accumulated undistributed earnings. The special reserve for the prior periods' net deductions shall be appropriated only from prior periods' accumulated undistributed earnings. For any subsequent reversal of net deductions from shareholders' equity, the amount reversed may be distributed.
- (D) According to the amended Article 235-1 of the Company Act, the Company shall provide a fixed amount or percentage of the actual profit for a year to be distributed as "employee remuneration", after deducting and setting aside an amount equal to the cumulative losses (if any). The aforementioned employee remuneration may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders' meeting. Furthermore the Articles of Incorporation may stipulate that the employee remuneration may be distributed to employees of affiliated enterprises meeting certain criteria.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(E) The Company's distribution of 2017 and 2016 retained earnings has been approved by its board of directors and resolved in the shareholder's meeting. The cash dividends of common stock in the distributable surplus were \$2.5 and \$2.0 per share, and the cash dividends of special share were \$2.28 and \$0.1495 respectively. There is no difference between the surplus distributions passed by the shareholder's meeting and the resolutions of the board of directors of the Company. For more related information, please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

Information regarding the employee bonuses and remuneration to directors and supervisors can be obtained from Note 6.(25).

(24) Non-controlling interests

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Beginning balance	\$9,403,472	\$6,499,449
Effects on retrospective and restatement	8,904	(Note)
Net income attributed to non-controlling interests	355,013	366,489
Other comprehensive income attributable to non-controlling interests		
Exchange differences resulting from translating the financial statements of a foreign operation	8,511	(376,749)
Unrealized gains from available-for-sale financial assets	-	47,734
Gains on debt instruments at fair value through other comprehensive income	137,906	(Note)
Other comprehensive gains reclassified using overlay approach	5,129	(Note)
Others	(361,270)	2,866,549
Ending balance	<u>\$9,557,665</u>	<u>\$9,403,472</u>

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(25) Employee benefits, depreciation and amortization

Summary statement of employee benefits and depreciation expenses breakdown:

Items	2018.1.1~2018.12.31								Total
	domestic				foreign				
	Employee benefits expenses	Net income other than interest	Other general and administrative expenses	Subtotal	Employee benefits expenses	Net income other than interest	Other general and administrative expenses	Subtotal	
Employee benefits expense									
Salary and wages	\$35,574,669	\$10,937,689	\$-	\$46,512,358	\$6,188,564	\$-	\$-	\$6,188,564	\$52,700,922
Labor and health insurance	3,591,495	-	-	3,591,495	651,615	-	-	651,615	4,243,110
Pension expense	2,070,928	-	-	2,070,928	3,202	-	-	3,202	2,074,130
Director's remuneration	187,137	-	-	187,137	2,528	-	-	2,528	189,665
Other employee benefits	1,401,890	-	-	1,401,890	157,929	-	-	157,929	1,559,819
Total	<u>\$42,826,119</u>	<u>\$10,937,689</u>	<u>\$-</u>	<u>\$53,763,808</u>	<u>\$7,003,838</u>	<u>\$-</u>	<u>\$-</u>	<u>\$7,003,838</u>	<u>\$60,767,646</u>
Depreciation				<u>\$2,351,979</u>				<u>\$261,609</u>	<u>\$2,613,588</u>
Amortization				<u>\$2,579,172</u>				<u>\$481,862</u>	<u>\$3,061,034</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.1.1~2017.12.31									
Items	domestic				foreign				Total
	Employee benefits expenses	Net income other than interest	Other general and administrative expenses	Subtotal	Employee benefits expenses	Net income other than interest	Other general and administrative expenses	Subtotal	
Employee benefits expense									
Salary and wages	\$32,914,130	\$11,664,638	\$-	\$44,578,768	\$5,366,779	\$-	\$-	\$5,366,779	\$49,945,547
Labor and health insurance	3,568,347	-	-	3,568,347	537,221	-	-	537,221	4,105,568
Pension expense	2,037,255	-	-	2,037,255	3,358	-	-	3,358	2,040,613
Director's remuneration	141,310	-	-	141,310	3,070	-	-	3,070	144,380
Other employee benefits	1,326,530	-	-	1,326,530	220,276	-	-	220,276	1,546,806
Total	<u>\$39,987,572</u>	<u>\$11,664,638</u>	<u>\$-</u>	<u>\$51,652,210</u>	<u>\$6,130,704</u>	<u>\$-</u>	<u>\$-</u>	<u>\$6,130,704</u>	<u>\$57,782,914</u>
Depreciation				<u>\$2,236,849</u>				<u>\$218,809</u>	<u>\$2,455,658</u>
Amortization				<u>\$2,476,537</u>				<u>\$492,053</u>	<u>\$2,968,590</u>

The average number of the Group's employees for the years ended 2018 and 2017 were 53,612 and 50,745 (45,432 and 44,126 domestic), respectively. Among them, the number of directors who were not concurrently employees were 36 and 35 (23 and 24 domestic), respectively.

As of 31 December 2018, and 31 December 2017, the total numbers of the employees of the Group were 54,520 and 52,620 (46,146 and 44,819 domestic), respectively.

The Group's average employee benefits expenses for the year ended 31 December 2018 was \$1,131 thousand. (\$1,180 thousand domestic) (the abovementioned total of employee benefits expenses - total of Directors' remuneration / the number of employees - the number of directors who were not concurrently employees).

The Group's average employee salary and wages for the year ended 31 December 2018 was \$984 thousand (\$1,024 thousand domestic) (the abovementioned total of salary and wages / the number of employees – the number of directors who were not concurrently employees).

Based on the Articles of Incorporation of the Company. According to the resolution, 0.01% to 0.05% of profit of the current year is distributable as employees' compensation and no higher than 0.05% of profit of the current year is distributable as remuneration to directors. However, the company's accumulated losses shall have been covered. The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on profit of current year, the Company estimated the amounts of the employees' compensation and remuneration to directors for the year ended 31 December 2018 to be 0.01% of profit of current year and no higher than 0.05% of profit of the current year, respectively. The Company recognized employees' compensation and remuneration of \$5,307 thousand and \$2,700 thousand, respectively, and recorded under salaries expense. If the actual distribution is different from the estimates, the difference will be accounted for as changes in accounting estimates and recognized in profit or loss in the following year.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Based on profit of current year, the Company estimated the amounts of the employees' compensation and remuneration to directors for the year ended 31 December 2017 to be 0.01% of profit of current year and no higher than 0.05% of profit of the current year, respectively. The Company recognized employees' compensation and remuneration of \$5,812 thousand and \$2,700 thousand, respectively, and recorded under salaries expense.

A resolution was passed at a board of directors meeting held on 21 March 2019 to distribute \$5,307 thousand and \$2,700 thousand in cash as employees' compensation and remuneration to directors, respectively. If the amount of the consolidated financial report changes after the release date, it will be adjusted according to the accounting estimates in the next year.

A resolution was passed at a board of directors meeting held on 15 March 2018 to distribute \$5,812 thousand and \$2,700 thousand in cash as employees' compensation and remuneration to directors, respectively. There were no material differences between the actual distribution and the amount on the financial report in 2017.

(26) The Components of other comprehensive income

For the year ended 31 December 2018

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$274,469	\$-	\$274,469	\$(3,493)	\$270,976
Revaluation gains on property	-	-	-	46,241	46,241
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	(2,977,432)	(433,726)	(3,411,158)	472,186	(2,938,972)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(37,030)	-	(37,030)	55,468	18,438
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	2,402,577	-	2,402,577	(437,466)	1,965,111
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	(1,214,591)	-	(1,214,591)	143,104	(1,071,487)
Gain (losses) from hedging instruments	54,891	(83,638)	(28,747)	(1,611)	(30,358)
Unrealized gains (losses) from debt instruments investment measured at fair value through other comprehensive income	(66,830,622)	(11,555,684)	(78,386,306)	13,948,307	(64,437,999)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(392,263)	-	(392,263)	139,879	(252,384)
Other comprehensive losses reclassified using overlay approach	(67,324,210)	(50,752,329)	(118,076,539)	9,323,810	(108,752,729)
Total	\$(136,044,211)	\$(62,825,377)	\$(198,869,588)	\$23,686,425	\$(175,183,163)

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

For the year ended 31 December 2017

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$(798,222)	\$-	\$(798,222)	\$142,536	\$(655,686)
Revaluation gains on property	308,226	-	308,226	(40,195)	268,031
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	183,172	-	183,172	(31,232)	151,940
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	(1,579,937)	-	(1,579,937)	268,589	(1,311,348)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	(2,957,083)	-	(2,957,083)	216,446	(2,740,637)
Unrealized gains (losses) from available-for-sale financial assets	99,890,917	(46,723,202)	53,167,715	(3,571,882)	49,595,833
Gains (losses) on cash flow hedges	149,883	(135,288)	14,595	(2,482)	12,113
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(1,201,786)	-	(1,201,786)	235,886	(965,900)
Total	<u>\$93,995,170</u>	<u>\$(46,858,490)</u>	<u>\$47,136,680</u>	<u>\$(2,782,334)</u>	<u>\$44,354,346</u>

Upon derecognition of the Group' debt instrument investments at fair value through other comprehensive income, the cumulative gains or losses of in the amount \$11,555,684 thousand for the year ended 31 December 2018 that recognized in other comprehensive income was reclassified to profit or loss.

(27) Income taxes

Based on the amendments to the Income Tax Act announced on 7 February 2018, the Group's applicable corporate income tax rate for the year ended 31 December 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

A. The major components of income tax expense are as follows:

Income tax expense recognized in profit or loss

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Current income tax expense (income):		
Current income tax charge	\$193,142	\$12,375,851
Adjustments in respect of current income tax of prior periods	(50,202)	214,454
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	4,936,456	(12,684,288)
Deferred tax (income) expense relating to origination and reversal of tax loss and tax credit	(3,569,694)	1,065,336
Deferred tax income relating to changes in tax rate or the imposition of new taxes	9,487	-
Other components of deferred tax (income) expense	2,257,329	1,991,040
Total income tax expense	<u>\$3,776,518</u>	<u>\$2,962,393</u>

Income tax relating to components of other comprehensive income

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Current income tax expense:		
Current income tax charge	\$-	\$-
Deferred tax expense (income):		
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	437,466	(268,589)
Exchange difference resulting from translating the financial statements of a foreign operation	(143,104)	(216,446)
Unrealized losses from equity instruments investments measured at fair value through other comprehensive income	(472,186)	(Note)
Unrealized losses from debt instruments investments measured at fair value through other comprehensive income	(13,948,307)	(Note)
Unrealized losses from available-for-sale financial assets	(Note)	3,571,882
Gains (losses) from hedging instruments/Gains (losses) on cash flow hedges	1,611	2,482
Revaluation (losses) gains on property	(46,241)	40,195
Remeasurement of defined benefit plans	3,493	(142,536)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(195,347)	(204,654)
Other comprehensive losses reclassified using overlay approach	(9,323,810)	(Note)
Income tax relating to components of other comprehensive income	<u>\$(23,686,425)</u>	<u>\$2,782,334</u>

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

B. Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Accounting profit before tax from continuing operations	\$55,598,774	\$59,635,617
Tax at the domestic rates applicable to profits in the country concerned	\$22,108,075	\$20,190,291
Tax effect of revenues exempt from taxation	(21,636,759)	(18,502,693)
Tax effect of expenses not deductible for tax purposes	529,678	352,091
Deferred tax assets of unrecognized tax losses	(22,664)	(1,629)
Tax effect of deferred tax assets/liabilities	(47,210)	241,513
10 % surtax on undistributed retained earnings	1,717,850	1,760,706
Tax effect of the rates applicable to profits in the other jurisdictions	52,042	(127,761)
Adjustments in respect of current income tax of prior periods	68,833	211,569
Others	1,006,673	(1,161,694)
Total income tax expense recognized in profit or loss	\$3,776,518	\$2,962,393

C. Deferred tax assets (liabilities) relate to the following:

For the year ended 31 December 2018

	Beginning balance	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Deferred tax income (expense) charged directly to equity	Deferred tax assets (liabilities) acquired in business combinations	Exchange differences	Ending balance
Temporary differences:							
Property, plant and equipment	\$641,782	\$259,123	\$-	\$-	\$-	\$-	\$900,905
Investment property	(21,553,513)	(570,602)	46,242	-	-	8,519	(22,069,354)
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	423,489	-	462,112	(715,565)	-	-	170,036
Gains (losses) on debt instruments at fair value through other comprehensive income	(7,727,132)	6,802	13,948,307	-	-	-	6,227,977
Financial assets at fair value through profit and loss	(2,587,335)	1,230,950	(437,467)	-	-	-	(1,793,852)
Financial assets measured at amortized cost	(151,856)	(15,333)	-	-	-	-	(167,189)
Other financial assets	153	(35)	-	-	-	-	118
Other comprehensive losses reclassified using overlay approach	(7,054,662)	(1,655)	11,479,967	-	-	-	4,423,650
Derivative financial assets for hedging	(41,711)	-	(1,611)	-	-	-	(43,322)
Investments accounted for using the equity method	(765,810)	(308,611)	195,347	(26,636)	-	9,226	(896,484)
Preferential interest rate deposits	98,440	(1,058)	21,767	-	-	-	119,149
Financial liabilities at fair value through profit or loss	154,429	5,352,725	-	-	-	-	5,507,154
Other receivables	(110,841)	(21,385)	-	-	-	-	(132,226)
Decommissioning costs	478	354	-	-	-	-	832
Bad debt losses	836,085	277,231	-	-	-	-	1,113,316
Deferred income tax assets (liabilities) resulted from income or loss on foreign exchange	24,975,622	(8,031,495)	(2,002,730)	(23,301)	-	(1)	14,918,095
Deferred revenue on customer loyalty programs	252,932	23,531	-	-	-	-	276,463
Other payables	74,443	104	-	-	75,680	478	150,705
Defined benefit Liability	(237,553)	(247,246)	(25,509)	-	-	-	(510,308)
Fair value adjustments from business consolidation	(544,049)	(134,632)	-	-	-	-	(678,681)
Deferred tax liabilities from business consolidation	(382,860)	40,314	-	-	-	(10,565)	(353,111)
Refundable deposits	762	8,885	-	-	-	-	9,647
Office supplies	2,262	648	-	-	-	-	2,910
Others	(25,452)	161,357	-	-	116,318	(35)	252,188
Unused tax losses	5,422,333	3,237,874	-	-	(104)	547	8,660,650
Tax effect under consolidated income tax	(2,274,354)	-	-	-	(99,123)	-	(2,373,477)
Deferred income tax expenses (income)		\$1,267,846	\$23,686,425	\$(765,502)	\$92,771	\$8,169	
Deferred income tax assets (liabilities)-net	\$(10,573,918)						\$13,715,791
Reflected in balance sheet as follows:							
Deferred income tax assets	\$32,209,863						\$40,806,934
Deferred income tax liabilities	\$(42,783,781)						\$(27,091,143)

Note: The Group adopted IFRS 9 and IFRS 15 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9 and IFRS 15.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

For the year ended 31 December 2017

	Deferred tax						
	Deferred tax	income (expense)	Deferred tax	Deferred tax			
	income	recognized in	income	assets (liabilities)			
	(expense)	other	(expense)	acquired in			
	Beginning	recognized in	comprehensive	charged directly	business	Exchange	
	balance	profit or loss	income	to equity	combinations	differences	Ending balance
Temporary differences:							
Property, plant and equipment	\$543,711	\$98,721	\$-	\$-	\$-	\$(650)	\$641,782
Investment property	(21,887,362)	371,248	(40,195)	-	-	2,796	(21,553,513)
Financial assets at fair value through profit and loss	(405,806)	(2,654,592)	268,589	-	-	-	(2,791,809)
Available-for-sale financial assets	28,304	(971)	(7,030,537)	-	-	-	(7,003,204)
Derivative financial liabilities for hedging	(39,229)	-	(2,482)	-	-	-	(41,711)
Investments in debt securities with no active market	(119,689)	16,662	-	-	-	-	(103,027)
Investments accounted for using the equity method	600,660	(1,486,144)	204,654	(3)	-	(75,301)	(756,134)
Preferential interest rate deposits	97,932	(10,945)	11,453	-	-	-	98,440
Financial liabilities at fair value through profit or loss	4,539,112	(4,384,683)	-	-	-	-	154,429
Other receivables	(98,918)	(11,923)	-	-	-	-	(110,841)
Decommissioning costs	249	229	-	-	-	-	478
Bad debt losses	577,560	259,794	-	-	-	-	837,354
Deferred income tax assets (liabilities) resulted from income or loss on foreign exchange	2,028,673	19,292,541	3,675,101	-	-	4	24,996,319
Deferred revenue on customer loyalty programs	251,652	1,280	-	-	-	-	252,932
Other payables	108,567	(30,406)	-	-	2,045	(6,971)	73,235
Defined benefit Liability	(98,911)	(269,725)	131,083	-	-	-	(237,553)
Fair value adjustments from business consolidation	(491,811)	(52,238)	-	-	-	-	(544,049)
Deferred tax liabilities from business consolidation	(1,335,556)	869,966	-	-	-	82,730	(382,860)
Refundable deposits	-	762	-	-	-	-	762
Office supplies	2,239	23	-	-	-	-	2,262
Others	(328,165)	11,346	-	-	51,148	(262)	(265,933)
Unused tax losses	6,498,364	(1,074,082)	-	-	(202)	(1,747)	5,422,333
Tax effect under consolidated income tax	(2,104,026)	-	-	-	(170,328)	-	(2,274,354)
Deferred income tax expenses (income)		<u>\$10,946,863</u>	<u>\$(2,782,334)</u>	<u>\$(3)</u>	<u>\$(117,337)</u>	<u>\$599</u>	
Deferred income tax assets (liabilities)-net	<u>\$(11,632,450)</u>						<u>\$(3,584,662)</u>
Reflected in balance sheet as flows:							
Deferred income tax assets	<u>\$14,729,993</u>						<u>\$31,243,778</u>
Deferred income tax liabilities	<u>\$(26,362,443)</u>						<u>\$(34,828,440)</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

D. Unrecognized deferred tax assets

As of 31 December 2018 and 2017, deferred tax assets that have not been recognized amount to \$1,414,243 thousand and \$1,457,494 thousand, respectively.

E. Unrecognized deferred tax liabilities relating to the investment in subsidiaries

The Group did not recognize any deferred tax liability for taxes that would be payable on the unremitted earnings of the Group's overseas subsidiaries, as the Group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As at 31 December 2018 and 2017, the taxable temporary differences associated with investment in subsidiaries, for which deferred tax liabilities have not been recognized, aggregate to \$146,062 thousand and \$144,961 thousand, respectively.

F. Income tax returns:

2018.12.31		
	Income tax returns examined by tax authorities	Notes
The Company	through 2014	-
Cathay Life	through 2014	Cathay Life was in the process of administrative remedy from 2011 to 2012.
Cathay United Bank	through 2014	Cathay United Bank was in the process of administrative remedy from 2011 to 2014.
Cathay Century	through 2014	-
Cathay Securities	through 2014	Cathay Securities was in the process of administrative remedy from 2011 to 2014.
Cathay Venture	through 2014	Cathay Venture was in the process of administrative remedy for 2011.
Cathay Securities Investment Trust	through 2014	-
Cathay Futures	through 2015	-
Cathay Private Equity	through 2017	-

In accordance with Article 49 of the Financial Holding Company Act, the Company elected to file consolidated income tax return along with 10% surtax on undistributed retained earning tax for all subsidiaries being held by the Company over 12 months within a taxable year.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(28) Earnings per share

The Company's earnings per share are calculated as follows:

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company (in thousands) (Note)	\$49,567,319	\$56,182,150
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	12,563,210	12,563,210
Basic earnings per share (in dollars)	\$3.95	\$4.47

Note: Deducted special dividends that have been declared.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of the financial statements.

(29) Risk management for insurance contract

A. Life insurance subsidiaries

Risk management objectives, policies, procedures and methods:

(A) Objectives of risk management

Cathay Life's risk management policy aims to promote operational efficiency, to ensure assets safety, to increase shareholder value, and to comply with any and all applicable laws and regulations for the purpose of steady growth and sustainable management.

(B) Framework of risk management, organization structure and responsibilities

a. Board of directors

- (a) The board of directors should establish appropriate risk management framework and culture, ratify appropriate risk management policy and allocate resources in the most effective manner.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- (b) The board of directors, together with senior management should promote and execute risk management policies and standards. Furthermore, they should keep the policies and standards in line with Cathay Life's operational objective and strategy.
- (c) The board of directors should be aware of the risk arising from daily operations, ensure the effectiveness of risk management and bear the ultimate responsibility for risk management.
- (d) The board of directors should delegate authority to risk management department to deal with violation of risk limits by other departments.

b. Risk management committee

- (a) The committee should develop the risk management policies, framework and organizational function and establish quantitative and qualitative risk management standards. The committee is also responsible for reporting the results of implementing such policies and standards to the board regularly and making necessary suggestions for improvement.
- (b) The committee should execute the risk management decisions set by the board of directors and evaluate the results of developing and executing risk management mechanisms.
- (c) The committee should assist and monitor the risk management activities.
- (d) The committee should adjust the risk category, risk limits and risk taking tendency according to the change of the environment.
- (e) The committee should enhance cross-department interaction and communication.

c. Chief Risk Officer

- (a) The chief risk officer should maintain independence and should not concurrently play a business or financial role nor hold a position in any profit center of Cathay Life.
- (b) The chief risk officer should be able to access any and all information which may have an impact on risk overview of Cathay Life.
- (c) The chief risk officer should be in charge of overall risk management of Cathay Life.
- (d) The chief risk officer should participate in Cathay Life important decision-making process and express opinions from a risk management perspective.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

d. Risk management department

- (a) The department is responsible for monitoring, measuring and evaluating daily risks and should perform its duties independently.
- (b) The department should perform the following functions with regard to different business activities:
 - (i) Propose and execute the risk management policies set by the board of directors.
 - (ii) Suggest the risk limits based on risk appetite
 - (iii) Summarize the risk information provided by all departments, facilitate the execution of the policies and discuss the risk limits with each department
 - (iv) Regularly generate risk management related reports
 - (v) Regularly review all department's risk limits and cope with the violation of such limits
 - (vi) Execute stress testing
 - (vii) Execute back testing if necessary
 - (viii) Manage other risk management related issues

e. Business Units

- (a) Each business unit shall assign a risk management coordinator to assist with the risk management of each business unit.
- (b) The duties of the risk management includes the following:
 - (i) Identify and measure risks and report risk exposure and potential influence against Cathay Life on time
 - (ii) Regularly review the risk limits. Any excess of such limits should be reported along with any actions taken against such excess.
 - (iii) Assist with developing the risk model and to ensure that the risk measurement. The model application and the assumptions behind the model are reasonable and consistent.
 - (iv) Ensure that internal control operates effectively to comply with relevant regulations and Cathay Life's risk management policies
 - (v) Assist in risk management data collection
 - (vi) Be responsible for such department's daily risk management reporting and report issues if necessary
 - (vii) Urge the disclosure of risk management information regularly to the risk management department

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

f. Audit department

The department is required to audit all departments and to figure out the status of risk management policies execution pursuant to the relevant regulations and Cathay Life's risk management policies.

The risk management department formulates risk management standards and policies based on Cathay Life's business nature and needs. Cathay Life provides risk management reports to the risk management department regularly. The reports are compiled by the risk management department and turned in to the risk management committee.

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

Cathay Life's procedures for risk management include risk identification, risk measurement, risk control process and risk management reporting. Cathay Life sets its risk management standards for a broad variety of risks as specified below, i.e. market risk, credit risk, sovereign risk, liquidity risk, operation risk, insurance risk, and assets/liability matching risk as well as for the capital adequacy. Cathay Life also monitors Cathay Life's risks and regularly provides the risk management reports.

a. Market risk

This risk can be defined as the risk of losses in value of Cathay Life's financial assets arising from adverse movements in market prices of financial instruments. The measurement indicators Cathay Life applied is based on value-at-risk (VaR) and is regularly reviewed. In addition, Cathay Life also uses back testing regularly to ensure the accuracy of the market risk model. Furthermore, Cathay Life applies scenario analysis and stress testing to evaluate the changes in the value of certain asset groups due to significant domestic and/or international events. In response to the enforcement of foreign exchange volatility reserve, Cathay Life determines the ceiling of foreign exchange risk, implements early warning system and also monitors the foreign exchange risk regularly.

b. Credit risk

This risk refers to Cathay Life's losses due to the default of debtors or counterparties. The measurements that Cathay Life uses include credit rating, concentration analysis and value-at-risk (VaR). Furthermore, Cathay Life applies scenario analysis and stress testing to evaluate the changes in the value of the asset groups due to significant domestic and/or international events.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

c. Sovereign risk

It means that Cathay Life suffers losses from investment in a specific country as a consequence of market price fluctuation or government's default stemming from local political and/or economic situations. Cathay Life measures the sovereign risk by certain ratio. The ratio could be calculated as follows: the total investment amount in a certain country or specific area divided by total foreign investment amount or net asset. The Company reviews and adjusts the indicator on a regular basis.

d. Liquidity risk

Liquidity risk includes 'funding liquidity risk' and 'market liquidity risk'. The former is the risk of insufficient funding to meet Cathay Life's commitment when due. Cathay Life uses current ratio to measure funding liquidity risk and maintains the ratio below high risk. Operating departments have established funding communication system. The risk management department manages funding liquidity based on the information provided by the operating departments. Furthermore, operating departments have also built up their own cash flow analysis models and monitor the result of the analysis regularly. They also set the annual assets allocation plan to better maintain the liquidity of funding. 'Market liquidity risk' occurs when drastic change of market price is triggered by market turmoil or lack of market depth. All investment departments have evaluated the market trading volumes and adequacy of holding positions based on the characteristics and objectives of current investment portfolio.

e. Operating risk

This risk occurs when there are errors caused by internal processes, employees, system breakdowns or external issues such as the legislative risk; however, the strategic risk and the reputation risk are excluded. Cathay Life has set the standard operating procedure based on the nature of the operations and established losses reporting system as well to collect and manage information with respect to losses resulting from operational risk. To maintain Cathay Life's operation and ability to provide customer services while minimizing the losses under emergency events, Cathay Life has established emergency handling mechanism and information system damage preparedness.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

f. Insurance risk

Cathay Life assumes that certain risks transfer from policy holders to Cathay Life after collecting premiums from policy holders and, as a result, Cathay Life may bear a loss for paying a claim due to unexpected changes. This risk generally happens because of the policy design, pricing risk, underwriting risk, reinsurance risk, catastrophe risk, claim risk and reserve-related risk.

g. Asset and liability matching risk

It happens when the changes in the value of assets and liabilities are not equal. Cathay Life measures the risk with capital costs, duration, cash flow management and scenario analysis.

h. Risk-based capital (RBC) ratio

The RBC ratio regulated under the Insurance Act and the Regulations Governing Capital Adequacy of Insurance Companies is the total capital of Cathay Life divided by Cathay Life's risk-based capital. Cathay Life regards such ratio as an indicator for capital adequacy.

(D) The process of assuming, measuring, monitoring and controlling risks and the way to determine a proper risk classification, a premium level and underwriting policies

a. The process of assuming, measuring, monitoring and controlling risks:

- (a) Promulgate Cathay Life's risk management standards including the definitions and range of risks, management structure, risk management indexes and other risk management measures.
- (b) Establish methods to evaluate insurance risks.
- (c) Regularly provide the insurance risk management report to be reviewed by the risk management committee and as a reference to developing insurance risk management strategies.
- (d) Regularly summarize the results of implementing risk management policies and report to the risk management committee. When an exceptional risk event occurs, the affected departments should propose possible solutions to the risk management committee in Cathay Life and that in the Company.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- b. The way to determine a proper risk classification, a premium level and underwriting policies:
 - (a) Underwriters should, at all times, comply with certain relevant rules of financial underwriting which includes checking insurance notification database for exceptional cases and consider the amount insured, type of insurance, age, family status, reason for insurance, employment status, financial situation etc. to determine whether an insurance policy is suitable and affordable for the potential policyholder.
 - (b) Cathay Life has an underwriting team dealing with controversial cases with regard to new contracts and changes of the terms and conditions and having the right to interpret relevant underwriting standards.
 - (c) Cathay Life has a special panel for major insurance projects to enhance risk management over such projects and avoid adverse selection and moral hazard.
- (E) The scope of insurance risk assessment and management from a company-wise perspective
 - a. Insurance risk assessment covers the following topics:
 - (a) Product design and pricing risk: This risk arises from improper design of products, terms and conditions and pricing attributable to using the unsuitable and/or inconsistent information and/or facing unexpected changes.
 - (b) Underwriting risk: Unexpected losses arise from soliciting business, underwriting activities and approval, other expenditure activities, etc.
 - (c) Reinsurance risk: This risk occurs when a company fails to reinsure the excess risk or a reinsurer fails to fulfill its responsibility that results in losses in premium, claims or non-reimbursed expenses.
 - (d) Catastrophe risk: This risk arises from accidents which lead to considerable losses in one or more categories of insurance and the aggregate amount of such losses is huge enough to affect Cathay Life's credit rating and solvency.
 - (e) Claim risk: This risk arises from mishandling claims.
 - (f) Risk of insufficient reserve: It happens when Cathay Life does not have sufficient reserves to fulfill its obligations owing to underestimating its liabilities.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- b. The scope of management of insurance risk
 - (a) Build up a top-down framework of Cathay Life's insurance risk management and empower relevant parties to execute risk management.
 - (b) Establish Cathay Life's insurance risk management standards including the definitions and types of risks, management of the structure, risk management indexes and other risk management measures.
 - (c) Develop action plans in consideration of Cathay Life's growth strategy and the global financial environment.
 - (d) Determine methods to measure insurance risks.
 - (e) Regularly provide insurance risk management report for supervision and as a reference to initiate insurance management strategy.
 - (f) Manage other risk management issues.
- (F) The method to limit or transfer insurance risk exposure and to avoid inappropriate concentration risk

The method that Cathay Life mainly uses to limit or transfer insurance risk exposure and to avoid inappropriate concentration risk is the reinsurance management plan which is made considering Cathay Life's risk profiling and risk taking ability, legal issues and technical factors. In order to maintain safety of risk transfer and to control the risk of reinsurance transactions, Cathay Life has established reinsurer selection standards.

(G) Asset/liability management

- a. Cathay Life has an asset/liability management committee to establish management structure, to ensure full application of the management policy, to integrate human capital and resources, to review the strategy and practice regularly and, furthermore, to reduce all types of risks.
- b. Authorized departments will review the measurement of asset/liability management regularly and report to the asset/liability management committee regularly; following that, the results will be sent to the risk management committee of Cathay Life. Furthermore, the annual report should be delivered to the risk management committee of the Company.
- c. When an exceptional situation occurs, the affected departments should propose possible solutions to the asset/liability management committee, the risk management committee in Cathay Life and that in the Company.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- (H) The procedure to manage, monitor and control a special event which results in extra liability to be taken or extra owner equity to be committed

Pursuant to the applicable laws and regulations, Cathay Life is required to maintain a certain Risk-based capital (RBC) ratio. In order to enhance Cathay Life's capital management and to comply with such RBC ratio, Cathay Life has established a set of capital adequacy management standards as follows:

a. Capital adequacy management

- (a) Regularly provide capital adequacy management reports and analysis to the finance department of the Company.
- (b) Regularly provide the risk management committee the capital adequacy management analysis report.
- (c) Conduct scenario analysis to figure out how the use of funding, the changes of the financial environment or the amendments of applicable laws and regulations can affect RBC ratio.
- (d) Regularly review RBC ratio and related control standards to ensure a solid capital adequacy management.

b. Exception management process

When RBC ratio exceeds the standard given or other exceptions occur, Cathay Life is required to notify the risk management department and finance department of the Company together with the capital adequacy analysis report and possible solution(s).

(I) Risk mitigation and avoidance policies and risk monitoring procedures

- a. Cathay Life enters into derivative transactions to reduce market risk and credit risk of the assets. The derivative contracts such as stock index options, index futures, interest rate futures, interest rate swaps, currency forwards, cross currency swaps and credit default swaps are applied to hedge risks arising from investments, such as equity risk, interest rate risk, cash flow risk, foreign exchange risk and credit risk; however, the derivatives not qualified for hedge accounting are measured at fair value through profit or loss.
- b. Hedging instrument against business risks and implementation are made preliminarily based on the risk tolerance levels. Cathay Life executes hedge and exercises authorized financial instruments to adjust the overall risk level to the tolerance levels based on the market dynamics, business strategies, the characteristics of products and risk management policies.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- c. Cathay Life assesses and reviews the effectiveness of the hedge instruments and hedged items regularly. The assessment report is issued and forwarded to the management which is delegated by board of directors; meanwhile, a copy of the assessment report is delivered to the audit department for future reference.

(J) The policies and procedures against the concentration of credit and investment risks

Credit and investment limits to a group of companies are set by Cathay Life. When such limits have been reached or breached as a result of any increase of the credit line or investment, Cathay Life shall not grant a loan or make investment to such group in general. However, if there is any individual reason to require Cathay Life to undertake it. It should be handled in accordance with the “National Risk Management Guideliness”, “Code for Risk Investment Risk Limits” and “Administrative Measures for Credits and Investment Risks of Group Enterprises and Other Legal Persons” of Cathay Life

Information of insurance risk

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

a. Cathay Life

For the years ended 31 December 2018			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 2,706,747	Decrease (increase) 2,165,397
Expense	×1.05 (×0.95)	Decrease (increase) 2,909,035	Decrease (increase) 2,327,228
Surrender rates	×1.05 (×0.95)	Increase (decrease) 455,191	Increase (decrease) 363,153
Rate of return	+0.1%	Increase 5,289,255	Increase 4,231,404
Rate of return	-0.1%	Decrease 5,294,445	Decrease 4,235,556

For the years ended 31 December 2017			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 2,495,441	Decrease (increase) 2,071,216
Expense	×1.05 (×0.95)	Decrease (increase) 2,851,307	Decrease (increase) 2,366,585
Surrender rates	×1.05 (×0.95)	Increase (decrease) 398,387	Increase (decrease) 330,661
Rate of return	+0.1%	Increase 4,931,527	Increase 4,093,167
Rate of return	-0.1%	Decrease 4,936,362	Decrease 4,097,180

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Cathay Lujiazui Life

For the years ended 31 December 2018			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.10 (×0.90)	Decrease (increase) 156,537	Decrease (increase) 117,402
Expense	×1.05 (×0.95)	Decrease (increase) 81,505	Decrease (increase) 61,128
Surrender rates	×1.10 (×0.90)	Increase (decrease) 103,360	Increase (decrease) 77,520
Rate of return	+0.25%	Increase 569,098	Increase 426,824
Rate of return	-0.25%	Decrease 624,721	Decrease 468,541

For the years ended 31 December 2017			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.10 (×0.90)	Decrease (increase) 151,823	Decrease (increase) 113,867
Expense	×1.05 (×0.95)	Decrease (increase) 74,890	Decrease (increase) 56,167
Surrender rates	×1.10 (×0.90)	Increase (decrease) 111,057	Increase (decrease) 83,534
Rate of return	+0.25%	Increase 286,846	Increase 215,135
Rate of return	-0.25%	Decrease 314,238	Decrease 235,679

c. Cathay Life (Vietnam)

For the years ended 31 December 2018			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 742	Decrease (increase) 594
Expense	×1.05 (×0.95)	Decrease (increase) 33,710	Decrease (increase) 26,968
Surrender rates	×1.05 (×0.95)	Increase (decrease) 7,768	Increase (decrease) 6,214
Rate of return	+0.1%	Increase 9,699	Increase 7,759
Rate of return	-0.1%	Decrease 9,709	Decrease 7,767

For the years ended 31 December 2017			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 480	Decrease (increase) 384
Expense	×1.05 (×0.95)	Decrease (increase) 23,538	Decrease (increase) 18,830
Surrender rates	×1.05 (×0.95)	Increase (decrease) 4,570	Increase (decrease) 3,656
Rate of return	+0.1%	Increase 6,346	Increase 5,077
Rate of return	-0.1%	Decrease 6,352	Decrease 5,082

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- (a) Changes in income before tax listed above refer to the effects of income before tax arising from the assumption for the years ended 31 December 2018 and 2017. The influence on equities of Cathay Life, Cathay Lujiazui Life and Cathay Life (Vietnam) is assumed that the income tax is calculated on pre-tax income at rates of 20% (17% for the period ended 31 December 2017), 25% and 20% individually.
- (b) An increase (decrease) of 0.1% on discount rate applied to liability adequacy test has no impact on income before tax and equity. The result of the test shows Cathay Life's adequacy. However, if the discount rate keeps declining significantly, income before tax and equity will probably be affected.
- (c) Sensitivity Test
 - (i) Mortality/Morbidity test is executed by multiplying mortality, morbidity and the occurrence rate of injury insurance by the changes of assumptions and results in the corresponding changes in income before tax.
 - (ii) Expense sensitivity is executed by multiplying all expense items listed in statements of comprehensive income (Note 1) by the changes of assumptions and results in the corresponding changes in income before tax.
 - (iii) Surrender rate sensitivity test is executed by multiplying surrender rate by the changes of assumptions and results in the corresponding changes in income before tax.
 - (iv) The rate of returns sensitivity test is executed by multiplying the rate of returns (Note 2) increases (decreases) by the changes of assumptions and results in the corresponding changes in income before tax.

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

Note 2: The rate of returns is measured by $2 \times (\text{net profits or losses on investment} - \text{finance costs}) / (\text{the beginning balance of usable capital} + \text{the ending balance of usable capital} - \text{net profits or losses on investment} + \text{finance costs})$ and it needs to be annualized.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(B) Interpretation of concentration of insurance risks

Cathay Life's insurance business is mainly engaged in Taiwan, the Republic of China. All the insurance policies have similar risks of exposure, for example, the exposure of the unexpected changes in trend (e.g. mortality, morbidity, and lapse rate), the exposure of multiple insurance contracts caused by single specific event (e.g. the simultaneous exposures of life insurance, health insurance, and accidental insurance caused by one earthquake). Cathay Life reduces the risk of exposure not only by monitoring risks consistently, but also by arranging reinsurance contracts.

Cathay Life evaluates the retention amount according to factors like risk features, the capability of assuming risk and so on, that approved by competent authority. For the excess of retention amount, Cathay Life cedes this portion of amounts to reinsurers. At the same time, Cathay Life takes the possibility of unexpected man-made and natural disasters into account periodically and estimates the reasonable maximum amount of losses from retained risks. Cathay Life determines whether it is necessary to adjust the reinsured amount or catastrophe reinsurance according to the range of losses. Hence, the insurance risk to some extent has been diversified to reduce the potential impact on unexpected losses.

Furthermore, according to "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises", the annual increase of after-tax amount of special capital reserve for major incidents and fluctuation of risks for the abnormal changes of the loss ratio of each type of insurance and claims need to be recognized and recorded in special capital reserve of equity in accordance with IAS 12.

(C) Claim development trend

a. Cathay Life

(a) Direct business development trend

Accident year	Development year							Unreported claim	Reserve for unreported claim
	1	2	3	4	5	6	7		
2012	15,166,460	18,319,737	18,627,566	18,692,848	18,738,263	18,771,322	18,800,554	-	-
2013	14,442,425	17,662,901	17,964,940	18,028,018	18,069,018	18,097,513	18,125,787	28,274	28,330
2014	14,671,864	17,805,516	18,119,932	18,201,745	18,198,744	18,228,449	18,257,576	58,832	58,950
2015	15,353,566	18,647,560	18,975,168	19,056,336	19,099,986	19,131,168	19,161,792	105,456	105,667
2016	15,940,308	19,566,897	19,885,388	19,962,924	20,008,065	20,040,758	20,072,953	187,565	187,940
2017	17,297,974	21,370,270	21,723,236	21,807,561	21,858,682	21,895,032	21,930,440	560,170	561,290
2018	19,438,330	23,694,177	24,092,183	24,189,860	24,251,512	24,293,282	24,332,373	4,894,043	4,903,831

Expected future payment	\$5,846,008
Add: Assumed reserve for incurred but not reported claim	60,801
Reserve for unreported claim	5,906,809
Add: Reported but not paid claim	2,624,761
Claims reserve balance	<u>\$8,531,570</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(b) Retained business development trend

Accident year	Development year							Unreported claim	Reserve for unreported claim
	1	2	3	4	5	6	7		
2012	15,309,599	18,511,432	18,822,965	18,889,412	18,935,309	18,968,733	18,998,438	-	-
2013	14,552,889	17,819,664	18,127,219	18,191,122	18,232,660	18,261,664	18,290,295	28,631	28,688
2014	14,772,070	17,947,230	18,265,698	18,348,342	18,346,033	18,376,107	18,405,584	59,551	59,670
2015	15,474,235	18,809,508	19,140,593	19,222,948	19,267,154	19,298,734	19,329,738	106,790	107,004
2016	16,051,766	19,702,389	20,024,753	20,103,113	20,148,713	20,181,729	20,214,232	189,479	189,858
2017	17,425,760	21,529,927	21,887,079	21,972,384	22,024,060	22,060,811	22,096,599	566,672	567,806
2018	19,559,153	23,857,225	24,259,844	24,358,635	24,421,004	24,463,393	24,503,048	4,943,895	4,953,783

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

Expected future payment	\$5,906,809
Add: Reported but not paid claim	2,615,968
Retained claims reserve balance	<u>\$8,522,777</u>

In accordance with Letter Jin-Guan-Bao-Shou-Zi No.10402133590 issued on 22 December 2015 issued by the FSC, Cathay Life recognizes reserve for claims by aggregating reserve for unreported claim and reported but not paid claim. Reserve for unreported claim is determined based on reported claim and adjusted to related expenses; reported but not paid claim is reserved on a case by case basis. Due to uncertainty, estimation, and judgment involved in recognition, there is a high degree of complexity in reserving for claim. Any changes of the estimation or judgment are treated as the changes of the accounting estimates and can be recognized as profit and loss in current year. Some claims are delayed in notifying Cathay Life. Also, the expected payment for unreported claims involves major subjective judgment and estimation on the past experiences. Thus, uncertainty exists that the estimated claims reserve for claim payments on the balance sheet date will not be equal to the final settled amount of claim payments. The claims reserve recorded on the book is estimated based upon the currently available information. However, the final amount probably will deviate from the original estimates because of the follow-up developments of the claim events.

The chart above has shown the development trend of claim payments. The event year is the actual year for the occurrence of the insurance claim events; The x-axis is the year of the development for the settlement cases; the dollar amount showing above the diagonal line represents the settlement cases in that specific event year with the corresponding accumulated dollar amounts has been paid in the end of the year; the dollar amount shown below the diagonal line represents the accumulated estimated dollar amounts need to be paid for each event year as time passes. It is possible that the circumstances and trends affecting dollar amount of recognition for the claims reserve in current year will be different from that in the future. Thus, the expected future payment amount for the settlement cases cannot be determined by this chart.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Cathay Lujiazui Life

(a) Direct business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2012	231,615	428,631	454,238	454,238	469,620	469,620	469,620	-
2013	246,693	481,780	520,694	524,656	524,656	524,656	524,656	-
2014	364,744	586,350	623,110	632,719	632,719	632,719	632,719	-
2015	214,071	400,659	428,788	632,719	632,719	632,719	632,719	-
2016	254,022	435,905	428,788	447,781	447,781	447,781	447,781	18,993
2017	261,339	435,905	458,752	488,043	488,043	488,043	488,042	52,137
2018	261,339	460,232	484,354	533,765	533,765	533,765	533,765	272,426

Expected future payment	\$343,556
Less: Expected reported but not paid claim	(5,301)
Reserve for unreported claim	338,255
Add: Reported but not paid claim	29,251
Claims reserve balance	<u>\$367,506</u>

(b) Retained business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2012	227,537	428,281	454,238	454,238	461,150	461,150	461,150	-
2013	241,145	480,560	520,673	524,635	461,150	461,150	461,150	-
2014	309,727	577,815	614,534	624,140	624,140	624,140	624,140	-
2015	191,845	378,017	406,124	624,140	624,140	624,140	624,140	-
2016	251,459	432,967	406,124	423,438	423,438	423,438	423,438	17,314
2017	249,315	432,967	452,574	484,025	484,025	484,025	484,025	51,058
2018	249,315	462,792	483,750	510,783	510,783	510,783	510,783	261,468

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

Expected future payment	\$329,840
Less: Expected reported but not paid claim	(5,301)
Add: Reported but not paid claim	29,251
Retained claims reserve balance	<u>\$353,790</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Cathay Lujiazui Life recognize claims reserve for reported claims (reported but not paid) and unreported claims (incurred but not reported). Due to uncertainty, estimation, and judgment involved in recognition, there is a high degree of complexity in reserving for claim. Any changes of the estimation or judgment are treated as the changes of the accounting estimates and can be recognized as profit and loss in current year. Some claims are delayed in notifying Cathay Life and Cathay Lujiazui Life. Also, the expected payment for unreported claims involves major subjective judgment and estimation on the past experiences. Thus, uncertainty exists that the estimated claims reserve for claim payments on the balance sheet date will not be equal to the final settled amount of claim payments. The claims reserve recorded on the book is estimated based upon the currently available information. However, the final amount probably will deviate from the original estimates because of the follow-up developments of the claim events.

The chart above shows the development trend of claim payments. The event year is the actual year for the occurrence of the insurance claim events; The x-axis is the year of the development for the settlement cases; the dollar amount shown above the diagonal line represents the settlement cases in that specific event year with the corresponding accumulated dollar amounts that have been paid in the end of the year; the dollar amount shown below the diagonal line represents the accumulated estimated dollar amounts needed to be paid for each event year as time passes. It is possible that the circumstances and trends affecting dollar amount of recognition for the claims reserve in current year will be different from that in the future. Thus, the expected future payment amount for the settlement cases cannot be determined by this chart.

c. Cathay life (Vietnam)

Direct business development trend (and retained business development trend)

Accident year	Development year				
	1	2	3	4	5
2014	625	681	681	683	683
2015	1,375	1,608	1,608	1,608	1,608
2016	2,130	2,559	2,559	2,561	2,561
2017	14,879	18,084	18,084	18,094	18,094
2018	85,893	104,367	104,367	104,423	104,423

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

The chart above has shown the development trend of claim payments. The event year is the actual year for the occurrence of the insurance claim events; The x-axis is the year of the development for the settlement cases; the dollar amount shown above the diagonal line represents the settlement cases in that specific event year with the corresponding accumulated dollar amounts has been paid in the end of the year; the dollar amount shown below the diagonal line represents the accumulated estimated dollar amounts that need to be paid for each event year as time passes.

Cathay Life (Vietnam) recognizes claims reserve for reported claims (reported but not paid) and unreported claims (incurred but not reported). The estimation method of unreported claims is earned premium multiplied by the loss ratio based upon the past loss experiences instead of loss triangle method, which was approved by the Vietnam local authorities. Thus, the expected future payment amount for the settlement cases cannot be determined by this chart. Also, the expected payment for unreported claims involves major subjective judgment and estimation on the past experiences. Thus, uncertainty exists that the estimated claims reserve for claim payments on the balance sheet date will not be equal to the final settled amount of claim payments.

Credit risk, liquidity risk, and market risk for insurance contracts

(a) Credit risk

This risk represents Cathay Life's financial loss due to the default of reinsurers; therefore, may cause impairment of reinsurance assets.

Due to the nature of reinsurance market and the regulations on qualified reinsurers, the insurers in Taiwan sustain certain degree of concentration of credit risk in reinsurers. To reduce this risk, Cathay Life chooses the reinsurance counterparty, reviews its credit rating periodically, monitors and controls the risk of reinsurance transactions properly in accordance with Cathay Life's "Reinsurance Risk Management Plan" and "Evaluation Standards for Reinsurers."

The unqualified reinsurer of the Cathay Life' 2018 reinsurance counterparty that did not meet the statutory standards was Trust International Insurance & Reinsurance Company BSC (c) Trust Re. The reinsurer's credit rating was withdrawn by AM Best, a credit rating agency, on 5 December 2018 and became an unqualified reinsurer. The following matters were disclosed in accordance with the "Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms" and the "Regulations Governing the Provision of Unqualified Reinsurance Reserves for Insurance Company".

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Summary of the unqualified reinsurance contract and reinsurance expenses:

Reinsurance contract types	Individual insurance	Group insurance	Catastrophe
Insurance types	Individual life insurance	Life insurance and injury insurance	Life insurance, injury insurance and health insurance
2018 annual reinsurance expenses	\$583	\$599	\$416

The unqualified reinsurance contract was terminated on 31 December 2018.

Unqualified reinsurance reserve amount and its component items:

	2018.12.31
Ceded unearned premium reserve	\$-
Ceded reported but unpaid claims reserve	-
Claims recoverable from reinsurers	-
Total	\$-

(b) Liquidity risk

The chart below is the analysis (undiscounted) of insurance contracts and net cash flows of liabilities of financial instruments with discretionary participation features. The figures shown in this chart are the total insurance payments and expenses of valid insurance contracts at specific times in the future on the balance sheet date. The actual future payment amounts will not be the same as expected due to the differences between the actual and expected experiences.

	Unit: NT \$ 100 million		
	Insurance contracts and financial instruments with discretionary participation features		
	Within 1 year	1 to 5 years	Over 5 years
2018.12.31	\$(1,095)	\$1,993	\$175,216
2017.12.31	(1,082)	474	171,163

Note: Separate account products are not included.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(c) Market risk

When Cathay Life measures insurance liabilities, the discounted rate required by the regulator is applied. The regulator reviews the discount rate assumption which has been used for reserves periodically. However, the discount rate assumption does not move at the same time in the same direction with the market price and interest rate, and is only applied to new businesses. Thus, those possible variables in market risk to Cathay Life's valid insurance contracts have slight impact on profit and loss or equity. When the regulator changes the discount rate assumption possibly and reasonably, this change will have the impact of different range on profit and loss or equity depending upon the level of change it has been made and the overall company product portfolio. Furthermore, the reasonably possible change on the market risk will probably have impact on the future cash flows of insurance contracts and financial instruments with discretionary participation features, which are estimated based on information available at the balance sheet date and are used for assessing the adequacy of recognized insurance liabilities via adequacy test. Based upon the reasonably possible changes of current market risk, it has little impact on the adequacy of current recognized insurance liabilities.

B. Property and casualty insurance subsidiaries

The objectives, policies, procedures and methods of risk management:

(A) The framework, organization, and responsibility of risk management:

a. Board of directors

- (a) To recognize various risks associated with insurance business, assure effectiveness of risk management and take ultimate responsibility for risk management as a whole.
- (b) To establish appropriate mechanism and culture for risk management, ratify appropriate risk management policies and optimize resource allocation.
- (c) To consider the aggregate effect of various risks from the perspective of Cathay Century as a whole, take into account the regulatory capital requirements from the competent authority and other related capital allocation regulations regarding finance and business.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Risk Management Committee

- (a) To formulate risk management policies, frameworks, and organizations; to build quantitative and qualitative management standards, regularly report to board of directors, reflect timely the execution of risk management and propose necessary steps for improvement.
- (b) To execute risk management decisions from board of directors and review development, establishment and effectiveness of risk management mechanism for Cathay Century as a whole on a regular basis.
- (c) To assist and supervise various departments in risk management activities.
- (d) To adjust risk category, allotment, and attribution in response to changes in the environment.
- (e) To coordinate the interaction and communication of risk management function across departments.

c. Chief Risk Officer

The appointment and removal of the chief risk officer need to be resolved by the board of directors. The chief risk officer should work independently and cannot concurrently serve on business unit and financial unit. He or she has the rights to acquire any information that could have impact on Cathay Century's risk outline.

- (a) To manage Cathay Century's overall risk management.
- (b) To participate in the discussion of important company policies and to deliver appropriate recommendations from risk management viewpoint.

d. Risk management department

Risk management department is established independent of sales function to take charge of tasks such as the supervision and evaluation of various major risks.

Responsibility of risk management division:

- (a) To assist in drafting risk management policies and the execution when ratified by the board of directors.
- (b) To assist in setting up risk limits according to the risk appetite.
- (c) To compile risk information from various departments, coordinate and communicate with them to execute policies and limits.
- (d) To propose risk management related reports on a regular basis.
- (e) To supervise risk limit and its use in each business unit on a regular basis.
- (f) To assist in stress tests and conduct back-testing when necessary.
- (g) To conduct other risk management related tasks.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

e. Business unit

(a) The responsibilities of business's risk management are as follows:

- (i) To supervise the daily risk management and report of the responsible unit and take necessary responsive actions.
- (ii) To oversee the sharing of risk management information to risk management on a regular basis.

(b) The business unit's responsibilities for risk management are as follows:

- (i) To identify risk and report risk exposure.
- (ii) To evaluate the degree of influence (quantitative or qualitative) when risks occur and pass the risk information in a timely and correct manner.
- (iii) To review each risk item and its limit on a regular basis to insure the effective execution of risk limit within business unit.
- (iv) To oversee risk exposure and report when over-limit occur, including measures taken against it.
- (v) To assist in development of risk model to insure the evaluation of risk, use of model, and its assumption are conducted on a reasonable basis and is consistent with actual practice.
- (vi) To assure effective execution of internal control within business unit to comply with relevant regulations and risk management policies of Cathay Century.
- (vii) To assist in collecting information regarding operation risk.

f. Internal audit room

Audit the execution of risk management of each unit in Cathay Century according to the existing relevant regulations.

(B) Scope and nature of risk reporting and evaluation system of property insurance

a. Risks reporting

- (a) Each business unit within Cathay Century and its subsidiaries should pass risk information to risk management unit for overseeing purpose, and propose over-limit report and responding measures when risk exposure is over limit.
- (b) Risk management unit compiles risk information from each department, examine and track the use of major risk limit, submit a monthly risk management report to the general manager, and make quarterly report to the risk management committee and board of director to oversee risks on a regular basis.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Scope and nature of risk evaluation system

The risk management unit of Cathay Century and its subsidiaries, and the Company collaborate in building market risk management system. The structure will consider functionality, source of information, completeness of uploaded information, and the safety of the environment in which the system operates. Function-wise, risk management system focuses on the need of middle office to quantify risk, and it would only be authorized to risk management personnel.

- (C) Processes to undertake, evaluate, supervise and control insurance risk of property insurance business. Policy in underwriting to assure proper risk categorization and fee standard.

In Cathay Century and its subsidiaries, risk management department takes responsibilities in monitoring risks, integrate insurance risk of Cathay Century as a whole, and set up risk indicators, risk limit, and managing mechanism. Each related department is the execution unit of insurance risk control. They report execution process to risk management department every month based on regulation, internal rules, and professional knowledge and experience of their respective field. Risk management department then propose insurance risk management report to risk management committee and the board of directors each quarter.

- (D) Evaluate risk from the perspective of enterprise as a whole and the scope in managing insurance risk

Scope of insurance risk management of Cathay Century and its subsidiaries includes product design and pricing, underwriting, reinsurance, risks related to catastrophe, claim, and provision. Proper management mechanisms are set up and execute thoroughly.

- (E) Methods with which property insurance business limit insurance risk exposure and improper risk concentration

Before a business is introduced, the underwriting personnel will evaluate the quality of the business based on the underwriting guideline of each insurance to decide whether to undertake the business. Risk is properly avoided and controlled to reduce exposure.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

In addition, as Cathay Century and its subsidiaries undertakes reinsurance business, risk management mechanism is set up in accordance with “Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms” and the ability to undertake risk is taken into account for the establishment of re-insurance risk management plan which execution is based upon. Accumulated risk with the portfolio of direct written premiums and other inward-insurance business is conducted before an individual case of outward/inward reinsurance is executed. When the cumulative insurance amount exceeds contract limit or self-retain limit, risk is diversified through facultative reinsurance.

According to Cathay Century’s and its subsidiaries’ risk management mechanism for reinsurance business, the maximum for the retained risk per risk unit is calculated as 10% of the summary amount of stockholder’s equities and special reserves (excluding compulsory automobile insurance). The following table summarizes the underlying retention for each risk unit by types of insurance:

Items	2018	2017
Fire insurance	NT\$1,233,000	NT\$1,105,000
Marine insurance	NT\$1,233,000	NT\$1,105,000
Engineering insurance	NT\$1,233,000	NT\$1,105,000
Other property insurance	NT\$1,233,000	NT\$1,105,000
Automobile insurance	NT\$1,233,000	NT\$1,105,000
Health and injury insurance	NT\$1,233,000	NT\$1,105,000

(F) Methods of asset/liability management

Provisions are evaluated on a regular basis based on Cathay Century and its subsidiaries’ business characteristics to insure fund allocation and the liquidity of asset investment is sufficient to meet possible future claims. Cash flow management with comprehensive consideration of the amount of fund required and its timeline of every department is conducted through fund procurement department, which is independent of trading unit.

Operation standards under crisis are set up in accordance with the “Directions for Handling Financial Institute Crisis” issued by Financial Supervision Commission. When a tremendous sum of fund is lost or liquidity is severely compromised, the operation crisis team will be set up immediately to evaluate the impact on fund liquidity of Cathay Century cautiously and assess the amount, timeline, and benefit of making up the funding gap so as to assure rights of clients and Cathay Century.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- (G) Management, supervision and control process when additional liability or commitment to equity contribution is required for the property insurance business Cathay Century and its subsidiaries has established a management mechanism for capital adequacy, which includes capital adequacy indicators for regular review. Capital adequacy will be measured quarterly and every six month a capital adequacy management report will be compiled to implement capital adequacy management.

If capital adequacy ratio exceeds control standard (risk limit) or in the case of unusual events, related departments will meet together to study counter-measures and report to the Company to review the impact on the group's capital adequacy ratio.

Receivables and payables of insurance contracts

(A) Receivables of insurance contracts

Items	Premiums receivable (Note)	
	2018.12.31	2017.12.31
Fire insurance	\$683,291	\$751,065
Marine insurance	280,529	231,980
Land and air insurance	161,746	130,372
Liability insurance	209,834	251,238
Bonding insurance	30,796	22,206
Other property insurance	253,298	202,333
Accident insurance	113,629	118,032
Health insurance	7,979	6,159
Compulsory automobile liability insurance	19,090	14,866
Total	1,760,192	1,728,251
Less: Loss allowance	(74,252)	(62,742)
Net amount	\$1,685,940	\$1,665,509

Cathay Century and its subsidiaries ageing analysis of receivable:

	2018.12.31	2017.12.31
≤ 90 days	\$1,533,285	\$1,530,976
> 90 days	226,907	197,275
Total	\$1,760,192	\$1,728,251

Note: As of 31 December 2018 and 31 December 2017, the receivables included overdue receivables amounting to \$226,131 thousand and \$197,203 thousand, respectively; and the allowance for bad debts amounting to \$58,942 thousand, and \$47,475 thousand, respectively.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(B) Claims recoverable from reinsurers for policyholder with reported and paid off claims

Items	Claims reported and paid off	
	2018.12.31	2017.12.31
Fire insurance	\$44,225	\$18,931
Marine insurance	12,631	25,499
Land and air insurance	46,598	41,553
Liability insurance	53,431	33,210
Bonding insurance	188	305
Other property insurance	19,525	18,812
Accident insurance	18,497	15,473
Health insurance	-	-
Compulsory automobile liability insurance	154,031	391,512
Total	349,126	545,295
Less: Loss allowance	(3,491)	(5,453)
Net amount	\$345,635	\$539,842

(C) Payables of insurance contract

Items	2018.12.31		
	Commission payables	Other payables	Total
Fire insurance	\$24,649	\$12,551	\$37,200
Marine insurance	7,297	16,492	23,789
Land and air insurance	26,313	91,261	117,574
Liability insurance	12,332	23,479	35,811
Bonding insurance	3,787	491	4,278
Other property insurance	4,734	12,983	17,717
Accident insurance	8,661	28,501	37,162
Health insurance	2,590	2,564	5,154
Compulsory automobile liability insurance	24,817	-	24,817
Total	\$115,180	\$188,322	\$303,502

Items	2017.12.31		
	Commission payables	Other payables	Total
Fire insurance	\$21,904	\$11,967	\$33,871
Marine insurance	6,148	12,585	18,733
Land and air insurance	28,889	85,161	114,050
Liability insurance	12,574	21,819	34,393
Bonding insurance	3,243	441	3,684
Other property insurance	3,375	10,166	13,541
Accident insurance	11,582	25,716	37,298
Health insurance	2,475	1,850	4,325
Compulsory automobile liability insurance	26,560	-	26,560
Total	\$116,750	\$169,705	\$286,455

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(D) Due from (to) reinsurers and ceding companies- reinsurance

Items	2018.12.31	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C.	\$135,160	\$351,019
AON	29,292	65,670
Cathay (China)	36,346	796
Central Re	6,555	78,273
EverApex	859	78,547
FP Marine Risks	33,838	8,187
Guy Carpenter	33,344	18,508
Marsh	12,879	225,517
Willis	32,241	45,542
Others	145,710	627,165
Total	466,224	1,499,224
Less: Loss allowance	(17,818)	-
Net amount	\$448,406	\$1,499,224

Items	2017.12.31	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C.	\$134,595	\$324,393
AON	39,290	55,471
Central Re	10,052	81,312
Guy Carpenter	82,142	4,816
Marsh	9,226	232,780
Others	325,864	645,080
Total	601,169	1,343,852
Less: Loss allowance	(28,716)	-
Net amount	\$572,453	\$1,343,852

Notes: As of 31 December 2018 and 31 December 2017, the due from reinsurers and ceding companies included overdue receivables amounting to \$13,169 thousand and \$22,912 thousand, respectively; and the allowance for bad debts amounting to \$13,169 thousand and \$22,912 thousand, respectively.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Information of management achievements

(A) Acquisition cost for insurance contracts

2018.1.1~2018.12.31					
Items	Commission		Reinsurance commission		Total
	expense	Surcharge	expense	Other cost	
Fire insurance	\$177,507	\$9,230	\$72,638	\$13,253	\$272,628
Marine insurance	65,878	1,116	9,376	1,345	77,715
Land and air insurance	1,006,097	1	662	382,851	1,389,611
Liability insurance	162,331	102	335	13,236	176,004
Bonding insurance	13,341	6	83	96	13,526
Other property insurance	71,896	3,597	33,600	2,622	111,715
Accident insurance	388,149	210	582	103,373	492,314
Health insurance	61,385	437	2,226	13,065	77,113
Compulsory automobile liability insurance	-	387,993	-	-	387,993
Total	\$1,946,584	\$402,692	\$119,502	\$529,841	\$2,998,619

2017.1.1~2017.12.31					
Items	Commission		Reinsurance commission		Total
	expense	Surcharge	expense	Other cost	
Fire insurance	\$173,119	\$6,158	\$45,312	\$10,150	\$234,739
Marine insurance	50,082	803	7,593	1,185	59,663
Land and air insurance	949,245	2	736	346,703	1,296,686
Liability insurance	145,173	62	737	9,489	155,461
Bonding insurance	12,966	4	48	-	13,018
Other property insurance	61,370	2,506	22,528	2,512	88,916
Accident insurance	370,623	28	381	97,666	468,698
Health insurance	51,548	304	1,218	10,538	63,608
Compulsory automobile liability insurance	-	402,682	-	-	402,682
Total	\$1,814,126	\$412,549	\$78,553	\$478,243	\$2,783,471

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(B) Disclosure for insurance cost benefit analysis

a. Cost benefit analysis for direct underwriting

2018.1.1~2018.12.31						
Items	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid (include claim expense and cash surrender value)	Net change for claims reserve	Net gain (loss)
Fire insurance	\$3,263,438	\$23,599	\$(199,990)	\$(718,581)	\$407,044	\$2,775,510
Marine insurance	685,174	(21,178)	(68,339)	(293,862)	63,969	365,764
Land and air insurance	9,087,689	(309,591)	(1,388,949)	(5,264,574)	(465,243)	1,659,332
Liability insurance	1,422,172	(92,340)	(175,669)	(563,950)	(143,579)	446,634
Bonding insurance	125,947	(5,742)	(13,443)	(15,273)	7,308	98,797
Other property insurance	775,603	(52,437)	(78,115)	(394,911)	(24,111)	226,029
Accident insurance	3,174,156	(13,407)	(491,732)	(1,235,385)	(95,192)	1,338,440
Health insurance	349,362	(10,135)	(74,887)	(101,948)	(137)	162,255
Compulsory automobile liability insurance	2,924,496	8,860	(387,993)	(1,697,508)	(92,119)	755,736
Total	\$21,808,037	\$(472,371)	\$(2,879,117)	\$(10,285,992)	\$(342,060)	\$7,828,497

2017.1.1~2017.12.31						
Items	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid (include claim expense)	Net change for claims reserve	Net gain (loss)
Fire insurance	\$3,214,850	\$(117,616)	\$(189,427)	\$(2,107,435)	\$1,860,861	\$2,661,233
Marine insurance	587,704	(16,724)	(52,070)	(245,903)	(18,157)	254,850
Land and air insurance	8,542,485	(134,071)	(1,295,950)	(5,338,115)	240,421	2,014,770
Liability insurance	1,257,867	(71,576)	(154,724)	(513,993)	(180,853)	336,721
Bonding insurance	146,173	(9,418)	(12,970)	(463)	(86,804)	36,518
Other property insurance	627,754	7,745	(66,388)	(291,789)	8,828	286,150
Accident insurance	3,039,299	33,041	(468,317)	(1,190,374)	(24,352)	1,389,297
Health insurance	288,144	(46)	(62,390)	(110,564)	2,339	117,483
Compulsory automobile liability insurance	2,971,539	19,201	(402,682)	(2,079,105)	18,201	527,154
Total	\$20,675,815	\$(289,464)	\$(2,704,918)	\$(11,877,741)	\$1,820,484	\$7,624,176

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Recognized gain (loss) for reinsurance contract purchased

2018.1.1~2018.12.31						
Items	Net change for				Net (loss) gain	
	Reinsurance premium income	unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	for assumed reinsurance business
Fire insurance	\$406,033	\$(46,475)	\$(72,638)	\$(155,461)	\$2,811	\$134,270
Marine insurance	41,780	(736)	(9,376)	(21,785)	(19,882)	(9,999)
Land and air insurance	2,460	1,545	(662)	(659)	683	3,367
Liability insurance	2,230	192	(335)	(344)	1,150	2,893
Bonding insurance	1,457	201	(83)	(1,746)	(1,299)	(1,470)
Other property insurance	142,632	(13,559)	(33,600)	(57,751)	(42,702)	(4,980)
Accident insurance	10,880	(1,859)	(582)	(1,591)	(347)	6,501
Health insurance	17,485	(4,219)	(2,226)	(16,045)	(733)	(5,738)
Compulsory automobile liability insurance	753,227	13,848	-	(969,958)	12,408	(190,475)
Total	\$1,378,184	\$(51,062)	\$(119,502)	\$(1,225,340)	\$(47,911)	\$(65,631)

2017.1.1~2017.12.31						
Items	Net change for				Net (loss) gain	
	Reinsurance premium income	unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	for assumed reinsurance business
Fire insurance	\$267,647	\$(73,671)	\$(45,312)	\$(53,239)	\$(37,395)	\$58,030
Marine insurance	33,381	1,245	(7,593)	(1,113)	(6,642)	19,278
Land and air insurance	4,173	4,562	(736)	(1,420)	1,235	7,814
Liability insurance	1,758	(489)	(737)	(715)	(2,009)	(2,192)
Bonding insurance	1,453	(81)	(48)	(149)	(279)	896
Other property insurance	96,839	(40,748)	(22,528)	(24,240)	(5,348)	3,975
Accident insurance	8,806	(782)	(381)	(232)	(111)	7,300
Health insurance	12,180	(5,343)	(1,218)	(2,717)	(701)	2,201
Compulsory automobile liability insurance	775,569	(3,079)	-	(684,893)	(25,597)	62,000
Total	\$1,201,806	\$(118,386)	\$(78,553)	\$(768,718)	\$(76,847)	\$159,302

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

c. Recognized gain (loss) for reinsurance contract purchased

2018.1.1~2018.12.31						
Items	Reinsurance expense	Net change for unearned premiums reserve ceded		Claims recovered from reinsurers		Net loss (gain) for reinsurance ceded
		Reinsurance expense	Reinsurance commission earned	recovered from reinsurers	Net change for claims reserve ceded	
Fire insurance	\$2,096,301	\$(1,407)	\$(125,934)	\$(290,325)	\$194,633	\$1,873,268
Marine insurance	462,526	(15,731)	(59,700)	(203,307)	44,587	228,375
Land and air insurance	371,859	19,508	(110,911)	(197,008)	23,955	107,403
Liability insurance	482,676	(49,469)	(104,025)	(162,174)	(68,977)	98,031
Bonding insurance	92,472	(5,509)	(16,390)	(8,162)	34,295	96,706
Other property insurance	443,898	(9,218)	(83,189)	(165,344)	(41,720)	144,427
Accident insurance	223,010	(19,214)	(55,775)	(81,671)	970	67,320
Health insurance	-	-	-	-	324	324
Compulsory automobile liability insurance	1,216,270	5,329	-	(995,187)	(57,123)	169,289
Total	\$5,389,012	\$(75,711)	\$(555,924)	\$(2,103,178)	\$130,944	\$2,785,143

2017.1.1~2017.12.31						
Items	Reinsurance expense	Net change for unearned premiums reserve ceded		Claims recovered from reinsurers		Net loss (gain) for reinsurance ceded
		Reinsurance expense	Reinsurance commission earned	recovered from reinsurers	Net change for claims reserve ceded	
Fire insurance	\$2,143,707	\$(68,502)	\$(102,255)	\$(1,687,729)	\$1,824,676	\$2,109,897
Marine insurance	391,748	(52)	(46,706)	(152,248)	(3,666)	189,076
Land and air insurance	375,007	56,037	(105,327)	(188,800)	(10,259)	126,658
Liability insurance	438,822	(37,017)	(96,185)	(122,422)	(66,838)	116,360
Bonding insurance	107,333	(8,924)	(16,696)	23,135	(69,806)	35,042
Other property insurance	347,946	(100,515)	(62,577)	(98,281)	24,190	110,763
Accident insurance	233,051	5,060	(59,162)	(80,143)	8,343	107,149
Health insurance	-	-	-	-	449	449
Compulsory automobile liability insurance	1,230,002	12,266	-	(1,201,699)	1,186	41,755
Total	\$5,267,616	\$(141,647)	\$(488,908)	\$(3,508,187)	\$1,708,275	\$2,837,149

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Sensitivity of insurance risk

(A) Cathay Century

The impact to profit and loss when the expected loss ratio increases 5%				
Insurance type	Premium income	Weighted average loss rate in the past five years	Before reinsurance	After reinsurance
Fire insurance	\$3,097,429	45.56%	\$(154,872)	\$(109,497)
Marine insurance	675,187	58.26%	(33,759)	(10,072)
Land and air insurance	8,976,691	64.11%	(448,835)	(427,149)
Liability insurance	1,421,248	53.41%	(71,062)	(47,084)
Bonding insurance	125,947	20.71%	(6,297)	(1,662)
Other property insurance	771,966	62.19%	(38,598)	(30,711)
Accident insurance	3,150,754	40.56%	(157,538)	(146,409)
Health insurance	349,362	48.34%	(17,468)	(17,421)
Compulsory automobile liability insurance	2,924,496	N/A	N/A	N/A

The chart above shows that with every 5% increase of the expected loss rate of every insurance contract of Cathay Century, certain influence will be imposed upon revenue; however, the influence has been mitigated through the arrangement of reinsurance to obtain the effect of risk diversification.

(B) Cathay Insurance (Vietnam)

The impact to profit and loss when the expected loss ratio increases 5%				
	Premium income	Weighted average loss rate in the past five years	Before reinsurance	After reinsurance
Automobile insurance	\$110,998	40.76%	\$(5,550)	\$(5,544)
flood insurance	9,987	23.50%	(499)	(119)
Fire insurance	166,009	113.69%	(8,300)	(6,378)
Engineering insurance	3,637	0%	(182)	(7)
Accident insurance	23,402	32.48%	(1,170)	(1,170)
Liability insurance	924	48.07%	(46)	(14)

The chart above shows that with every 5% increase of the expected loss ratio of every insurance contract of Cathay Insurance (Vietnam), certain influence will be imposed upon revenue; however, the influence has been mitigated through the arrangement of reinsurance to obtain the effect of risk diversification.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Concentration Risk

(A) Cathay Century

a. Situations that might cause concentration of insurance risk:

(a) Single insurance contract or few related contracts

For the year ended 31 December 2018, Cathay Century will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

(b) Exposure to unanticipated change in trend

As of the year ended ended 31 December 2018, Cathay Century has not yet had exposures resulting from unanticipated changes in trend.

(c) Material lawsuit or legal risks that could lead to huge losses in a single contract or have a broad effect on several contracts.

“Regulations for Assisting Lawsuit Cases of Cathay Century Insurance” is set up to safeguard the rights of Cathay Century and the insureds and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of Cathay Century will appoint staff to be responsible for compliance matters, so that possible legal risk is minimized. As of the year ended 31 December 2018, no material lawsuit or legal risks has taken place.

(d) Correlation and mutual influence between different risks

In case of a catastrophe, in addition to huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of Cathay Century being severely damaged by these derived risks, Cathay Century has established “Operation Standards Under Crisis” that set up a crisis task force team to respond to the event. The team will undertake urgent tasks such as resources coordination and fund procurement to protect the rights of the insureds and Cathay Century and maintaining financial order. As of the year ended 31 December 2018, no catastrophe has taken place.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- (e) When a certain key variable has approached a significantly non-linear level that could dramatically influence its future cash flow

Since the third stage of liberalization of property insurance fee took effect, Cathay Century has conducted regular fee reviews on car insurance, fire insurance, and residential fire insurance in accordance with the regulation. Fees will be raised when actual loss rate exceeds expected loss rate by a certain percentage to avoid further losses. In addition, from time to time the related departments would observe the change in trend for loss rates of different product categories and adjust pricing and coverage in a timely manner to effectively lower insurance risk.

Cathay Century also monitors changes in VAR in its investment positions on a regular basis and performs cash flow analysis, supplemented by stress testing, to control and manage the impact from fluctuations of major risk factors.

In addition, Cathay Century implements stress tests for overall operation every year, assesses the impact of assets and the extreme scenario of insurance risk on the financial position of Cathay Century, and learns about the major risk factors to adjust the response in advance.

- (f) Concentration risks in geographic regions and operating segments

Cathay Century's catastrophe policies for earthquakes and floods concentrated in the areas of Taipei, Taoyuan, Hsinchu, Chiayi, Tainan, Kaohsiung and Pingtung.

- b. The following table summarizes the concentration risk of Cathay Century before and after reinsurance by types of insurance:

Insurance type	2018.1.1~2018.12.31				
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	%
Fire insurance	\$3,097,429	\$415,548	\$1,955,508	\$1,557,469	8.83%
Marine insurance	675,187	44,024	458,295	260,916	1.48%
Land and air insurance	8,976,691	2,460	371,779	8,607,372	48.79%
Liability insurance	1,421,248	2,196	482,082	941,362	5.33%
Bonding insurance	125,947	1,457	92,472	34,932	0.20%
Other property insurance	771,966	142,673	441,657	472,982	2.68%
Accident insurance	3,150,754	10,880	223,010	2,938,624	16.66%
Health insurance	349,362	17,485	-	366,847	2.08%
Compulsory automobile liability insurance	2,924,496	753,227	1,216,270	2,461,453	13.95%
Total	\$21,493,080	\$1,389,950	\$5,241,073	\$17,641,957	100.00%

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- c. Disclosure of the prior management performances in the risks, that had huge effect but relative low occurrence frequency helped financial statement users to evaluate the uncertainty of this risk related cash flow.

Catastrophes such as earthquake, typhoon, and flood, will bring tremendous insurance risk to property insurance business.

In order to control risks that have low frequency of occurrences yet with high impact, Cathay Century will assess the risks involving natural disasters and special subject matter insured (such as privately-owned power plant and bridge constructions), and hold loss prevention seminars regularly to help customers reduce the number of incidences.

(B) Cathay Insurance (Vietnam) Ltd.

- a. Situations that might cause concentration of insurance risk:

- (a) Single insurance contract or few related contracts

For the year ended 31 December 2018, Cathay Insurance (Vietnam) will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

- (b) Exposure to unanticipated change in trend

For the year ended 31 December 2018, the loss rates of the rest insurance categories are still within reasonable range.

- (c) Material lawsuit or legal risks that could lead to huge losses in a single contract or have a broad effect on several contracts.

“THE PROCEDURE FOR SUBROGATION” and “THE PROCEEDINGS OF THE COURT” is set up to safeguard the rights of Cathay Insurance (Vietnam) and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of Cathay Insurance (Vietnam) will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the year ended 31 December 2018, no material lawsuit or legal risks has taken place.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(d) Correlation and mutual influence between different risks

In case of a catastrophe, beside huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of Cathay Insurance (Vietnam) being severely endangered by these derived risks, Cathay Insurance (Vietnam) has established “Points for Handling Major Events of Cathay Insurance (Vietnam)” that set up crisis team in reaction to the event. The team will execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and Cathay Insurance (Vietnam) and to guard financial order. For the year ended 31 December 2018, there is no catastrophe has taken place.

(e) Concentration risks in geographic regions and operating segments

Cathay Insurance (Vietnam)'s catastrophe insurance for earthquakes and floods are centralized in the areas of Ho Chi Minh City, Tinh Dong Nai and Tinh Ha Tinh.

- b. The following table summarizes the concentration risk of Cathay Insurance (Vietnam) before and after reinsurance by types of insurance:

Insurance type	2018.1.1~2018.12.31				
	Direct premium income	Reinsurance premium income	Premiums ceded to reinsurers	Net premium income	%
Automobile insurance	\$110,998	\$-	\$80	\$110,918	71.45%
flood insurance	9,987	-	6,475	3,512	2.26%
Fire insurance	166,009	1,622	151,930	15,701	10.11%
Engineering insurance	3,637	-	2,282	1,355	0.87%
Accident insurance	23,402	-	-	23,402	15.07%
Liability insurance	924	34	594	364	0.24%
Total	\$314,957	\$1,656	\$161,361	\$155,252	100.00%

- c. Disclosure of the prior management performance of the risks that, have made huge impact but relative low occurrence frequency, would help financial statement users to evaluate the uncertainty of this risk related cash flow.

Catastrophes such as typhoon and flood, will bring tremendous insurance risk to property insurance business. To control infrequent risk that impacts significantly, Cathay Insurance (Vietnam) assess risk of natural disasters and specially covered item. Cathay Insurance (Vietnam) also holds loss prevention seminars regularly to help customers reduce the incidence rate of disasters.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Claim development table

(A) Cathay Century

Underwriting Year	-2012.12.31	2013.1.1- 2013.12.31	2014.1.1- 2014.12.31	2015.1.1- 2015.12.31	2016.1.1- 2016.12.31	2017.1.1- 2017.12.31	2018.1.1- 2018.12.31	Total
Estimate of cumulative claims incurred:								
At end of underwriting year	\$14,191,384	\$5,773,901	\$7,066,945	\$7,559,012	\$12,235,424	\$8,134,147	\$9,090,990	
One year later	16,228,104	6,109,827	7,217,836	7,418,703	11,455,620	8,025,062		
Two year later	15,809,160	6,169,858	7,156,309	7,548,387	10,970,548			
Three year later	17,231,439	6,103,460	7,135,341	7,495,745				
Four year later	17,113,138	6,135,016	7,133,873					
Five year later	17,113,708	6,114,405						
Six year later	17,315,392							
Estimate of cumulative claims incurred	17,315,392	6,114,405	7,133,873	7,495,745	10,970,548	8,025,062	9,090,990	\$66,146,015
Cumulative payment to date	\$17,073,434	6,060,027	6,845,350	7,343,375	10,666,232	7,252,286	5,018,516	60,259,220
Subtotal	241,958	54,378	288,523	152,370	304,316	772,776	4,072,474	5,886,795
Reconciliation	-	-	-	-	-	-	135,861	135,861
Recorded in balance sheet	\$241,958	\$54,378	\$288,523	\$152,370	\$304,316	\$772,776	\$4,208,335	\$6,022,656

Note: The upper part of this chart is to explain the amount of claim for property insurance of each underwriting year estimated through time. The lower part of this chart is to reconcile the estimates of cumulative claims to the amount recorded in balance sheet.

The chart excluded claim reserve of compulsory automobile liability insurance in the amount of \$1,483,044 thousand and assumed reserve for claims – non-compulsory insurance of \$777,198 thousand from the upper table.

(B) Cathay Century (Vietnam)

Historical data for Cathay Century (Vietnam)'s loss trends are not available. Cathay Century (Vietnam) has adopted the suggestion from the Vietnamese Ministry of Finance 2842/BTC/QLBH for loss reserving method with incurred but not reported claims, which is calculated at a rate of 5% of its annual retained premiums.

7. Related party transactions

(1) Related parties

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay United Bank	"
Cathay Century	"
Cathay Securities	"
Cathay Venture	"
Cathay Securities Investment Trust	"
Cathay Lujiazui Life Insurance Company Limited	"
Cathay Life (Vietnam)	"
Cathay Insurance (Bermuda)	Subsidiary of the Company (Note 1)
Conning Asia Pacific Ltd.	Subsidiary of the Company

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Name	Relationship
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of the Company
Lin Yuan (Shanghai) Real Estate Co., Ltd	"
Cathay Insurance (Vietnam) Co., Ltd.	"
Indovina Bank Limited (Vietnam)	"
Cathay Futures Co., Ltd.	"
Cathay Securities (Hong Kong) Limited	"
Cathay Private Equity	"
Cathay Century (China)	Associate
Taiwan Real-estate Management Corp.	"
Symphox Information Co., Ltd.	"
Xin-Ri-Tai Energy Corp.	"
Rizal Commercial Banking Corporation	"
PT Bank Mayapada Internasional Tbk	"
Da Sheng Venture Inc.	"
Cathay Sunrise Corporation	"
Global Evolution Holding Aps	"
PSS Co., Ltd.	"
CM Energy Co., Ltd.	"
Seaward Card Co., Ltd.	Other related party (Note 2)
Vietinbank	Other related party
Cathay Dragon Fund etc.	"
Lin Yuan Property Management Co., Ltd.	"
Cathay Medical Care Corporate	"
Cathay Real Estate Development Co., Ltd.	"
San Ching Engineering Co., Ltd.	"
Cathay Healthcare Management Co., Ltd.	"
Cathay Hospitality Management Co., Ltd.	"
Liang-Ting Co., Ltd.	"
Ally Logistic Property	"
Charity Foundation of Cathay Life	"
Cathay Cultural Foundation	"
Cathay United Bank Culture and Charity Foundation.	"
Cathay Life Insurance Employees' Welfare Committee	"
Cathay Real Estate Development Employees' Welfare Committee	"
Cathay Hospitality Consulting Co., Ltd.	"
Others	"

Note 1: Cathay Insurance (Bermuda) CO., Ltd. was dissolved on 8 May 2018, and had been liquidated on 21 May 2018.

Note 2: Cathay United Bank sold Seaward Card Co., Ltd. to Symphox Information Co., Ltd, a related party, on 21 July 2017, therefore, the relationship between the Company and the Group changed from a subsidiary to a other related party.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(2) Significant transactions with related parties:

A. Cash and cash equivalent

(A) Due from commercial banks

Name	Ending balance	
	2018.12.31	2017.12.31
Other related party		
Vietinbank	\$5,309,375	\$5,340,176

Name	Interest income	
	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Other related party		
Vietinbank	\$5,228	\$5,242

(B) Due to commercial banks

Name	Ending balance	
	2018.12.31	2017.12.31
Other related party		
Vietinbank	\$5,360,670	\$5,334,420

Name	Interest expense	
	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Other related party		
Vietinbank	\$5,205	\$5,561

B. Financial assets at fair value through profit or loss

Name	2018.12.31	2017.12.31
Other related parties		
Cathay Dragon Fund etc.	\$710,786	\$239,943
Cathay Healthcare Management Co., Ltd.	180,180	(Note)
Total	\$890,966	\$239,943

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

C. Receivables

Name	2018.12.31	2017.12.31
Other related party		
Cathay Dragon Fund etc.	\$154,280	\$145,162

D. Loans

Name	Ending balance	
	2018.12.31	2017.12.31
Associate		
Taiwan Real-estate Management Corp.	\$30,000	\$32,000
Other related parties		
Cathay Real Estate Development Co., Ltd.	210,000	-
Others	2,456,817	2,363,153
Total	\$2,696,817	\$2,395,153

Name	Interest income	
	2018.1.1~	2017.1.1~
	2018.12.31	2017.12.31
Associate		
Taiwan Real-estate Management Corp.	\$562	\$613
Other related parties		
Cathay Real Estate Development Co., Ltd.	61	37
Others	39,211	36,233
Total	\$39,834	\$36,883

E. Available-for-sale financial assets

Name	2018.12.31 (Note)	2017.12.31
Other related parties		
Cathay Dragon Fund etc.		\$501,033
Cathay Healthcare Management Co., Ltd.		93,225
Total		\$594,258

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

F. Deposit

Name	Ending balance	
	2018.12.31	2017.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	\$187,533	\$146,976
Associates		
Symphox Information Co., Ltd.	122,139	150,870
Xin-Ri-Tai Energy Corp.	137,979	308,836
Other related parties		
Cathay Real Estate Development Co., Ltd.	199,127	253,682
Cathay Dragon Fund etc.	137,823	106,497
Cathay Hospitality Management Co., Ltd.	16,523	9,202
Cathay United Bank Culture and Charity Foundation.	541,888	544,588
Cathay Life Insurance Employees' Welfare Committee	2,221,665	3,065,254
Cathay Real Estate Development Employees' Welfare Committee	386,529	363,768
Others	7,457,000	9,013,397
Total	<u>\$11,408,206</u>	<u>\$13,963,070</u>

Name	Interest expense	
	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	\$633	\$565
Associates		
Symphox Information Co., Ltd.	668	585
Xin-Ri-Tai Energy Corp.	97	459
Other related parties		
Cathay Real Estate Development Co., Ltd.	54	45
Cathay Dragon Fund etc.	2	1
Cathay Hospitality Management Co., Ltd.	23	22
Cathay United Bank Culture and Charity Foundation.	5,604	5,666
Cathay Life Insurance Employees' Welfare Committee	22,754	23,450
Cathay Real Estate Development Employees' Welfare Committee	4,082	3,761
Others	63,281	62,043
Total	<u>\$97,198</u>	<u>\$96,597</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

G. Property transactions

(A) Cathay Life and its subsidiaries' significant transactions of undertaking contracted projects with related parties are listed below:

Name	2018.1.1~2018.12.31	
	Items	Amount
Other related parties		
Lin Yuan Property Management Co., Ltd.	Cathay Land Mark, etc.	\$17,910
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	1,351,132
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	586,426
Ally Logistic Property	Wuri E-commerce Building, etc.	869,331
Total		<u>\$2,824,799</u>

Name	2017.1.1~2017.12.31	
	Items	Amount
Other related parties		
Lin Yuan Property Management Co., Ltd.	Cathay Land Mark, etc.	\$15,758
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	274,409
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	1,225,857
Ally Logistic Property	Wuri E-commerce Building, etc.	1,348,450
Total		<u>\$2,864,474</u>

The total amounts of the real estate projects contracted as of 31 December 2018 and 31 December 2017 between Cathay Life and its subsidiaries and Lin Yuan Property Management Co., Ltd. were \$0 thousand and \$1,387 thousand respectively.

The total amounts of the real estate projects contracted as of 31 December 2018 and 31 December 2017 between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were \$1,838,045 thousand and \$1,853,190 thousand respectively.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

The total amounts of the real estate projects contracted as of 31 December 2018 and 31 December 2017 between Cathay Life and its subsidiaries and Cathay Real Estate Development Co., Ltd. were all \$1,742,250 thousand.

The total amounts of the real estate projects contracted as of 31 December 2018 and 31 December 2017 between Cathay Life and its subsidiaries and Ally Logistic Property were all \$3,383,783 thousand.

(B) Cathay Life and its subsidiaries sold building renovation equipment to related party

Name	Items	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Other related party			
Cathay Hospitality Management Co., Ltd.	Disposal of building renovation equipment	\$452,540	\$-

The above amount is the total amount of the untaxed sale. Gain on disposal of building renovation equipment to Cathay Hospitality Co., Ltd. for the years ended 31 December 2018 was \$13,540 thousand.

(C) Real estate rental income from Cathay Life and its subsidiaries:

Name	Rental income	
	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	\$8,944	\$8,900
Associates		
Symphox Information Co., Ltd.	41,126	40,912
Cathay Century (China)	30,353	27,103
Other related parties		
Cathay Real Estate Development Co., Ltd.	18,466	19,361
San Ching Engineering Co., Ltd.	5,610	5,610
Cathay Medical Care Corporate	186,308	185,327
Cathay Healthcare Management Co., Ltd.	56,574	56,032
Cathay Hospitality Management Co., Ltd.	218,778	225,304
Ally Logistic Property	499,776	299,821
Total	\$1,065,935	\$868,370

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Name	Guarantee deposits received	
	2018.12.31	2017.12.31
Associates		
Symphox Information Co., Ltd.	\$10,363	\$9,798
Cathay Century (China)	7,030	7,186
Other related parties		
Cathay Real Estate Development Co., Ltd.	3,803	3,773
Cathay Medical Care Corporate	11,260	10,916
Cathay Healthcare Management Co., Ltd.	15,628	13,157
Cathay Hospitality Management Co., Ltd.	206,166	216,949
Ally Logistic Property	57,040	55,669
Total	<u>\$311,290</u>	<u>\$317,448</u>

According to contracts, the lease terms are usually between 2 to 5 years and rental incomes are collected on a monthly basis.

(D) Real estate rental expense from Cathay Life and its subsidiaries:

Name	Rental expense	
	2018.1.1~	2017.1.1~
	2018.12.31	2017.12.31
Other related party		
Cathay Real Estate Development Co., Ltd.	<u>\$7,413</u>	<u>\$7,413</u>

According to contracts, the lease terms are usually between 1 to 2 years and rental expenses are paid on a monthly basis.

(E) Real estate rental income from Cathay United Bank:

Name	Rental income	
	2018.1.1~	2017.1.1~
	2018.12.31	2017.12.31
Other related party		
Cathay United Bank Culture and Charity Foundation.	<u>\$4,633</u>	<u>\$4,633</u>

According to contracts, the lease terms are usually between 1 to 3 years and rental incomes are collected on a monthly basis.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(F) Real estate rental expense from Cathay United Bank:

Name	Rental expense	
	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Other related party		
Cathay Real Estate Development Co., Ltd.	\$19,706	\$20,150

Name	Guarantee deposits paid	
	2018.12.31	2017.12.31
Other related party		
Cathay Real Estate Development Co., Ltd.	\$4,608	\$4,549

According to contracts, the lease terms are usually between 2 to 5 years and rental expenses are paid on a monthly basis.

H. Prepayment for long-term investments

Name	2018.12.31	2017.12.31
Associate		
Cathay Century (China)	\$2,200,394	\$-

Cathay Life and Cathay Century resolved at board meetings held on 17 September 2018 to increase capital in the amount CNY 245 million to its associate Cathay Century (China). The Investment Commission of the Ministry of Economic Affairs authorized the remittance on 6 December 2018 and 23 November 2018. The capital increase was approved by the Bank of China Banking and Insurance Regulatory Commission on 23 January 2019.

I. Guarantee deposits received

Name	2018.12.31	2017.12.31
Other related parties		
Lin Yuan Property Management Co., Ltd.	\$5,000	\$5,000
San Ching Engineering Co., Ltd.	440,700	661,181
Cathay Hospitality Management Co., Ltd.	256,883	120,257
Ally Logistic Property	139,386	337,790
Cathay Hospitality Consulting Co., Ltd.	107,074	-
Total	\$949,043	\$1,124,228

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

J. Futures traders' equity

Name	2018.12.31	2017.12.31
Other related party		
Cathay Dragon Fund etc.	\$944,480	\$526,611

K. Payables

Name	2018.12.31	2017.12.31
Associate		
Symphox Information Co., Ltd.	\$29,398	\$159,714
Other related party		
Seaward Card Co., Ltd.	34,034	24,254
Total	\$63,432	\$183,968

L. Purchased fund balance issued by related parties

Name	Items	2018.12.31	2017.12.31
Associate			
Global Evolution Holdings ApS	Market value	\$2,138,492	\$-
	Cost	\$2,142,144	\$-

M. Investment balance of related parties' discretionary investment

Name	2018.12.31	2017.12.31
Other related parties		
Charity Foundation of Cathay Life	\$68,993	\$72,580
Cathay Cultural Foundation	47,019	52,238
Total	\$116,012	\$124,818

N. Investment balance appointed to parties' discretionary investment

Name	2018.12.31	2017.12.31
Associate		
Global Evolution Holdings Aps	\$6,494,247	\$-

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

O. Net commission and handling fee

(A) Handling fee income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	\$17,710	\$19,039
Other related party		
Cathay Real Estate Development Co., Ltd.	5,384	4,636
Total	<u>\$23,094</u>	<u>\$23,675</u>

(B) Reinsurance service expense

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Insurance (Bermuda)	<u>\$-</u>	<u>\$8,826</u>

P. Net premiums from insurance business

(A) Insurance income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Other related parties		
Cathay Real Estate Development Co., Ltd.	\$8,195	\$6,718
Cathay Medical Care Corporate	47,062	46,901
San Ching Engineering Co., Ltd.	8,793	9,780
Lin Yuan Property Management Co., Ltd.	3,184	3,183
Others	259,323	294,377
Total	<u>\$326,557</u>	<u>\$360,959</u>

(B) Reinsurance income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Insurance (Bermuda)	<u>\$-</u>	<u>\$131,460</u>

Cathay Insurance (Bermuda) Co., Ltd. engaged only in reinsurance business after its establishment. As the Company's board of directors resolved to acquire the reinsurance business of Cathay Insurance (Bermuda) Co., Ltd. on 7 November 2017, Cathay Insurance (Bermuda) Co., Ltd. had not engaged in any reinsurance business after the settlement date (15 December 2017).

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(C) Reinsurance claims payment

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Insurance (Bermuda)	\$-	\$128,255

Q. Net other non-interest income

(A) Management fee income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Other related party		
Cathay Dragon Fund etc.	\$1,825,974	\$1,445,593

(B) Other income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Other related party		
Cathay Healthcare Management Co., Ltd.	\$4,938	\$4,792
Cathay Medical Care Corporate	3,702	3,651
Total	\$8,640	\$8,443

R. Operating expenses

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Associate		
Symphox Information Co., Ltd.	\$999,381	1,010,407
Other related parties		
Seaward Card Co., Ltd.	306,607	299,654
Cathay Real Estate Development Co., Ltd.	9,796	10,883
Lin Yuan Property Management Co., Ltd.	804,376	791,313
Cathay Healthcare Management Co., Ltd.	55,971	42,147
Cathay Medical Care Corporate	14,847	3,731
Charity Foundation of Cathay Life	5,300	5,550
San Ching Engineering Co., Ltd.	3,672	3,924
Total	\$2,199,950	\$2,167,609

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

S. Subscription of shares issued by related parties

Name	Items	2018.1.1~	2017.1.1~
		2018.12.31	2017.12.31
Associates			
Rizal Commercial Banking Corporation	Common stock	\$1,992,264	\$271,974
PT Bank Mayapada Internasional Tbk	Common stock	1,628,071	894,670
Da Sheng Venture Inc.	Common stock	-	375,000
Cathay Sunrise Corporation	Common stock	-	675,000
CM Energy Co., Ltd.	Common stock	-	216,000
PSS Co., Ltd.	Common stock	407,671	-
Total		\$4,028,006	\$2,432,644

T. Securities trading

		2017.1.1~2017.12.31	
Name	Securities Name	Trading shares	Sale price
Associates			
Symphox Information Co., Ltd.	Seaward Card Co., Ltd.	3,000,000 shares	\$46,800

There was no purchase or sale of securities with related parties in 2018.

U. Key management personnel compensation

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Short-term employee benefits	\$926,477	\$793,903
Post-employment pension	17,951	16,088
Other long-term employee benefits	26	45
Total	<u>\$944,454</u>	<u>\$810,036</u>

The key management personnel of the Group include chairman, vice chairman, directors, supervisors, president, senior executive vice president, and executive vice president.

(3) The Company

Significant intercompany transactions within the Group have been eliminated upon consolidation.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

A. Cash in bank

Name	Item	Ending balance	
		2018.12.31	2017.12.31
Subsidiary			
Cathay United Bank	Cash in bank	\$139,920	\$137,400

Interest income from Cathay United Bank for the years ended 31 December 2018 and 2017 were \$726 thousand and \$294 thousand, respectively.

B. Receivables

Name	Items	2018.12.31	2017.12.31
Subsidiaries			
Cathay Life	Receivables due to interest and dividends	\$65,589	\$158,589
Cathay Century	Receivables due to consolidated income tax, interest and dividends	64,901	231,138
Cathay Securities	Receivables due to consolidated income tax	24,916	76,883
Cathay Securities Investment Trust	Receivables due to consolidated income tax	82,083	57,089
Cathay Venture	Receivables due to consolidated income tax	29,331	3,647
	Total	\$266,820	\$527,346

C. Guarantee deposits paid

Name	2018.12.31	2017.12.31
Subsidiary		
Cathay Life	\$12,588	\$12,588

D. Held-to-maturity financial asset

Name	2018.12.31(Note)	2017.12.31
Subsidiaries		
Cathay Life		\$40,000,000
Cathay Century		1,000,000
Total		\$41,000,000

Note: The Company adopted IFRS 9 on 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

E. Financial assets at fair value through profit or loss

Name	2018.12.31	2017.12.31(Note)
Subsidiaries		
Cathay Life	<u>\$35,000,000</u>	

Note: The Company adopted IFRS 9 on 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

F. Payables

Name	Items	2018.12.31	2017.12.31
Subsidiaries			
Cathay Life	Payable due to consolidated income tax	\$8,998,563	\$706,336
Cathay United Bank	Payable due to consolidated income tax	485,773	145,836
Total		<u>\$9,484,336</u>	<u>\$852,172</u>

G. Interest income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiaries		
Cathay Life	\$1,310,704	\$1,353,179
Cathay Century	10,192	18,600
Total	<u>\$1,320,896</u>	<u>\$1,371,779</u>

H. Operating expenses

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Life	\$63,028	\$59,138
Other related party		
Seaward Card Co., Ltd.	5,510	4,519
Total	<u>\$68,538</u>	<u>\$63,657</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

I. Subscription of shares issued by related parties

Name	Items	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiaries			
Cathay Life	Common stock	\$42,000,000	\$-
Cathay United Bank	Common stock	-	14,998,000
Total		<u>\$42,000,000</u>	<u>\$14,998,000</u>

(4) Subsidiaries' significant transactions with related parties that are more than \$100 million:

Significant intercompany transactions within the Group have been eliminated upon consolidation.

A. Cathay Life and its subsidiaries

(A) Cash in banks

Name	Items	2018.12.31	2017.12.31
Subsidiaries			
Cathay United Bank	Time deposit	\$2,715,620	\$2,047,772
	Cash in bank	28,726,895	26,172,194
	Check deposit	268,337	343,491
	Security deposit	6	6
Indovina Bank	Time deposit	1,536,338	13,140
	Cash in bank	8,344	15,984
Total		<u>\$33,255,540</u>	<u>\$28,592,587</u>

Interest income from Cathay United Bank for the years ended 31 December 2018 and 2017, were \$61,162 thousand and \$28,157 thousand, respectively.

Interest income from Indovina Bank for the years ended 31 December 2018 and 2017 were \$52,841 thousand and \$1,438 thousand, respectively.

As of 31 December 2018 and 31 December 2017, time deposit pledged were all \$3,000 thousand.

(B) Other receivables

Name	2018.12.31	2017.12.31
The Company		
Cathay Financial Holding (Note)	<u>\$8,998,563</u>	<u>\$706,336</u>

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

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(C) Secured loans

2018.1.1~2018.12.31			
Name	Maximum amount	Rate	Ending balance
Other related party			
Others	<u>\$1,085,539</u>	1.03%~3.74%	<u>\$973,182</u>
2017.1.1~2017.12.31			
Name	Maximum amount	Rate	Ending balance
Other related party			
Others	<u>\$1,107,371</u>	1.03%~3.44%	<u>\$909,989</u>

Interest income from others related parties for the years ended 31 December 2018 and 2017 were \$14,152 thousand and \$14,329 thousand, respectively.

(D) Purchased fund balance issued by related parties

Name	Items	2018.12.31	2017.12.31
Associate			
Global Evolution Holdings ApS	Market value	<u>\$2,138,492</u>	<u>\$-</u>
	Cost	<u>\$2,142,144</u>	<u>\$-</u>

(E) Investment balance of related parties' discretionary investment

Name	2017.12.31	2016.12.31
Subsidiary		
Cathay Securities Investment Trust	\$210,965,710	\$245,661,387
Associate		
Global Evolution Holding ApS	<u>6,494,247</u>	<u>-</u>
Total	<u>\$217,459,957</u>	<u>\$245,661,387</u>

(F) Guarantee deposits paid

Name	2018.12.31	2017.12.31
Subsidiary		
Cathay Futures	<u>\$1,511,584</u>	<u>\$1,628,717</u>

The guarantee deposits are futures margins of Cathay Futures Co., Ltd. The imputed interest income of guarantee deposit paid from Cathay Futures Co., Ltd. for the years ended 31 December 2018 and 2017 were \$1,471 thousand and \$1,087 thousand, respectively.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(G) Prepayment for long-term investments

Name	2018.12.31	2017.12.31
Associate		
Cathay Century (China)	\$1,100,344	\$-

Cathay Life resolved at board meetings held on 17 September 2018 to increase capital in the amount CNY 245 million to its associate Cathay Century (China). The Investment Commission of the Ministry of Economic Affairs authorized the remittance on 6 December 2018. The capital increase was approved by the Bank of China Banking and Insurance Regulatory Commission on 23 January 2019.

(H) Other payables

Name	2018.12.31	2017.12.31
The Company		
Cathay Financial Holding (Note)	\$65,589	\$158,589
Subsidiary		
Cathay United Bank	89,605	163,342
Total	\$155,194	\$321,931

Note: including tax payable under the consolidated income tax system, dividend payable and interest payable accrued from bond and preferred stock liability.

(I) Preferred stock liability

Name	2018.12.31	2017.12.31
The Company		
Cathay Financial Holding	\$-	\$5,000,000

(J) Bonds payable

Name	2018.12.31	2017.12.31
The Company		
Cathay Financial Holding	\$35,000,000	\$35,000,000

(K) Property transactions

Property transactions between Cathay Life and related parties are in the nature of undertaking contracted projects, trade, and lease transactions. The terms of such transactions are based on market surveys, the contracted terms of both parties and public bidding.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Real estate contracted projects of Cathay Life and its subsidiaries:

Name	2018.1.1~2018.12.31	
	Items	Amount
Other related party		
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	\$1,351,132
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	586,426
Ally Logistic Property	Wuri E-commerce Building, etc.	869,331
Total		<u>\$2,806,889</u>

Name	2017.1.1~2017.12.31	
	Items	Amount
Other related party		
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	\$274,409
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	1,225,857
Ally Logistic Property	Wuri E-commerce Building, etc.	1,348,450
Total		<u>\$2,848,716</u>

The total amounts of the real estate projects contracted as of 31 December 2018 and 31 December 2017 between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were \$1,838,045 thousand and \$1,853,190 thousand, respectively.

The total amounts of the real estate projects contracted as of 31 December 2018 and 31 December 2017 between Cathay Life and its subsidiaries and Cathay Real Estate Development Co., Ltd. were all \$1,742,250 thousand.

The total amounts of the real estate projects contracted as of 31 December 2018 and 31 December 2017 between Cathay Life and its subsidiaries and Ally Logistic Property were all \$3,383,783 thousand.

Cathay Life and its subsidiaries sold building renovation equipment to related party

Name	Items	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Other related party			
Cathay Hospitality Management Co., Ltd.	Disposal of building renovation equipment	<u>\$452,540</u>	<u>\$-</u>

Gain on disposal of building renovation equipment to Cathay Hospitality Co., Ltd. for the years ended 31 December 2018 and 2017 were \$13,540 thousand and \$0 thousand, respectively.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(L) Rental income

Name	Items	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiaries			
Cathay United Bank	Real-estate rental income	\$681,206	\$580,440
Cathay Century	Real-estate rental income	108,092	105,435
Other related parties			
Ally Logistic Property	Real-estate rental income	499,776	299,821
Cathay Healthcare Management Co., Ltd.	Real-estate rental income	218,778	225,304
Cathay Hospitality Management Co., Ltd.	Real-estate rental income	186,308	185,327
Total		<u>\$1,694,160</u>	<u>\$1,396,327</u>

According to contracts, the lease terms are usually between 2 to 5 years and rental incomes are collected on a monthly basis.

(M) Guarantee deposits received

Name	2018.12.31	2017.12.31
Subsidiary		
Cathay United Bank	\$189,738	\$164,798
Other related parties		
San Ching Engineering Co., Ltd.	440,700	661,181
Cathay Hospitality Management Co., Ltd.	463,049	337,206
Ally Logistic Property	196,426	393,459
Cathay Hospitality Consulting Co., Ltd.	107,074	-
Total	<u>\$1,396,987</u>	<u>\$1,556,644</u>

(N) Miscellaneous income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiaries		
Cathay Century	\$629,342	\$580,053
Cathay United Bank	188,212	174,073
Total	<u>\$817,554</u>	<u>\$754,126</u>

Miscellaneous income is mainly generated from Cathay Life and its subsidiaries' integrated marketing activities.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(O) Insurance expense

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Century	\$107,023	\$115,158

(P) Insurance income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Other related party		
Others	\$259,323	\$294,377

(Q) Reinsurance income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Insurance (Bermuda)	\$-	\$131,460

Cathay Insurance (Bermuda) Co., Ltd. engaged only in reinsurance business after its establishment. As the Company's board of directors resolved to acquire the reinsurance business of Cathay Insurance (Bermuda) Co., Ltd. on 7 November 2017, Cathay Insurance (Bermuda) Co., Ltd. had not engaged in any reinsurance business after the settlement date (15 December 2017).

(R) Handling fee income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Securities Investment Trust	\$199,014	\$182,147

(S) Reinsurance claim payments

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Insurance (Bermuda)	\$-	\$128,255

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(T) Operating expenses

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay United Bank	\$7,088,674	\$6,743,403
Cathay Securities Investment Trust	402,183	152,394
Associate		
Symphox Information Co., Ltd.	248,531	286,646
Other related party		
Lin Yuan Property Management Co., Ltd.	793,716	781,188
Total	<u>\$8,533,104</u>	<u>\$7,963,631</u>

(U) Non-operating expenses

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
The Company		
Cathay Financial Holding	<u>\$1,310,704</u>	<u>\$1,353,179</u>

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

(V) Shares issued from Cathay Life and related parties

Capital increased by cash

Name	Item	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
The Company			
Cathay Financial Holding	Common stock	<u>\$42,000,000</u>	<u>\$-</u>

Subscription of shares issued by related parties

Name	Items	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Associates			
Rizal Commercial Banking Corporation	Common stock	\$1,992,264	\$271,974
PT Bank Mayapada Internasional Tbk	Common stock	1,628,071	894,670
Da Sheng Venture Inc.	Common stock	-	375,000
Cathay Sunrise Corporation	Common stock	-	675,000
CM Energy Co., Ltd.	Common stock	-	216,000
PSS Co., Ltd.	Common stock	407,671	-
Total		<u>\$4,028,006</u>	<u>\$2,432,644</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(W) Other disclosures

As of 31 December 2018 and 31 December 2017, the nominal amounts (in thousands) of the financial instruments transactions between Cathay Life and Cathay United Bank are summarized below:

Item	2018.12.31	2017.12.31
CS contracts	USD 3,752,000	USD 3,322,000

B. Cathay United Bank and its subsidiaries

(A) Loans and deposits

Account/Name	Ending balance	
	2018.12.31	2017.12.31
Loans		
Other related parties		
Cathay Real Estate Development Co., Ltd.	\$210,000	\$-
Others	1,458,912	1,422,061
Total	\$1,668,912	\$1,442,061

Account/Name	Ending balance	
	2018.12.31	2017.12.31
Deposits		
The Company		
Cathay Financial Holding	\$139,920	\$137,400
Subsidiaries		
Cathay Life	30,744,095	28,472,961
Cathay Century	2,724,193	1,827,176
Cathay Securities	2,550,090	3,414,826
Cathay Futures Co., Ltd.	1,345,519	1,041,691
Cathay Venture	113,380	25,765
Cathay Securities Investment Trust	149,076	179,814
Cathay Life (Vietnam)	1,809,689	29,124
Cathay Century (Vietnam)	147,705	145,661
Conning Asia Pacific Ltd.	78,721	90,502
Cathay Securities Investment Consulting Co., Ltd.	187,533	146,976
Lin Yuan (Shanghai) Real Estate Co., Ltd.	623,035	-
Cathay Securities (Hong Kong), Ltd	66	66
Cathay Private Equity	33,114	49,963
Associates		
Symphox Information Co., Ltd.	122,139	150,870
Xin-Ri-Tai Energy Corp.	137,979	308,836
Other related parties		
Cathay Real Estate Development Co., Ltd.	199,127	253,682
Cathay Dragon Fund etc.	137,823	106,497
Cathay United Bank Culture and Charity Foundation.	541,888	544,588
Cathay Life Insurance Employees' Welfare Committee	2,221,665	3,065,254
Cathay Real Estate Development Employees' Welfare Committee	386,529	363,768
Others	7,457,000	9,013,397
Total	\$51,850,286	\$49,368,817

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Account/Name	Interest income	
	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Loans		
Other related parties		
Cathay Real Estate Development Co., Ltd.	\$61	\$37
Others	24,648	21,453
Total	<u>\$24,709</u>	<u>\$24,490</u>
Account /Name	Interest expense	
	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Deposits		
The Company		
Cathay Financial Holding	\$726	\$294
Subsidiaries		
Cathay Life	50,892	27,653
Cathay Century	7,808	7,110
Cathay Securities	4,458	4,652
Cathay Futures Co., Ltd.	7,578	9,198
Cathay Venture	60	50
Cathay Securities Investment Trust	192	249
Cathay Securities Investment Consulting Co., Ltd.	633	565
Lin Yuan (Shanghai) Real Estate Co., Ltd.	8,683	-
Cathay Life (Vietnam)	53,554	1,438
Cathay Century (Vietnam)	6,652	5,638
Conning Asia Pacific Ltd.	874	504
Cathay Private Equity	18	3
Associates		
Symphox Information Co., Ltd.	668	585
Xin-Ri-Tai Energy Corp.	97	459
Other related parties		
Cathay Real Estate Development Co., Ltd.	54	45
Cathay Dragon Fund etc.	2	1
Cathay United Bank Culture and Charity Foundation.	5,604	5,666
Cathay Life Insurance Employees' Welfare Committee	22,754	23,450
Cathay Real Estate Development Employees' Welfare Committee	4,082	3,761
Others	63,281	62,043
Total	<u>\$238,670</u>	<u>\$153,364</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Account/Name	Ending balance	
	2018.12.31	2017.12.31
Call loans to banks		
Other related party		
Vietinbank	\$5,309,375	\$5,340,176
Due to commercial banks		
Other related party		
Vietinbank	5,360,670	5,334,420

Account/Name	Interest income	
	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Call loans to banks		
Other related party		
Vietinbank	\$5,228	\$5,242

Account/Name	Interest expense	
	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Due to commercial banks		
Other related party		
Vietinbank	\$5,205	\$5,561

Cathay United Bank and its subsidiaries' transaction terms with related parties are similar to those with third parties except that employees are given favorable interest rates within specified limit for savings and loans.

(B) Cathay United Bank and its related party loan, Guarantees and Derivatives Financial instruments refer to Note 16.(4).

(C) Receivables due to commission of insurance agency

Name	2018.12.31	2017.12.31
Subsidiary		
Cathay Life	\$89,605	\$163,342

(D) Payables

Name	2018.12.31	2017.12.31
Associate		
Symphox Information Co., Ltd.	\$19,680	\$157,938

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(E) Combined tax receivable

Name	2018.12.31	2017.12.31
The Company		
Cathay Financial Holding	<u>\$485,773</u>	<u>\$145,836</u>

(F) Rental expense

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Life	<u>\$681,206</u>	<u>\$580,440</u>

According to contracts, the lease terms are usually between 2 to 5 years and rentals are paid on a monthly basis.

(G) Guarantee deposits paid

Name	2018.12.31	2017.12.31
Subsidiary		
Cathay Life	<u>\$189,738</u>	<u>\$164,798</u>

(H) Handling fees income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Life	\$7,088,674	\$6,743,403
Cathay Century	160,875	154,446
Total	<u>\$7,249,549</u>	<u>\$6,897,849</u>

(I) Operating expenses

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Life	\$188,212	\$174,073
Associate		
Symphox Information Co., Ltd.	662,504	656,647
Other related party		
Seaward Card Co., Ltd.	210,023	199,585
Total	<u>\$1,060,739</u>	<u>\$1,030,305</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(J) Insurance expense

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Century	<u>\$178,718</u>	<u>\$172,376</u>

(K) Shares issued from Cathay United Bank

Capital increased by cash

Name	Item	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
The Company			
Cathay Financial Holding	Common stock	<u>\$-</u>	<u>\$14,998,000</u>

C. Cathay Century and its subsidiaries

(A) Cash in banks

Name	Items	2018.12.31	2017.12.31
Subsidiaries			
Cathay United Bank	Time deposit	\$623,200	\$618,200
	Cash in bank	1,946,653	1,079,221
	Check deposit	154,340	129,755
Indovina Bank	Time deposit	144,687	140,380
	Cash in bank	<u>3,018</u>	<u>5,281</u>
	Total	<u>\$2,871,898</u>	<u>\$1,972,837</u>

Interest income from Cathay United Bank for the years ended 31 December 2018 and 2017 were \$7,808 thousand and \$7,110 thousand, respectively,

Interest income from Indovina Bank for the years ended 31 December 2018 and 2017 were \$6,652 thousand and \$5,638 thousand, respectively.

As of 31 December 2018 and 31 December 2017, the time deposit pledged were \$28,108 thousand and \$23,041 thousand, respectively.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(B) Financial assets at fair value through profit or loss

Name	Item	2018.12.31	2017.12.31 (Note)
Other related party			
Cathay Dragon Fund etc.	Beneficiary certificates	<u>\$359,128</u>	

Note: Cathay Century and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay Century and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(C) Available-for-sale financial assets

Name	Item	2018.12.31 (Note)	2017.12.31
Other related party			
Cathay Dragon Fund etc.	Beneficiary certificates		<u>\$302,124</u>

Note: Cathay Century and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay Century and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(D) Investment balance of related parties' discretionary investment

Name	2018.12.31	2017.12.31
Subsidiary		
Cathay Securities Investment Trust	<u>\$848,925</u>	<u>\$898,774</u>

(E) Prepayment for long-term investments

Name	2018.12.31	2017.12.31
Associate		
Cathay Century (China)	<u>\$1,100,050</u>	<u>\$-</u>

Cathay Century resolved at board meetings held on 17 September 2018 to increase capital in the amount CNY 245 million to its associate Cathay Century (China). The Investment Commission of the Ministry of Economic Affairs authorized the remittance on 23 November 2018. The capital increase was approved by the Bank of China Banking and Insurance Regulatory Commission on 23 January 2019.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(F) Other payables

Name	2018.12.31	2017.12.31
The Company		
Cathay Financial Holding	\$64,901	\$231,138

(G) Preferred stock liability

Name	2018.12.31	2017.12.31
The Company		
Cathay Financial Holding	\$-	\$1,000,000

(H) Insurance income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiaries		
Cathay Life	\$107,023	\$115,158
Cathay United Bank	178,718	172,376
Total	\$285,741	\$287,534

(I) Operating expenses

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiaries		
Cathay Life	\$629,342	\$580,053
Cathay United Bank	160,875	154,446
Total	\$790,217	\$734,499

(J) Rental expense

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiaries		
Cathay Life	\$108,092	\$105,435

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(K) Other disclosure

As of 31 December 2018 and 31 December 2017, the nominal amounts (in thousand) of the derivative financial instruments transactions with Cathay United Bank are summarized as below:

Item	2018.12.31		2017.12.31	
CS contracts	USD	88,700	USD	88,700
	EUR	750	EUR	4,850

D. Cathay Securities and its subsidiaries

(A) Cash in bank

Name	Items	107.12.31	106.12.31
Subsidiary			
Cathay United Bank	Time deposits (Note)	\$1,809,000	\$2,042,784
	Cash in bank	1,162,448	1,697,512
	Check deposits	13,871	3
	Total	<u>\$2,985,319</u>	<u>\$3,740,299</u>

Interest income from Cathay United Bank for the years ended 31 December 2018 and 2017 were \$12,036 thousand and \$13,850 thousand, respectively.

As of 31 December 2018 and 31 December 2017, the time deposits pledged were all \$900,000 thousand.

Note: In accordance with Article 14 of the “Regulations Governing Futures Commission Merchants”, Article 10 of the “Regulations Governing Futures Advisory Enterprises”, Article 7 of the “Regulations Governing Securities Investment Consulting Enterprises” and Article 17 of the “Regulations Governing Managed Futures Enterprises”, Cathay Futures lodges the time deposits in Cathay United Bank as the operating bonds. As of 31 December 2018 and 31 December 2017, the operating bonds were \$390,000 thousand and \$385,000 thousand, respectively.

(B) Customer’s margin accounts

Name	2018.12.31	2017.12.31
Subsidiary		
Cathay United Bank	<u>\$910,355</u>	<u>\$716,284</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(C) Financial assets at fair value through profit or loss

Name	2018.12.31	2017.12.31
Other related party		
Cathay Dragon Fund etc.	\$243,018	\$237,708

(D) Futures trader's equity

Name	2018.12.31	2017.12.31
Subsidiary		
Cathay Life	\$1,511,584	\$1,628,717
Other related party		
Cathay Dragon Fund etc.	994,480	526,611
Total	\$2,506,064	\$2,155,328

E. Cathay Securities Investment Trust

(A) Cash in bank

Name	Items	2018.12.31	2017.12.31
Subsidiary			
Cathay United Bank	Time deposit (Note)	\$80,300	\$96,300
	Cash in bank	36,562	55,082
	Check deposits	65,328	78,395
	Total	\$182,190	\$229,777

Note: In accordance with “Standards Governing the Establishment of Futures Trust Enterprises” and “Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises”, Cathay Securities Investment Trust lodges the time deposits in Cathay United Bank as operating bonds. As of 31 December 2018 and 31 December 2017, the operating bonds were all \$50,000 thousand. In accordance with “Discretionary Investment Services Contract”, as of 31 December 2018 and 31 December 2017, Cathay Securities Investment Trust reserved the performance bonds amounting to \$30,300 thousand and \$36,300 thousand, respectively.

Interest income from Cathay United Bank for the years ended 31 December 2018 and 2017 were \$210 thousand and \$252 thousand, respectively.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(B) Management fee income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Life	\$402,183	\$152,394
Other related party		
Cathay Dragon Fund etc.	1,825,974	1,445,593
Total	<u>\$2,228,157</u>	<u>\$1,597,987</u>

(C) Receivables

Name	2018.12.31	2017.12.31
Other related party		
Cathay Dragon Fund etc.	<u>\$154,280</u>	<u>\$145,162</u>

(D) Investment balance of related parties' discretionary investment

Name	2018.12.31	2017.12.31
Subsidiaries		
Cathay Life	\$217,459,957	\$245,661,387
Cathay Century	848,925	898,774
Total	<u>\$218,308,882</u>	<u>\$246,560,161</u>

(E) Operating expenses

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiaries		
Conning Asia Pacific Ltd.	<u>\$120,304</u>	<u>\$90,805</u>

8. Pledged assets

As of 31 December 2018 and 31 December 2017 the Group's pledged assets are summarized below:

Items	Guarantee purpose	Carrying amount	
		2018.12.31	2017.12.31
Cash, Time deposits and guarantee deposits paid	Capital guarantee, serving as deposits paid, settlement accounts overdraft guarantee, collateral for court guarantees, collateral for applying for a provisional attachment counter-guarantee for the property lease deposit collected from the lessee	\$16,515,144	\$14,608,359
Financial assets at fair value through profit or loss	Collateral for securities lending and loan	1,179,454	1,929,047
Available-for-sale financial assets	Business reserves and collaterals	(Note)	57,613
Financial assets at fair value through other comprehensive income	Business reserves and collaterals	14,353	(Note)
Financial assets measured at amortized cost	Business reserves and collaterals	64,423,052	(Note)
Held-to-maturity financial assets	Business reserves, collaterals and collateral for loan	(Note)	5,903,749
Investments in debt securities with no active market	Business reserves and collaterals	(Note)	63,800,000
Investment property	short-term loan	290,341	-
Total		<u>\$82,422,344</u>	<u>\$86,298,768</u>

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

9. Commitment and contingent liabilities

(1) Cathay United Bank

Lee & Li, Attorneys-at-Law and SanDisk Corporation of USA alleged that the embezzlement case of Liu Wei-Chieh (an employee of Lee & Li), which occurred in October 2003 was caused by the negligence of Cathay United Bank in its operation, and the plaintiffs claimed damages from Cathay United Bank in the amount of approximately \$991,002 thousand and \$3,090,000 thousand separately. The case has been pending in the court since July 2007, and Cathay United Bank won favorable decisions in both first instance and second instances. However, the judgment was rejected by Supreme Court and was remanded to the High Court. Both Cathay United Bank and its attorneys hold that this case will not have material adverse effect on the financial position of Cathay United Bank and its subsidiaries.

- (2) As of 31 December 2018 and 31 December 2017 Cathay United Bank and its subsidiaries had the following commitments and contingent liabilities, which were not reflected in the financial statements:

Items	2018.12.31	2017.12.31
Trust and security held for safekeeping	\$750,988,804	\$684,016,891
Travelers checks for sale	299,765	355,055
Bills for collection	36,044,907	40,718,597
Book-entry for government bonds and depository for short-term marketable securities under management	400,999,309	388,637,503
Entrusted financial management business	21,016,659	8,827,034
Guarantees on duties and contracts	13,534,956	7,167,460
Unused commercial letters of credit	6,008,561	5,395,278
Irrevocable loan commitments	155,229,226	211,869,506
Unused credit card lines commitments	592,059,512	555,882,027
Underwriting securities	1,000,000	230,000
Financial guarantee contracts	2,511,838	2,648,521

(3) Leases

As of 31 December 2018 and 31 December 2017. According to the effective operating leases agreement (the longest lease term is 5 years), rentals for the next five years are as follows:

	2018.12.31	2017.12.31
Within 1 year	\$1,947,693	\$2,025,770
1 to 5 years	4,035,165	3,337,847
Over 5 year	335,803	108,483
Total	<u>\$6,318,661</u>	<u>\$5,472,100</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(4) Investment commitment for private equity fund

As of 31 December 2018, the maximum remaining capital commitment for the contracted private equity fund of Cathay Life was USD 2,277,301 thousand, EUR 315,235 thousand, GBP 1,557 thousand, and NTD 2,200,000 thousand.

10. Significant disaster losses:

None

11. Subsequent events

(1) Cathay Securities received a refund of shares in the amount of USD 303,485.47 from Cathay Investment Consulting (Shanghai) Co., Ltd. which was liquidated on 26 February 2019.

(2) Please refer to Note 12.(7).

12. Other significant matters

(1) Categories of financial instruments

The Group

	2018.12.31	2017.12.31 (Note)
Financial assets		
Financial assets at fair value through profit or loss	\$1,428,824,049	
Financial assets at fair value through other comprehensive income	1,127,810,270	
Financial assets for hedging -net	216,611	
Financial assets measured at amortized cost		
Cash and cash equivalents (petty cash and cash on hand excluded)	189,318,814	
Due from the Central Bank and call loans to banks	104,223,315	
Financial assets measured at amortized cost	2,688,221,788	
Securities purchased under agreements to resell	59,212,899	
Receivables -net	161,216,190	
Loans -net	2,176,775,907	
Other financial assets -net	555,740,531	
Guarantee deposits paid	57,523,991	
Subtotal	5,992,233,435	
Total	\$8,549,084,365	

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2018.12.31 (Note)	2017.12.31
Financial assets		
Financial assets at fair value through profit or loss		\$365,808,158
Available-for-sale financial assets -net		1,681,125,738
Derivative financial assets for hedging -net		246,444
Held-to-maturity financial assets -net		98,759,110
Other financial assets - investments with no active market		2,783,306,758
Loans and receivables		
Cash and cash equivalents (petty cash and cash on hand excluded)		227,032,625
Due from the Central Bank and call loans to banks		125,163,780
Securities purchased under agreements to resell		99,703,578
Receivables -net		169,202,260
Loans -net		2,038,528,190
Other financial assets -net		564,600,543
Guarantee deposits paid		36,555,168
Subtotal		3,260,786,144
Total		\$8,190,032,352

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

	2018.12.31	2017.12.31
Financial liabilities		
Financial liabilities at fair value through profit or loss	\$129,698,896	\$90,514,268
Financial liabilities at amortized cost		
Due to the Central Bank and call loans from banks	81,432,233	90,417,859
Securities sold under agreements to repurchase	59,307,037	112,643,582
Commercial paper payable -net	62,989,367	51,468,158
Payables	66,727,399	57,943,815
Deposits	2,187,203,086	2,062,953,012
Bonds payable	90,600,000	98,350,000
Other borrowings	336,381	441,199
Other financial liabilities	627,815,178	623,527,312
Guarantee deposits received	6,059,194	13,392,097
Subtotal	3,182,469,875	3,111,137,034
Total	\$3,312,168,771	\$3,201,651,302

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(2) Fair value of financial instruments

A. The methods and assumptions applied in determining the fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Group to measure or disclose the fair values of financial assets and financial liabilities:

- (A) The carrying amount of cash and cash equivalents, accounts receivables, short-term debts and accounts payable approximate their fair value due to their short maturities.
- (B) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.
- (C) Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).
- (D) Fair value of debt instruments without market quotations is determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the GreTai Securities Market, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk information.)
- (E) The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- (F) The Group evaluates the credit risk of the derivative contract traded over-the-counter through the following calculation. Under the assumption that the Group will not default, the Group determines its credit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Group calculates its debit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the Group. The Group decides the estimated probability of default by referring to the probability of default announced by external credit rating agencies. The Group sets estimated loss given default at 60% by considering the experiences of Jon Gregory, a scholar, and foreign financial institutions. The estimated exposure at default for current period is evaluated by considering the fair value of the derivative instruments traded at Taipei Exchange.

B. Financial instruments not measured at fair value

Except as detailed in the following table, cash and cash equivalents, due from the central bank and call loans to banks, securities purchased under resell agreements, receivables, discounts and loans, guarantee deposits paid, deposits from the central bank and banks, due to the central bank and other banks, notes and bonds issued under repurchase agreement, commercial papers payable, payables, deposits and remittances and guarantee deposits received are the management considers the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values or that the fair values cannot be reasonably measured:

	Book value	
	2018.12.31	2017.12.31
<u>Financial assets</u>		
Financial assets measured at amortized cost (Note 1)	\$2,704,025,477	(Note 2)
Held-to-maturity financial assets (Note 1)	(Note 2)	\$107,306,112
Investments with no active market	(Note 2)	2,783,306,758
Other financial assets	1,999,406	4,500,000
	Fair value	
	2018.12.31	2017.12.31
<u>Financial assets</u>		
Financial assets measured at amortized cost (Note 1)	\$2,607,380,843	(Note 2)
Held-to-maturity financial assets (Note 1)	(Note 2)	\$115,588,892
Investments with no active market	(Note 2)	2,876,428,806
Other financial assets	2,009,973	4,521,701

Note 1: Guarantee deposits paid in bonds are included.

Note 2: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(3) Hedge accounting disclosures

Cash flow hedges

Cathay Life and its subsidiaries elected to apply hedge accounting policy of IFRS 9 late at the initial application of IFRS 9. The future cash flows fluctuation in the floating-rate assets held by Cathay Life and its subsidiaries may occur due to the change in market interest rate and lead to risk. Cathay Life and its subsidiaries held IRS thus to hedge risks arising from changes in interest rate. Information of hedge accounting from 1 January 2018 is as follows:

A. Hedging instruments

31 December 2018					
Hedging instrument	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line items in balance sheet where the hedging instrument is included	Changes in fair value used for calculating hedge ineffectiveness for current period
		Assets	Liabilities		
IRS	\$6,800,000	\$216,611	\$-	Financial assets for hedging	\$54,891

B. A profile of the timing of the nominal amount of the hedging instrument and the average price or rate

31 December 2018	Due in				
	1 month	1-3 months	3 months-1 year	1-5 years	Over 5 years
IRS					
Nominal principal	\$-	\$-	\$-	\$3,800,000	\$3,000,000
Average fixed rate	-	-	-	1.6%	1.7%

C. Hedged items

2018.1.1~2018.9.30							
Changes in fair value used for calculating hedge ineffectiveness for current period	Cash flow hedge reserve	Balance of cash flow hedge reserve generated from the hedging relationships where hedge accounting is no longer applicable	Change in the value of the hedging instrument recognized in comprehensive income	Hedge ineffectiveness recognized in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from the cash flow hedge reserve to profit or loss	Line items affected in profit or loss because of the reclassification
Floating-rate bonds	\$(54,891)	\$216,611	n/a	\$54,891	\$-	\$(84,725)	Net other non-interest gains
Discontinued hedge—floating-rate bonds	n/a	n/a	\$-	n/a	n/a	1,087	Net other non-interest gains

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

D. Movement of equity component applying hedged accounting and related other comprehensive income are summarized below:

	2018.1.1~ 2018.12.31
Beginning balance	\$203,647
Gross amount recognized in other comprehensive income	
Change in the value of the hedging instrument recognized in other comprehensive income	54,891
Amount reclassified from the cash flow hedge reserve to profit or loss	(83,638)
Income tax	(1,611)
Ending balance	\$173,289

The following table summarizes the terms of Cathay Life and its subsidiaries' IRS for bonds used as hedging instruments before 1 January 2018:

2017.12.31				
Hedged item	Hedging instrument	Fair Value	Expected period of cash flow	Expected period of profit and loss recognized in the statement of comprehensive income
Floating rate bonds	IRS	\$246,444	2018.2.19~2024.5.26	2018.2.19~2024.5.26

The terms of interest rate swap agreements are established based on the terms of the bonds hedged.

Interest rate swap agreements are considered to be highly effective cash flow hedges. Amount of effective hedging instrument in cash flow hedges is as follows:

	2017.1.1~ 2017.12.31
Amount recognized in other comprehensive income	\$14,595
Amount reclassified from equity to profit or loss	(419)

(4) Offsetting of financial assets and financial liabilities

The Group owns financial instruments that do not offset in accordance with IAS 32 but it executed enforceable master netting arrangement or other similar agreements with counterparties. Financial instruments subject to enforceable master netting arrangement or other similar agreements could be settled at net amount as chosen by the counterparties, or the financial instruments could be settled at gross amount if not. However, if one of the counterparty defaults, the other party could choose to settle the transaction at net amount.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Information related to offsetting financial assets and financial liabilities of Cathay Life and its subsidiaries is disclosed as follows:

2018.12.31

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments	Financial collateral received	
Derivative financial instrument	\$5,584,159	\$-	\$5,584,159	\$(5,424,679)	\$-	\$159,480

2018.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments	Financial collateral received	
Derivative financial instrument	\$27,499,106	\$-	\$27,499,106	\$(5,424,679)	\$(10,921,864)	\$11,152,563

2017.12.31

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments	Financial collateral received	
Derivative financial instrument	\$16,976,162	\$-	\$16,976,162	\$(1,102,509)	\$(5,561,151)	\$10,312,502

2017.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		
Item				Financial instruments	Financial collateral received	Net amount
Derivative financial instrument	\$1,104,658	\$-	\$1,104,658	\$(1,102,509)	\$(24,176)	\$(22,027)

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Information relating to offsetting financial assets and financial liabilities of Cathay United Bank and its subsidiaries is disclosed as follows:

2018.12.31

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Derivative financial instrument	\$49,475,706	\$-	\$49,475,706	\$(49,475,706)	\$-	\$-

2018.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Derivative financial instrument	\$51,966,013	\$-	\$51,966,013	\$(49,475,706)	\$(2,490,307)	\$-

2017.12.31

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Derivative financial instrument	\$33,172,556	\$-	\$33,172,556	\$(33,172,556)	\$-	\$-

2017.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Derivative financial instrument	\$33,616,157	\$-	\$33,616,157	\$(33,172,556)	\$(443,601)	\$-

Note: Master netting arrangement and non-cash collateral are included.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Cathay Securities enters into secured repurchase agreements (“repo”) with counterparties, for which Cathay Securities provides securities as collaterals. Only in the event of default, insolvency or bankruptcy are these transactions allowed to set off. They do not meet the offsetting criterion in international accounting standards. Hence, the related repo liabilities are reported in the balance sheet.

Information relating to offsetting financial assets and financial liabilities of Cathay Securities and its subsidiaries is disclosed as follows:

2018.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet		Relevant amount that has not been offset on balance sheet		
		Net financial liabilities recognized on balance sheet	Financial instruments (Note)	Cash collateral received	Net amount	
Repurchase bonds	\$3,332,528	\$-	\$3,332,528	\$(3,332,528)	\$-	\$-

2017.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet		Relevant amount that has not been offset on balance sheet		
		Net financial liabilities recognized on balance sheet	Financial instruments (Note)	Cash collateral received	Net amount	
Repurchase bonds	\$2,702,157	\$-	\$2,702,157	\$(2,702,157)	\$-	\$-

Note: Master netting arrangement and non-cash collateral are included.

(5) Financial instruments related information

A. The definition of the hierarchy of the financial instruments is measured at fair value

1st Level: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

2nd Level: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

3rd Level: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

For assets and liabilities that are recognized in the financial statement on a recurring basis, the bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

B. Fair value measurement hierarchy of the Group's assets and liabilities

The Group does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Group's assets and liabilities measured at fair value on a recurring basis is as follows:

Financial instruments measured at fair value items	2018.12.31			
	Total	1st Level	2nd Level	3rd Level
Non-derivative instruments				
Assets				
Financial assets at fair value through profit or loss				
Mandatorily measured at fair value through profit or loss				
Stocks	\$673,969,471	\$595,197,411	73,387,015	5,385,045
Bonds	247,536,253	14,790,150	231,090,829	1,655,274
Others	455,969,651	196,842,000	182,125,718	77,001,933
Financial assets at fair value through other comprehensive income				
Stocks	43,192,054	34,662,164	155,096	8,374,794
Bonds (Note 1)	1,086,899,086	114,029,003	972,870,083	-
Investment property (Note 2)	310,083,727	-	-	310,083,727
Liabilities				
Financial liabilities at fair value through profit or loss				
Designated at fair value through profit or loss	51,441,482		51,441,482	-
Held for trading	2,521,778	2,521,778	-	
Derivative instruments				
Assets				
Financial assets at fair value through profit or loss	51,348,674	512,893	38,751,564	12,084,217
Derivative financial assets for hedging	216,611	-	216,611	-
Liabilities				
Financial liabilities at fair value through profit or loss	75,735,636	271,010	63,380,409	12,084,217

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Financial instruments measured at fair value items	2017.12.31			
	Total	1st Level	2nd Level	3rd Level
Non-derivative instruments				
Assets				
Financial assets at fair value through profit or loss				
Designated at fair value through profit or loss at initial recognition				
Stocks	\$84,171	\$84,171	\$-	\$-
Others	155,197	-	155,197	-
Held for trading				
Stocks	17,846,019	17,831,044	14,975	-
Bonds	109,547,916	87,569,462	21,978,454	-
Others	188,267,281	17,703,649	170,563,632	-
Available-for-sale financial assets				
Stocks	714,122,499	695,086,227	4,610,042	14,426,230
Bonds (Note 1)	603,589,985	111,083,203	492,475,196	31,586
Others	364,504,104	296,861,181	16,490,474	51,152,449
Investment property (Note 2)	307,190,424	-	-	307,190,424
Liabilities				
Financial liabilities at fair value through profit or loss				
Designated at fair value through profit or loss	53,639,010	-	53,639,010	-
Held for trading				
Bonds	49,945	49,945	-	-
Others	1,824,436	1,824,436	-	-
Derivative instruments				
Assets				
Financial assets at fair value through profit or loss	49,907,574	642,536	40,544,691	8,720,347
Derivatives financial assets for hedging	246,444	-	246,444	-
Liabilities				
Financial liabilities at fair value through profit or loss	35,000,877	867,393	25,310,612	8,822,872

Note 1: Guarantee deposits paid in bonds are included.

Note 2: Amount of investment property excludes the parts which were measured at cost.

Transfers between 1st level and 2nd level during the period

For the year ended 31 December 2018, Cathay Life and its subsidiaries transferred stocks mandatory through profit or loss which were measured at fair value on a recurring basis, from 2nd level to 1st level. A total of \$2,450,314 thousand was transferred as its market price was obtainable. For the year ended 31 December 2017, Cathay Life and its subsidiaries' stocks held for trading which were measured at fair value on a recurring basis, from 2nd level to 1st level. A total of \$354,375 thousand was transferred as its market price was obtainable.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

For the year ended 31 December 2018, Cathay United Bank and its subsidiaries were no transfers between 1st level and 2nd level. Certain central government bonds held by Cathay United Bank were determined to be debt instruments with no active market according to the Company's internal risk control policy evaluation. Therefore, \$8,431,930 thousand of it was transferred from 1st level to 2nd level fair value measurements during the year ended 31 December 2017.

For the year ended 31 December 2018 and 2017, Cathay Century and its subsidiaries transferred stocks which were measured at fair value on a recurring basis, from 2nd level to 1st level. A total of \$105,291 thousand and \$435,526 thousand, respectively, was transferred as its market price was obtainable.

Reconciliation for fair value measurements in 3rd level for movements

Reconciliation for fair value measurements in 3rd level of the fair value hierarchy for movements during the period is as follows:

	Assets			Liabilities
	Financial assets at fair value through profit or loss (Note)	Financial assets at fair value through other comprehensive income	Investment property	Financial liabilities at fair value through profit or loss
2018.1.1	\$68,663,020	\$8,805,074	\$307,190,424	\$8,822,872
Total gains (losses) recognized				
Amount recognized in profit or loss				
Valuation profit or loss from financial assets and liabilities at fair value through profit or loss	17,284,322	-	-	5,141,555
Other comprehensive losses reclassified using overlay approach	(7,748,963)	-	-	-
Valuation losses from investment property	-	-	(998,435)	-
Amount recognized in other comprehensive income				
Exchange differences resulting from translating the financial statements of foreign operations	20,806	105	(1,214,457)	1,020
Other comprehensive income reclassified using overlay approach	7,748,963	-	-	-
Valuation profit or loss on equity instruments at fair value through other comprehensive income	-	1,281,806	-	-
Acquisition or issues	25,976,824	331,449	45,000	53,492
Transfers from property and equipment	-	-	(764,214)	-
Transfers from investment property under construction and prepayment for properties	-	-	5,359,482	-
Transfers from investment property measured at cost	-	-	1,053,619	-
Disposal or settlements	(14,071,313)	(395,326)	(587,692)	(1,934,722)
Transfers to 3 rd level	941,655	-	-	-
Transfers from 3 rd level	(2,688,845)	(1,648,314)	-	-
2018.12.31	\$96,126,469	\$8,374,794	\$310,083,727	\$12,084,217

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	Assets			Liabilities
	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Investment property	Financial liabilities at fair value through profit or loss
2017.1.1	\$17,622,700	\$53,522,530	\$301,748,213	\$17,699,268
Total gains (losses) recognized				
Amount recognized in profit or loss				
Valuation profit or loss from financial assets and liabilities at fair value through profit or loss	(8,781,888)	-	-	(8,749,500)
Realized gains from available-for-sale financial assets	-	3,183,093	-	-
Valuation losses from investment property	-	-	(830,441)	-
Amount recognized in other comprehensive income				
Unrealized valuation losses from available- for-sale financial assets	-	(235,689)	-	-
Exchange differences resulting from translating the financial statements of foreign operations	-	-	438,152	(6,431)
Acquisition or issues	618,434	19,963,983	-	618,434
Transfers from property and equipment	-	-	697,530	-
Transfers from investment property under construction and prepayment for properties	-	-	3,149,275	-
Transfers from investment property measured at cost	-	-	2,191,115	-
Disposal or settlements	(738,899)	(10,020,001)	(203,420)	(738,899)
Transfers to 3 rd level	-	307,692	-	-
Transfers from 3 rd level	-	(1,111,343)	-	-
2017.12.31	\$8,720,347	\$65,610,265	\$307,190,424	\$8,822,872

Total gains (losses) recognized in profit or loss in the table above contained unrealized losses related to assets on hand as of 31 December 2018 and 2017 in the amount of \$4,832,418 thousand and \$(9,612,329) thousand, respectively.

Total gains (losses) recognized in profit or loss in the table above contained unrealized gains related to liabilities on hand as of 31 December 2018 and 2017 in the amount of \$(5,141,555) thousand and \$8,749,500 thousand, respectively.

Information on 3rd level significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within 3rd level of the fair value hierarchy is as follows:

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Cathay Life and its subsidiaries

2018.12.31				
	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets				
Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income	Net value approach	discount for lack of marketability	0% ~ 3%	The higher the discount for lack of marketability and control, the lower the fair value of the stocks
	Market approach	discount for lack of marketability	11% ~ 30%	The higher the discount for lack of marketability and control, the lower the fair value of the stocks
	Income approach	discount for lack of marketability, minority share discount	22% ~ 37%	The higher the discount for lack of marketability, the lower the fair value of the stocks
		growth rate of adjusted net profit after tax	-48% ~ -36%	The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks
		dividend payout ratio	70% ~ 140%	The higher the dividend payout ratio, the higher the fair value of the stocks

Non financial asset

Investment property Refer to Note 6.(11)

2017.12.31				
	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets				
Available- for-sale	Market approach	discount for lack of marketability	11% ~ 30%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Income approach	discount for lack of marketability, minority interest	15% ~ 53%	The higher the discount for lack of marketability and control, the lower the fair value of the stocks
		growth rate of adjusted net profit after tax	-60% ~ 69%	The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks
		dividend payout ratio	0 ~ 140%	The higher the dividend payout ratio, the higher the fair value of the stocks

Non financial asset

Investment property Refer to Note 6.(11)

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Cathay United Bank and its subsidiaries

2018.12.31				
	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial asset				
Financial assets at fair value through other comprehensive income – Stocks	Market approach	discount for lack of marketability	15% ~ 20%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Residual income approach	Cost of equity rate	6% ~ 7%	The higher the cost of equity rate, the lower the fair value of the stocks
	Value of net assets approach	Value of net assets	N/A	The higher the value of net assets, the higher the fair value of the stocks
Non financial asset				
Investment property	Refer to Note 6.(11)			

2017.12.31				
	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets				
Available-for-sale Stocks	Market approach	discount for lack of marketability	15% ~ 20%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Residual income approach	Cost of equity rate	6% ~ 7%	The higher the cost of equity rate, the lower the fair value of the stocks
	Value of net assets approach	Value of net assets	N/A	The higher the value of net assets, the higher the fair value of the stocks
Non financial asset				
Investment property	Refer to Note 6.(11)			

Cathay Century and its subsidiaries

2018.12.31					
	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets					
Financial assets at fair value through other comprehensive income					
Stocks	Market comparison approach	discount for lack of marketability	29%	The higher the discount for lack of marketability, the lower the fair value of the stocks	5% increase (decrease) in the discount for lack of marketability would result in decrease (increase) in Cathay Century and its subsidiaries' equity by \$28,800

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.12.31					
	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets					
Available-for-sale					
Stocks	Market comparison approach	discount for lack of marketability	30%	The higher the discount for lack of marketability, the lower the fair value of the stocks	5% increase (decrease) in the discount for lack of marketability would result in decrease (increase) in Cathay Century and its subsidiaries' equity by \$31,200

Cathay Securities and its subsidiaries

2018.12.31					
	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity analysis of relationship between inputs and fair value
Financial assets					
Equity instruments at fair value through other comprehensive income	Market comparison approach	discount for lack of marketability	According to the weighted average interval 15%~20%	The higher the discount for lack of marketability, the lower the fair value of the stocks	Discount rate 3%~ -3% ↓ Floating rate of fair value 3.67%~ -3.67%
Non financial assets					
Investment property	Refer to Note 6.(11)				

2017.12.31					
	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity analysis of relationship between inputs and fair value
Non financial assets					
Investment property	Refer to Note 6.(11)				

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Valuation process used for fair value measurements categorized within 3rd level of the fair value hierarchy

The Group's Risk Management Department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company and subsidiaries' accounting policies at each reporting date. The fair value of the investment property is measured in accordance with the valuation measurements and input assumptions announced by FSC and is examined by external appraisers.

C. Fair value measurement hierarchy of the Group's assets and liabilities not measured at fair value but for which the fair value is disclosed

2018.12.31				
	Total	1 st level	2 nd level	3 rd level
Financial assets not measured at fair value for which only the fair value is disclosed				
Financial assets measured at				
amortized cost (Note)	\$2,607,380,843	\$121,132,583	\$2,480,186,972	\$6,061,288
Other financial assets	2,009,973	-	2,009,973	-

2017.12.31				
	Total	1 st level	2 nd level	3 rd level
Financial assets not measured at fair value for which only the fair value is disclosed				
Debt instrument investments for				
which no active market exists	\$2,876,428,806	\$331,977	\$2,872,443,607	\$3,653,222
Held-to-maturity financial assets				
(Note)	115,588,892	24,611,456	84,733,763	6,243,673
Other financial assets	4,521,701	-	4,521,701	-

Note: Guarantee deposits paid in bonds are included.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(6) Transfers of Financial Assets

A. Financial Assets transferred that have not been fully removed

Transferred financial assets that are part of Cathay United Bank and its subsidiaries' daily operations that do not meet the criteria for full removal are mostly made up of debt securities used as counterparty collateral for repurchase agreements or equity securities lent out as part of securities lending agreement. The nature of these transactions are secured loans, and reflects the liability where Cathay United Bank are obligated to buy back the transferred financial assets according to fixed prices in future periods. With respect to such transactions, Cathay United Bank will not be able to use, sell or pledge said transferred financial assets during the effective period however Cathay United Bank are still exposed to interest rate risk and credit risk, hence the assets are not removed.

The following table analyses Cathay United Bank's financial assets and financial liabilities that have not been fully removed:

Categories of financial assets	2018.12.31				
	Transferred	Related Financial	Transferred	Related Financial	Net fair value
	Financial Assets	Liabilities	Financial Assets	Liabilities Fair	
	Carrying Value	Carrying value	Fair Value	value	
Financial assets at fair value					
through profit or loss					
Repurchase agreements	\$583,745	\$523,342	\$581,159	\$523,342	\$57,817
Financial assets at fair value through					
other comprehensive income					
Repurchase agreements	45,534,737	42,613,744	44,424,315	42,613,744	1,810,571
Financial assets measured at					
amortized cost					
Repurchase agreements	14,649,885	11,447,258	14,649,885	11,447,258	3,202,627
Securities sold under agreements					
Repurchase agreements	1,493,132	1,390,165	1,493,132	1,390,165	102,967
Categories of financial assets	2017.12.31				
	Transferred	Related Financial	Transferred	Related Financial	Net fair value
	Financial Assets	Liabilities	Financial Assets	Liabilities Fair	
	Carrying Value	Carrying value	Fair Value	value	
Financial assets at fair value					
through profit or loss					
Repurchase agreements	\$46,111,758	\$43,634,657	\$46,023,858	\$43,634,657	\$2,389,201
Available for sale financial assets					
Repurchase agreements	30,037,560	29,338,529	29,620,525	29,338,529	281,996
Held to maturity financial assets					
Repurchase agreements	23,492,043	23,242,069	23,491,961	23,242,069	249,892
Debt instrument investments for					
which no active market exists					
Repurchase agreements	13,877,559	13,726,170	13,877,559	13,726,170	151,389

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Transferred financial assets that are part of Cathay Securities and its subsidiaries' daily operations that do not meet the criteria for full removal are mostly made up of corporate bonds with repurchase agreements or equity securities lent out as part of securities lending agreement. The cash flows of these transactions have been transferred, and reflects the liability where Cathay Securities and its subsidiaries are obligated to buy back the transferred financial assets according to fixed prices in future periods. With respect to such transactions, Cathay Securities and its subsidiaries will not be able to use, sell or pledge said transferred financial assets during the effective period however Cathay Securities and its subsidiaries are still exposed to interest rate risk and credit risk, hence the assets are not removed.

The following table analyses Cathay Securities and its subsidiaries' financial assets and financial liabilities that have not been fully removed:

Categories of financial assets	2018.12.31				
	Transferred	Related Financial	Transferred	Related Financial	Net fair value
	Financial Assets	Liabilities	Financial Assets	Liabilities Fair	
	Carrying Value	Carrying value	Fair Value	value	
Financial assets at fair value through other comprehensive income					
Repurchase bonds	\$3,379,521	\$3,332,528	\$3,379,521	\$3,332,528	\$46,993
Categories of financial assets	2017.12.31				
	Transferred	Related Financial	Transferred	Related Financial	Net fair value
	Financial Assets	Liabilities	Financial Assets	Liabilities Fair	
	Carrying Value	Carrying value	Fair Value	value	
Financial assets at fair value through profit or loss					
Repurchase bonds	\$2,737,491	\$2,702,157	\$2,737,491	\$2,702,157	\$35,334

(7) Management on financial risks

Cathay Life and its subsidiaries

A. Credit risk analysis

(A) Sources of credit risk

Credit risks from financial transactions include issuer credit risk, counterparty risk and underlying assets credit risk:

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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

(B) Concentration risk

- a. Regional distribution of credit risk exposure for financial assets of Cathay Life:

2018.12.31

Financial assets	Taiwan	Asia	Europe	North America	Emerging markets and others	Total
Cash and cash equivalents	\$108,663,821	\$598,577	\$136,389	\$54,671,101	\$201,744	\$164,271,632
Financial assets at fair value through profit or loss	36,221,083	26,691,362	86,749,425	34,116,884	82,160,244	265,938,998
Financial assets at fair value through other comprehensive income	90,868,582	31,038,900	168,157,801	359,145,961	242,495,856	891,707,100
Financial assets for hedging	96,344	-	-	120,267	-	216,611
Financial assets measured at amortized cost	183,624,214	140,559,799	382,921,822	1,001,042,809	549,913,112	2,258,061,756
Other financial assets	-	-	1,999,406	-	-	1,999,406
Total	\$419,474,044	\$198,888,638	\$639,964,843	\$1,449,097,022	\$874,770,956	\$3,582,195,503
Proportion	11.7%	5.5%	17.9%	40.5%	24.4%	100.0%

2017.12.31

Financial assets	Taiwan	Asia	Europe	North America	Emerging markets and others	Total
Cash and cash equivalents	\$129,912,803	\$82,321	\$265,187	\$56,291,047	\$14,369,897	\$200,921,255
Financial assets at fair value through profit or loss	5,766,821	1,219,662	7,689,393	4,455,766	-	19,131,642
Available-for-sale financial assets	178,366,275	24,358,644	39,738,326	126,393,250	147,352,716	516,209,211
Derivative financial assets for hedging	100,138	-	-	146,306	-	246,444
Debt instrument investments for which no active market exists	103,443,034	148,990,759	461,590,904	1,066,922,659	597,851,906	2,378,799,262
Held-to-maturity financial assets	39,326,264	-	-	11,482,335	-	50,808,599
Other financial assets	1,000,000	-	3,500,000	-	-	4,500,000
Total	\$457,915,335	\$174,651,386	\$512,783,810	\$1,265,691,363	\$759,574,519	\$3,170,616,413
Proportion	14.4%	5.5%	16.2%	39.9%	24.0%	100.0%

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- b. Regional distribution of credit risk exposure for secured loans and overdue receivables of Cathay Life

2018.12.31

Location	Northern and eastern areas	Central area	Southern area	Overseas	Total
Secured loans	\$287,440,820	\$48,492,142	\$71,391,306	\$8,193,993	\$415,518,261
Overdue receivables	878,642	36,044	54,067	-	968,753
Total	\$288,319,462	\$48,528,186	\$71,445,373	\$8,193,993	\$416,487,014
Proportion	69.2%	11.6%	17.2%	2.0%	100.0%

2017.12.31

Location	Northern and eastern areas	Central area	Southern area	Overseas	Total
Secured loans	\$313,014,247	\$50,733,517	\$77,352,450	\$2,079,898	\$443,180,112
Overdue receivables	244,525	29,822	69,957	-	344,304
Total	\$313,258,772	\$50,763,339	\$77,422,407	\$2,079,898	\$443,524,416
Proportion	70.6%	11.4%	17.5%	0.5%	100.0%

(C) Credit risk quality category

The credit risk of Cathay Life can be categorized into low credit risk, medium credit risk, high credit risk and credit impaired. The definitions of each category are as follows:

- Low credit risk indicates that an entity or a subject has an ability to perform financial commitment in a stable level. Even though it encounters material uncertainty and is exposed to unfavorable conditions, it can still maintain its ability to perform financial commitment.
- Medium credit risk indicates that an entity or a subject has a weak ability to perform financial commitment. Unfavorable operational, financial or economic conditions will diminish its ability to perform financial commitment.
- High credit risk indicates that an entity or a subject has a fragile ability to perform financial commitment. Whether the entity can perform the commitment depends on whether its business environment and financial status are favorable.
- Credit impaired indicates that an entity or a subject fails to fulfill its obligations. Cathay Life evaluated whether the impairment standard has been reached based on potential losses.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(D) Determinants for whether the credit risk has increased significantly since initial recognition

- a. Cathay Life assesses, at each reporting date, whether the credit risk of a financial instrument in the scope of impairment requirements under IFRS 9 has increased significantly since initial recognition. To make this assessment, Cathay Life and its subsidiaries considered reasonable and supportable information (including forward-looking information) which indicated that credit risk has increased significantly since initial recognition. The main indicators included external credit rating, past due information, credit spread and other market information which showed that the credit risk related to borrowers and issuers has increased significantly.
- b. If the credit risk at the reporting date is determined to be low, an entity can assume that the credit risk of the financial instrument has not increased significantly since initial recognition.

(E) Definitions of a default occurring on a financial asset and a credit-impaired financial asset

The definition of a default occurring on financial assets of Cathay Life is the same as a credit-impaired financial asset. If one or more of the criteria below are met, a default occurs and a financial asset is credit-impaired:

- a. Quantitative factor: when contractual payments are more than 90 days past due, a default occurs and a financial asset is credit-impaired.
- b. Qualitative factor: an evidence indicates that the issuers or borrowers cannot pay the contractual payments or that they have significant financial difficulties, for example:
 - (a) The issuers and borrowers have entered bankruptcy or are probable to file bankruptcy or financial reorganization.
 - (b) The borrowers fail to make interest or principal payments based on original terms and conditions.
 - (c) The collaterals of the borrowers are seized provisionally or enforced.
 - (d) The borrowers claim for a change of credit conditions due to financial difficulties.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- c. The abovementioned definitions of a default and a credit impairment are applicable to all financial assets held by Cathay Life, and are aligned with those of financial assets for internal credit risk management. The definitions are also applicable to related impairment assessment model.

(F) Measurement of expected credit losses

a. Methods and assumptions adopted

For financial instruments on which the credit risk has not increased significantly since initial recognition, Cathay Life measures loss allowance for financial instruments at an amount equal to 12-month expected credit losses; for financial instruments on which the credit risk has increased significantly since initial recognition or are credit-impaired, Cathay Life measures loss allowance for financial instruments at an amount equal to the lifetime expected credit losses.

To measure expected credit losses, Cathay Life multiplies exposure at default by 12-month and the lifetime probability of default of the issuers, guarantee agencies and borrowers and loss given default. Cathay Life also considers the effect of the time value of money to calculate 12-month expected credit losses and the lifetime expected credit losses.

Default rate is the rate that issuers, guarantee agencies and counterparties default. Loss given default is the loss rate resulted from the default of issuers, guarantee agencies and counterparties. Loss given default used by Cathay Life in impairment assessment is based on information regularly issued by Moody's. Probability of default is based on information regularly issued by Taiwan Ratings and Moody's and is determined based upon current observable information and macroeconomic information (gross domestic product and economic growth rate, for example) with adjustments of historic data. Exposure at default is measured at the amortized cost and interest receivables of the financial assets.

b. Consideration of forward-looking information

Cathay Life takes forward-looking information into consideration while measuring expected credit losses of the financial assets.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(G) Gross carrying amount of maximum credit risk exposure and category of credit quality

a. Financial assets of Cathay Life

		31 December 2018 (Note 1)					
		Stage 1	Stage 2	Stage 3			
		12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Loss allowance	Gross carrying amount
Investment grade	Debt instruments at fair value through other comprehensive income	\$868,624,804	\$-	\$-	\$-	\$-	\$868,624,804
	Financial assets measured at amortized cost	\$2,221,201,714	-	-	-	(853,594)	2,220,348,120
	Other financial assets	2,000,000	-	-	-	(594)	1,999,406
Non-investment grade	Debt instruments at fair value through other comprehensive income	22,790,603	215,072	76,621	-	-	23,082,296
	Financial assets measured at amortized cost	26,117,815	7,906,750	5,155,973	-	(1,466,902)	37,713,636
		31 December 2017 (Note 1)					
		Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
Financial assets		Investment grade	Non-investment grade or unrated				
Cash and cash equivalents		\$200,921,255	\$-	\$-	\$-	\$-	\$200,921,255
Financial assets at fair value through profit or loss		17,133,088	1,998,554	-	-	-	19,131,642
Available-for-sale financial assets		436,351,502	79,857,709	-	-	-	516,209,211
Derivative financial assets for hedging		246,444	-	-	-	-	246,444
Debt instrument investments for which no active market exists		2,320,427,781	58,371,481	-	388,024	(388,024)	2,378,799,262
Held-to-maturity financial assets		50,808,599	-	-	-	-	50,808,599
Other financial assets		4,500,000	-	-	-	-	4,500,000
Total		\$3,030,388,669	\$140,227,744	\$-	\$388,024	\$(388,024)	\$3,170,616,413
Proportion		95.6%	4.4%	-	-	-	100.0%

Note 1: Cathay Life and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay Life and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Note 2: Investment grade assets refer to those with credit rating of at least BBB- granted by a credit rating agency; non-investment grade assets are those with credit rating lower than BBB- granted by a credit rating agency.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Secured loans of Cathay Life

	31 December 2018 (Note)						
	Stage 1	Stage 2	Stage 3		Difference from		
					impairment		
					charged in		
					accordance with		
			Purchased or		Guidelines for		
	12-month	Lifetime	Lifetime	originated	Handling		
	expected	expected	expected	credit-impaired	Assessment of		
	credit losses	credit losses	credit losses	financial assets	Loss allowance	Assets	Gross carrying
							amount
Secured loans	\$411,821,024	\$111,237	\$4,554,753	\$-	\$(682,254)	\$(5,126,352)	\$410,678,408

31 December 2017 (Note)								
Secured loans and overdue receivables	Neither past due nor impaired			Past due but		Total (EIR Principal)	Provision for	
	Excellent	Good	Normal	not impaired	Impaired		impairment	Net
Consumer finance	\$297,933,077	\$77,668,071	\$35,341,027	\$208,490	\$3,185,642	\$414,336,307	\$5,903,496	\$408,432,811
Corporate finance	24,361,225	4,743,263	-	-	83,621	29,188,109	245,943	28,942,166
Total	\$322,294,302	\$82,411,334	\$35,341,027	\$208,490	\$3,269,263	\$443,524,416	\$6,149,439	\$437,374,977

Note: Cathay Life and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay Life and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Ageing analysis of past due but not impaired secured loans:

Based on the historical default rate, Cathay Life believes that provision for loans past due within a month is not necessary unless indicator of impairment exists.

	Past due but not impaired		
	Due in 1~2 months	Due in 2~3 months	Total
2018.12.31 (Note)			
2017.12.31	\$176,870	\$31,620	\$208,490

Note: Cathay Life and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay Life and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(H) Movement of loss allowance is summarized below:

a. Debt instrument investments at fair value through other comprehensive income

	Lifetime expected credit losses				Total of impairment charged in accordance with IFRS 9
	12-month expected credit losses	Collectively assessed	Not purchased or originated credit-impaired financial asset	Purchased or originated credit-impaired financial assets	
1 January 2018	\$455,064	\$96,965	\$-	\$-	\$552,029
Changes due to financial instruments recognized as at 1 January					
Transfer to lifetime expected credit losses	(1,372)	1,372	-	-	-
Transfer to credit-impaired financial assets	(19)	-	19	-	-
Transfer to 12-month expected credit losses	127	(127)	-	-	-
New financial assets originated or purchased	197,122	-	4,313	-	\$201,435
Financial assets that have been derecognized during the period	(218,560)	(139,162)	-	-	(357,722)
Changes in models/risk parameters	21,707	57,581	8,007	-	87,295
Foreign exchange and other movements	14,211	420	-	-	14,631
31 December 2018	\$468,280	\$17,049	\$12,339	\$-	\$497,668

b. Financial assets measured at amortized cost

	Lifetime expected credit losses				Total of impairment charged in accordance with IFRS 9
	12-month expected credit losses	Collectively assessed	Not purchased or originated credit-impaired financial asset	Purchased or originated credit-impaired financial assets	
1 January 2018	\$754,100	\$705,758	\$-	\$-	\$1,459,858
Changes due to financial instruments recognized as at 1 January					
Transfer to lifetime expected credit losses	(4,597)	4,597	-	-	-
Transfer to credit-impaired financial assets	(696)	-	696	-	-
Transfer to 12-month expected credit losses	29,348	(29,348)	-	-	-
New financial assets originated or purchased	236,156	-	294,207	-	530,363
Financial assets that have been derecognized during the period	(110,906)	(366,214)	-	-	(477,120)
Changes in models/risk parameters	(24,051)	371,227	415,541	-	762,717
Foreign exchange and other movements	25,076	19,602	-	-	44,678
31 December 2018	\$904,430	\$705,622	\$710,444	\$-	\$2,320,496

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

The debt instruments measured at fair value through other comprehensive income and one of financial assets measured at amortized cost – foreign bonds held by Cathay Life were downgraded by the international credit rating agencies, and the credit impairment occurred in January 2019. Cathay Life transferred the 12-month expected credit losses to lifetime expected credit losses while assessing allowance of impairment.

c. Other financial assets

	12-month expected credit losses	Lifetime expected credit losses		Total of impairment charged in accordance with IFRS 9
		Collectively assessed	Not purchased or originated credit-impaired financial asset	Purchased or originated credit-impaired financial assets
1 January 2018	\$901	\$-	\$-	\$-
Foreign exchange and other movements	(307)	-	-	-
31 December 2018	\$594	\$-	\$-	\$-

d. Secured loans

	Lifetime expected credit losses					Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	Total
	12-month expected credit losses	Collectively assessed	Not purchased or originated credit-impaired financial asset	Purchased or originated credit-impaired financial assets	Total of impairment charged in accordance with IFRS 9		
1 January 2018	\$108,879	\$1,211	\$601,271	\$-	\$711,361	\$5,438,078	\$6,149,439
Changes due to financial instruments recognized as at 1 January:							
Transfer to lifetime expected credit losses	(15)	15	-	-	-	-	-
Transfer to credit-impaired financial assets	(338)	(44)	382	-	-	-	-
Transfer to 12-month expected credit losses	2,763	(1,036)	(1,727)	-	-	-	-
New financial assets originated or purchased	23,349	-	8,284	-	31,633	-	31,633
Financial assets that have been derecognized during the period	(12,626)	(124)	(69,442)	-	(82,192)	-	(82,192)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	(311,726)	(311,726)
Changes in models/risk parameters	(31,445)	179	52,718	-	21,452	-	21,452
31 December 2018	\$90,567	\$201	\$591,486	\$-	\$682,254	\$5,126,352	\$5,808,606

There is no significant change in loss allowance due to significant change in the carrying amount of the abovementioned financial instruments.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(I) The exposure to credit risk and loss allowance of receivables

Measurement of loss allowance of Cathay Life's receivables which are in the scope of the impairment requirements under IFRS 9 is based upon the lifetime expected credit losses under simplified approach. The assessment of loss allowance as of 31 December 2018 is addressed below.

Cathay Life's receivables which are in the scope of the impairment requirements under IFRS 9 included notes receivable in the amount of \$72,825 thousand and other receivables in the amount of \$11,351,131 thousand. Loss allowance measured by a provision matrix under simplified approach is as follows:

	Recognition				Total
	Not yet due/ within 1 month	1-3 months	3-6 months	Over 6 months	
Gross carrying amount	\$11,311,658	\$111,076	\$1,219	\$3	\$11,423,956
Loss rate	0%	2%	10%	50%	
Lifetime expected credit losses	\$-	\$2,222	\$123	\$1	\$2,346

The abovementioned expected credit losses measured by a provision matrix under simplified approach amounted to \$2,346 thousand. The movement in loss allowance is as follows:

	2018.1.1~ 2018.12.31
Beginning balance (in accordance with IAS 39)	\$2,175
Transition adjustment to retained earnings as at 1 January	-
Beginning balance (in accordance with IFRS 9)	2,175
Addition for the current period	171
Ending balance	<u>\$2,346</u>

In accordance with the transition provision in IFRS 9 that was adopted on 1 January 2018, Cathay Life elected not to restate prior periods at the date of initial application. Please refer to Note 6 for the movements in allowance for bad debts of receivables for the year ended 31 December 2017.

B. Liquidity risk analysis

(A) Sources of liquidity risk

Liquidity risks of the financial instruments are classified as "funding liquidity risk" and "market liquidity risk". "Funding liquidity risk" represents the default risk that Cathay Life is unable to turn assets into cash or obtain sufficient funds. "Market liquidity risk" represents the risk of significant changes in fair value that Cathay Life faces when it sells or offsets its assets during market disorder.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(B) Liquidity risk management

Cathay Life assesses the characteristics of business, monitors short-term cash flows, and constructs the completed mechanism of liquidity risk management. Furthermore, Cathay Life manages market liquidity risk cautiously by considering market trading volumes and adequacy of holding positions with symmetric.

Cathay Life uses cash flow model and stress testing to assess cash flow risk based on actual management needs or special situation. Also, for abnormal and urgent financing needs, Cathay Life makes an emergency management operating procedure to deal with significant liquidity risks.

(C) Maturity analysis of financial liabilities:

The analysis of cash outflows to Cathay Life and its subsidiaries is listed below and based on the residual term to maturity on balance sheet date. The disclosed amounts are in conformity of contract cash flows and the results of the differences from the disclosed amounts on balance sheet.

a. Maturity analysis of non-derivative financial liability:

2018.12.31	Less than 6 months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Payables	\$31,044,618	\$239,517	\$285,769	\$1,242,728	\$9,636	\$32,822,268
Bonds payables (Note)	-	1,608,951	2,415,000	7,245,000	78,400,000	89,668,951

2017.12.31	Less than 6 months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Payables	\$19,484,551	\$212,530	\$86,508	\$87,619	\$5,364,761	\$25,235,969
Bonds payables (Note)	414,540	1,194,411	2,415,000	7,245,000	80,815,000	92,083,951
Preferred stock liability	-	5,080,005	-	-	-	5,080,005

Note: Bonds payable are perpetual and the contract cash flows are calculated over the 10-year residual term.

b. Maturity analysis of derivative financial liability:

2018.12.31	Less than 6 months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$14,230	\$3,686	\$3,978	\$2,587	\$-	\$24,481
Forward	5,538,893	53,900	-	-	-	5,592,793
CS	23,555,917	10,107,225	-	-	-	33,663,142

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.12.31	Less than 6 months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$31,508	\$14,615	\$23,524	\$(230)	\$-	\$69,417
Forward	286,470	-	-	-	-	286,470
CS	1,369,037	-	-	-	-	1,369,037

C. Market risk analysis

(A) Sources of market risk

Market risk is the risk of losses or decrease in value of portfolio in positions arising from movements in exchange rate, product price, interest rate, credit spread, and stock price.

(B) Cathay Life and its subsidiaries assesses, monitors, and manages market risks completely and effectively by applying Value at Risk (“VaR”) and stress testing consistently.

a. Value at Risk

Value-at-Risk (“VaR”) is the maximum loss on the portfolio with a given probability defined as the confidence level, over a given period of time. Cathay Life and its subsidiaries uses one-week 95% and 99% VaR to measure market risk.

b. Stress testing

Cathay Life and its subsidiaries measure and evaluate potential risks of the occurrence of extreme and abnormal events regularly in addition to Value at Risk models.

Cathay Life and its subsidiaries performs position stress testing regularly by using “Simple Sensitivity” and “Scenario Analysis” methods. The test is capable of representing the position loss resulted from the movement of a specific risk factor under different kinds of historical scenarios:

(a) Simple Sensitivity

Simple Sensitivity is to measure the dollar amount change for the portfolio value from the movement of specific risk factors.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(b) Scenario Analysis

Scenario Analysis is to measure the dollar amount changes for the total value of investment positions if possible future events occur. The types of scenario include:

(i) Historical scenario

In consideration of the fluctuation of risk factors when a specific historical event happened, Cathay Life simulates what the dollar amount of losses for the current investment portfolio would be in the same period of time.

(ii) Hypothetical scenario

Cathay Life makes hypothesis with rational expectations from the extreme market movements to assess the dollar amount of losses for the investment position by taking into consideration the movement of relevant risk factors.

Risk management department performs the stress testing with historical and hypothetical scenarios regularly. Cathay Life's risk analysis, early warning, and business management are in accordance with the stress testing report.

Table of Stress Testing
2018.1.1~2018.12.31

Risk Factors	Changes (+/-)	Gain (loss)
Equity risk (Price)	Price decreases by 10%	\$(71,190,476)
Interest rate risk (Yield curve)	The main yield curve shifts up by 100 bps	(111,404,367)
Exchange risk (Foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(10,932,445)

Table of Stress Testing
2017.1.1~2017.12.31

Risk Factors	Changes (+/-)	Gain (loss)
Equity risk (Price)	Price decreases by 10%	\$(67,589,109)
Interest rate risk (Yield curve)	The main yield curve shifts up by 100 bps	(40,098,053)
Exchange risk (Foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(8,280,120)

Note1: Impacts of credit spread changes are not included

Note2: Effects of hedging are included

Note3: Information of subsidiaries is excluded considering the insignificant impact from subsidiaries.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

c. Sensitivity Analysis

Summarization of Sensitivity Analysis
2018.1.1~2018.12.31

Risk Factors	Variables (+/-)		Change in Income	Change in Equity
Foreign currency risk	USD/NTD	appreciates 1%	\$5,703,586	\$5,189,911
	CNY(CNH)/USD	appreciates 1%	834,767	536,707
	HKD/USD	appreciates 1%	1,978	614,256
	EUR/USD	appreciates 1%	93,336	197,382
	GBP/USD	appreciates 1%	30,281	245,729
Interest rate risk	Yield curve (USD)	parallelly shifts up 1 bp	2,040	(912,051)
	Yield curve (AUD)	parallelly shifts up 1 bp	1,501	-
	Yield curve (EUR)	parallelly shifts up 1 bp	3,709	(8,246)
	Yield curve (NTD)	parallelly shifts up 1 bp	491	(161,089)
Equity price risk	Equity price increases 1%		135,986	7,006,951

Summarization of Sensitivity Analysis
2017.1.1~2017.12.31

Risk Factors	Variables (+/-)		Change in Income	Change in Equity
Foreign currency risk	USD/NTD	appreciates 1%	\$3,340,835	\$5,024,663
	CNY(CNH)/USD	appreciates 1%	1,030,594	354,944
	HKD/USD	appreciates 1%	(1,293)	347,739
	EUR/USD	appreciates 1%	132,515	133,280
	GBP/USD	appreciates 1%	89,699	11,739
Interest rate risk	Yield curve (USD)	parallelly shifts up 1 bp	100	(191,051)
	Yield curve (AUD)	parallelly shifts up 1 bp	-	(317)
	Yield curve (EUR)	parallelly shifts up 1 bp	-	(3,158)
	Yield curve (NTD)	parallelly shifts up 1 bp	1,261	(182,921)
Equity price risk	Equity price increases 1%		91,623	6,671,264

Note 1: Impacts of credit charges are not included.

Note 2: Effects of hedging are included.

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

Note 4: Profit and loss on the changes in foreign currency risk sensitivity does not consider the impact from reserving or reversing foreign exchange volatility reserve.

Note 5: Information of subsidiaries is excluded considering the insignificant impact from subsidiaries.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Cathay United Bank and its subsidiaries

A. Risk control and hedging strategy

Cathay United Bank's risk control and hedging strategy followed the requirement of customer service-oriented banking industry and regulatory environment. In order to comply with the above requirements, Cathay United Bank adopted different risk management methods to identify its risks and Cathay United Bank followed the spirit and regulation of the "Basel Accord" to keep strengthening its assets and the practices of capital management to maintain the best capital adequacy ratio.

Cathay United Bank organized the risk management committee and its responsibilities are illustrated as below:

- (A) To amend the risk management policies, risk appetite or risk tolerance and report the above issues to board of directors for approval.
- (B) To manage and decide the strategy about Cathay United Bank's credit risk, market risk and operating risk management.
- (C) To report the significant risk management issues, such as credit ratings, market assessment and risk indicators.
- (D) To analyze the issues that Cathay United Bank's business unit brought up for discussion.
- (E) Other issues.

Cathay United Bank organized a risk management group to monitor, lead, develop, and establish the integral risk management framework.

B. Market risk

Market risk is the potential loss arising from adverse movements of market price, such as interest rates, foreign exchange rates and equity securities.

Cathay United Bank organized market risk management department and the committee of assets and liabilities management is responsible for monitoring the market risk management. The department and committee periodically examine Cathay United Bank's structure of assets and liabilities; plan the pricing principle of deposit and loan and financing and using scheme of medium and long term funding while executing the market risk management, the market risk management department periodically provides the related information of management and reports to the authorized managers of Cathay United Bank for the management system, such as valuating position, risk limit management, calculating of profit and loss, pricing model and risk analysis, in order to control the overall market risk.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(A) Market risk management process

a. Identification and measurement

The operating department and risk management department of Cathay United Bank identified the market risk factors of risk exposure position, and measured the market risk further. Market risk factors are the components that could have an impact on value of financial instrument, such as interest rates, foreign exchange rates, equity securities...etc., including position, gain and loss, the loss of stress test, sensitivity (DV01, Delta, Vega, Gamma) and Value at Risk (VaR), etc., to measure the extent of investment portfolio that is influenced by interest risk, foreign exchange risk and equity securities.

b. Monitoring and reporting

The risk management department of Cathay United Bank periodically reports the execution of market risk management target, position and gain/loss control, sensitivity analysis, stress test, and VaR of equity securities to the board of directors, and helps the board of directors to fully understand the status of market risk management. Cathay United Bank also establishes a clear reporting process. Each transaction has the requirements about limitation and stop-loss points. If the transaction reaches its stop-loss limitation, stop-loss process will be implemented immediately. If the stop-loss process is not implemented, the transaction department should document the reason of non-implementing stop loss process and responding plan. Furthermore, the department shall be report to the executive management for approval and report to the board of directors regularly.

(B) Risk management policy of the trading book

The trading book is the portfolio of financial instruments and physical investment for the purpose of trading or the hedge on the trading book. Portfolio is held for trading, which is intended to earn the profit from bid-ask spread. Any positions aside from the above trading book will be in the banking book.

a. Strategy

In order to control market risk effectively and ensure flexibility in operating the transaction strategy, Cathay United Bank carries out various assessment and control. The portfolio of trading book has the risk limitation of each investment portfolio which is set according to the transaction strategy, category of investment and the annual profit target.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Policy and procedure

Cathay United Bank sets the “Regulation Governing of Market Risk Management” as the important regulation that should be complied with when holding trading portfolio.

c. Valuation policy

If the financial instruments of trading book have market values, they should be evaluated at least once each day by the information that is from an independent source and easily accessible. If it's evaluated by a model, a mathematical model should be used prudently, and the assumptions and parameters of the valuation model should be regularly reviewed and examined.

d. Method of measurement

- (a) The assumption and calculation of VaR: please refer to VaR section.
- (b) Cathay United Bank executes the stress test monthly with the following scenarios: the fluctuation of interest rate at 100bp, equity securities at 15% and foreign exchange rate at 3%, and reports to the risk management committee regularly.

(C) Interest risk management of trading book

a. Definition of interest risk

Interest risk is the risk that the trading portfolios suffer losses or the change of its fair value which is caused by the fluctuation of interest rate. The main instruments include the securities and derivatives that relate to interest rates.

b. Interest risk management procedure of trading book

Cathay United Bank prudently chooses its investment target by studying the credibility and financial position of the securities issuers, their sovereign risk and the trend of interest rates. According to the operating strategy and the circumstances of the market, Cathay United Bank sets the transaction limit and stop-loss limit (including the limits of dealing room, traders, and investment, etc.) of the trading book that are reported to the executive management or the board of directors for approval.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

c. Method of measurement

- (a) The assumption and calculation of VaR: please refer to VaR section.
- (b) Cathay United Bank measures the investment portfolio's interest risk exposure monthly.

(D) Interest risk management of banking book

The main objective of interest risk management of Cathay United Banking book is to enhance the interest risk management, increase the operating efficiency of the fund and strengthen the business operation.

a. Strategy

Interest risk management enhances Cathay United Bank's ability take responsive actions to measure, to manage and avoid the risk that the fluctuation of interest rate may cause on the profit and the economic value of assets/liabilities.

b. Management procedure

When undertaking the operations relating to interest rate instruments, Cathay United Bank identifies the repricing risk of interest rate, yield curve risk, basis risk and options risk characteristics. In additional, Cathay United Bank also measures the potential impact of interest rate changes on the profit and economic value of Cathay United Bank. Cathay United Bank analyzes and monitors the interest risk limits and each target of interest risk management monthly. The results of analysis and monitoring are regularly reported to not only the risk management committee but also the board of directors.

If any risk management targets is found to exceed the limit during the monitoring process, it will be reported to the risk management committee and a solution should be proposed.

c. Method of measurement

The interest rate risk of Cathay United Bank mainly measures the repricing risk that is caused by the difference between maturity date and repricing date of the assets, liabilities, and off balance sheet items in banking book. To stabilize long-term profitability and ensure business growth, Cathay United Bank sets the monitoring indicators of interest sensitivity in major terms and implements stress test. Each interest risk indicator and the result of stress test are reported to the executive management regularly for review.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(E) Foreign exchange risk management

a. Definition of foreign exchange risk

Foreign exchange risk is the gain/loss caused by two currencies exchange in different times. Cathay United Bank's foreign exchange risk arises from the derivative instruments, such as spot exchange, forward exchange and foreign exchange option...etc. Cathay United Bank's foreign exchange transactions are implemented daily to offset clients' position. Thus, Cathay United Bank suffers little foreign exchange risk.

b. Policy, procedure and measurement methodology of foreign exchange risk management

In order to control foreign exchange risk, Cathay United Bank sets the limits of transaction and stop-loss limits for the dealing room and traders. Meanwhile, Cathay United Bank also sets the maximum annual loss limit to control the loss within the tolerable extent. Foreign exchange risk is controlled based on VaR. The assumption and calculation of VaR is described in VaR section.

For foreign exchange risk, Cathay United Bank sets the scenario at 3% fluctuation of interest rate of major currencies to execute the stress test quarterly, and reports to the risk management committee.

(F) Risk management of equity securities price

a. Definition of risk of equity securities price

The market risk of equity securities held by Cathay United Bank includes the individual risk from the fluctuation of individual equity securities' market price and general market risk from the fluctuation of the overall price trend.

b. Purpose of risk management in equity securities prices

To avoid the massive fluctuation of equity securities price to worsen Cathay United Bank's financial situation or earnings. Also, to raise the operating efficiency of capital and strengthen the business operation.

c. Procedure of risk management of equity securities prices

Cathay United Bank sets investment limit on industries, using the β value to measure the investment portfolio affected by the systemic risk monthly. The stop-loss point must be authorized by the board of directors, and the equity investment should be authorized by the executives if the stop-loss point is reached but the investment is not going to be disposed of.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

d. Measured methodology

The risk of equity securities prices in trading book is mainly controlled by VaR.

Cathay United Bank's risk of equity securities prices from its non-trading portfolio should be controlled by each bank according to its own business scale to develop a stress test under appropriate scenarios and report to the risk management committee.

Cathay United Bank adopts many methodologies to manage its market risk. Value-at-risk (VaR) is one of the methodologies. VaR is a statistical measure that assesses potential losses that might be caused by changes in risk factors over a specified period of time and at a specific level of statistical confidence. Cathay United Bank applies historical simulation with a statistic confidence of 99% to extrapolate the VaR of one-year fluctuations. The following table indicates that VaR is the estimated based on the potential amount of loss within one day, while the statistic confidence of 99% represents the possible fluctuations that would be included in assumed adverse market changes. Base on the assumption, the VaR may exceed the amounts listed in 1 of 100 days due to the price changes in the market. The overall VaR in the market may be less than the aggregate VaR of individual market risk factors.

2018.12.31			
Factors of market risk (Note)	Average balance	Maximum balance	Minimum balance
Interest rate	\$307,882	\$701,219	\$52,816
Foreign exchange	147,353	202,948	104,364
Equity Securities price	318,530	424,067	230,176

2017.12.31			
Factors of market risk (Note)	Average balance	Maximum balance	Minimum balance
Interest rate	\$569,756	\$858,800	\$273,155
Foreign exchange	252,124	554,769	115,940
Equity Securities price	232,500	303,251	165,345

Note: The information of factors of market risk is defined by trading book risk management.

Cathay United Bank enters into a variety of derivatives transactions for both trading and non-trading purposes. The objectives in using derivative instruments are to meet customers' needs, to manage Cathay United Bank's exposure to risks and to generate revenues through trading activities. Cathay United Bank trades derivative instruments on behalf of customers and for its own positions. Cathay United Bank provides derivative contracts to address customers' demands for customized derivatives and also takes proprietary positions for its own accounts.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(G) Stress testing

The stress testing is used to measure the maximum losses of risk asset portfolio under the worst scenario. Cathay United Bank's stress testing considers various types of risk factors and reports the results to the executive management.

Stress Test (Note)			
Market/ Product	Scenarios	2018.12.31	2017.12.31
Stock Market	Major Stock Exchanges +15%	\$990,610	\$2,668,120
	Major Stock Exchanges -15%	(935,918)	(2,668,120)
Interest Rate/ Bond Market	Major Interest Rate + 100bp	(417,490)	(2,433,910)
	Major Interest Rate - 100bp	701,613	2,689,997
Foreign Exchange Market	Major Currencies + 3%	245,686	(196,649)
	Major Currencies - 3%	(233,535)	229,928
Composite	Major Stock Exchanges -15%		
	Major Interest Rate + 100bp	(1,107,722)	(5,298,679)
	Major Currencies +3%		

Note: The information of stress test is defined by trading book risk management.

(H) Sensitivity analysis

a. Interest rate risk

Interest rate factor sensitivities (the present value of one basis point, or "PVBP") represent the change in the net present value of the interest rate derivatives portfolios caused by a parallel unit shift of 1 bp in the interest rates in various yield curves affecting the portfolio.

b. Foreign exchange risk

Foreign exchange rate factor sensitivities ("FX delta") represent the change of the foreign exchange portfolios (forward transactions and currency exchange) caused by the underlying currency exchange rate fluctuation.

c. Equity securities price risk

Equity securities price factor sensitivities ("Equity delta") represent the change of the equity securities price portfolio caused by a parallel unit shift of 1% in the underlying stocks prices fluctuation. Cathay United Bank's equity portfolios include stocks and equity index options.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Market risk factor sensitivity of Cathay United Bank

		2018.12.31	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	108,556	\$-
	HKD+1%	(6,980)	-
	JPY+1%	(905)	-
	AUD+1%	(354)	-
	CNY+1%	2,563	-
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	1,347	-
	Yield curves (HKD) parallel shift+1bp	183	-
	Yield curves (JPY) parallel shift+1bp	(1)	-
	Yield curves (AUD) parallel shift+1bp	(359)	-
	Yield curves (CNY) parallel shift+1bp	(210)	-
Equity securities price factor sensitivity (Equity Delta)	Equity securities price +1%	(1,011)	66,545

		2017.12.31	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	\$(38,635)	\$-
	HKD+1%	32	-
	JPY+1%	1,488	-
	AUD+1%	4,983	-
	CNY+1%	22,123	-
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	(5,645)	-
	Yield curves (HKD) parallel shift+1bp	(11)	-
	Yield curves (JPY) parallel shift+1bp	-	-
	Yield curves (AUD) parallel shift+1bp	(129)	-
	Yield curves (CNY) parallel shift+1bp	(895)	-
Equity securities price factor sensitivity (Equity Delta)	Equity securities price +1%	48,183	129,692

Note: The information of equity securities price risk test is defined by trading book risk management.

C. Credit risk

Credit risk represents the risk of loss that Cathay United Bank and its subsidiaries would incur if a counterparty fails to perform its contractual obligations.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

The credit risk strategy and material risk policy of Cathay United Bank, Indovina Bank, and Cathay United Bank (China) are approved by the board of directors. Cathay United Bank, Indovina Bank, and Cathay United Bank (China) perform periodic and systematic detailed reviews of its Department of Market Risk Management, department of credit and operation risk management, department of consumer banking review, department of corporate banking review and department of international review under department of risk management, and distributed the procedure of credit approving, management of limit, credit rating, the information of collateral, periodic review, and remedial management. The departments related to credit risk of credit business, investment business, and financial instrument or contract are the departments of performing credit risk management, that manage the credit quality and follow rules to review and track the missing of auditing to strengthen management of afterwards risk.

Cathay United Bank, Indovina Bank, and Cathay United Bank (China) maintain a strict policy to evaluate customers' credit ratings when providing loans, loan commitments and guarantees. Certain customers are required to provide appropriate collateral for the related loans, and Cathay United Bank, Indovina Bank, and Cathay United Bank (China) retains the legal right to foreclose on or liquidate the collateral. The disclosure of the maximum credit exposure shall not take into account any collateral held or other enhancements.

The board of directors of CUBC Bank resolved that a risk management department would be established to manage the credit risk. The board of directors sets the counterparty credit limits, which are then implemented by the credit committee

Loan Committee is the top lending authority within CUBC Bank. It is in charged with approval of all credit in excess of CUBC Bank lending authorities. Certain customers are required to provide appropriate collateral for the related loans, and CUBC Bank retains the legal right to foreclose on or liquidate the collateral. The disclosure of the maximum credit exposure shall not take account of any collateral held or other enhancements.

The management procedure and measurement methodology of credit risk in Cathay United Bank and its subsidiaries' main business are as follows:

(A) The judgement of significant increase in credit risk after the initial recognition

Cathay United Bank and Cathay United Bank (China)

Cathay United Bank and Cathay United Bank (China) assesses the movement in default risk during the expected lifetime of various types of credit assets at each reporting date to determine if the credit risk has increased significantly since the initial recognition. To make this assessment, Cathay United Bank and its subsidiaries have considered to show the reasonable and corroborative information (including prospective information) on the significant increase in credit risk after the initial recognition. The key indicators for consideration include:

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

a. Quantitative indicators

(a) Changes on credit rating

Where the credit rating at the reporting date has decreased to some extent compared with that on initial recognition and the credit rating has not met the investment grade (i.e. the credit rating is lower than the credit rating Baa3 of Moody's, an international credit rating agency), it is determined that the credit risk has increased significantly since the initial recognition.

(b) Information on the overdue status of the contract

Where the contract payment was overdue for more than 30 days as at the reporting date, it is determined that the credit risk has increased significantly since the initial recognition.

b. Qualitative indicators

Where the information observed at the reporting date meets the following conditions, it is determined that the credit risk has increased significantly since the initial recognition.

(a) The refund records are reported

(b) Accountants have expressed significant doubt on its ability to continue as a going concern

(c) Other internal or external information on judging the credit quality changes

Indovina Bank

Indovina Bank assesses the movement in default risk during the expected lifetime of various types of financial assets at each reporting date to determine if the credit risk has increased significantly since the initial recognition:

a. Notch downgrade

A downgrade of credit ratings from the day of initial recognition that's greater than a specific threshold would be classified as a significant increase in credit risk since initial recognition.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Low credit risk criteria

An exposure rated below Moody's investment grade (i.e. below Baa3 of Moody's ratings) at the reporting date would be classified as a significant increase in credit risk since initial recognition.

c. Past Due Information

The contract payment over 30 days past due would be classified as a significant increase in credit risk since initial recognition.

d. Internal Credit Assessment Indicators

The indicators with credit quality information that is weaker than upon initial recognition would be classified as a significant increase in credit risk since initial recognition.

CUBC Bank

CUBC Bank assesses the movement in default risk during the expected lifetime of various types of financial assets at each reporting date to determine if the credit risk has increased significantly since the initial recognition:

a. Past Due Information

The contract payment over 30 days past due would be classified as a significant increase in credit risk since initial recognition.

b. Loan Classification from NBC

A loan contract with special mention position at reporting date would be classified as a significant increase in credit risk since initial recognition.

c. Internal Credit Assessment Indicators

The indicators with credit quality information that is weaker than upon initial recognition would be classified as a significant increase in credit risk since initial recognition.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(B) Default and credit impairment of financial asset

Cathay United Bank and Cathay United Bank (China)

Cathay United Bank and Cathay United Bank (China) 's definition of financial assets default is the same as with that of the credit impairment of financial assets. Where one or more of the following conditions are met, Cathay United Bank determines the financial assets to be subject to default and credit impairment.

a. Quantitative indicator

(a) Changes on credit rating

Where the credit rating at the reporting date fell into the default level, it is determined as credit impairment.

(b) Information on the overdue status of the contract

Where the contract payment was overdue for more than 90 days as at the reporting date, it is determined as credit impairment.

b. Qualitative indicator

Where the information observed at the reporting date meets the following conditions, it is determined as credit impairment.

- (a) Bailout, reorganization, individual agreement due to debtor's financial difficulties
- (b) Lawsuit action has been taken
- (c) Debt settlement, debt negotiation
- (d) Issuer or borrower has gone bankrupt or may file bankruptcy or financial reorganization
- (e) Principal or interest failed to be paid according to the issuing terms
- (f) Other internal or external information on judging the deterioration in credit quality

The aforementioned definition of default and credit impairment applies to all financial assets held by Cathay United Bank, and is consistent with the definition applied on the significant financial assets for the purpose of internal credit risk management, and is also applied in the relevant impairment assessment model.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Indovina Bank

Indovina Bank assesses the following indicators to determine if the financial assets at each reporting date is credit-impaired:

a. Notch downgrade

An obligor who is rated as default at the reporting date is considered to be credit-impaired.

b. Past Due Information

The contract payment over 90 days past due would be classified as a credit-impaired loan.

c. Internal Credit Assessment Indicators

The indicators with credit deterioration information used for internal credit risk management purpose at the reporting date would be recognized as credit-impaired assets.

CUBC Bank

CUBC Bank assesses the following indicators to determine if the financial assets at each reporting date is credit-impaired:

a. Past Due Information

The contract payment over 90 days past due would be classified as a credit-impaired loan.

b. Loan Classification from NBC

A loan contract with specific positions, such as substandard, doubtful and loss, at reporting date would be classified as credit-impaired.

c. Internal Credit Assessment Indicators

The indicators with credit deterioration information used for internal credit risk management purpose at the reporting date would be recognized as credit-impaired assets.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(C) The measurement of expected credit loss

Cathay United Bank and Cathay United Bank (China)

For the purpose of assessing the expected credit losses, Cathay United Bank and Cathay United Bank (China) classifies the credit assets into the following groups based on credit category, credit rating, risk characteristics, enterprise size, product category and so on.

Credit category	Definition
Corporate loan	Grouped by risk characteristics, corporate size and internal/external credit rating
Consumer loan	Grouped by product category and internal credit rating
Credit card	Grouped by product category and internal credit rating

Where the credit risk of the financial instrument has not increased significantly after the initial recognition (Stage 1), the allowance for losses should be measured at the expected credit losses over 12 months by Cathay United Bank and Cathay United Bank (China). Where the credit risk of the financial instrument has increased significantly (Stage 2) or the credit impairment has existed (Stage 3) after the initial recognition, the allowance for losses should be measured at the expected credit losses over the remaining term to maturity by Cathay United Bank and Cathay United Bank (China).

For the measurement of the expected credit losses, Cathay United Bank calculates its expected credit losses over 12 months and the remaining term to maturity separately by multiplying three factors, i.e. probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”) of the borrower over the next 12 months and the remaining term to maturity, also considering the effect of the time value of money.

The PD and LGD applied in the impairment assessment of the credit business of Cathay United Bank and Cathay United Bank (China) are adjusted and calculated based on the internal and external information of each group as well as the currently observable data and the overall economic outlook (such as economic growth rate, etc.).

Cathay United Bank and Cathay United Bank (China) assessed the EAD of loan at the reporting date. According to internal and external information, the Bank considers the portion of the loan commitment that is expected to be drawn on over 12 months after the reporting date and the remaining term to maturity, to determine the EAD for calculating the expected credit losses.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

The PD used in the impairment assessment of Cathay United Bank and Cathay United Bank (China)'s debt instrument measured at fair value through other comprehensive income and measured at amortized cost, represents the PD of the issuer, guarantee agency or borrower. The LGD represents the loss rate resulted from the default of the issuer, guarantee agency or borrower. The LGD used in Cathay United Bank and Cathay United Bank (China)'s relevant impairment assessment is based on the information regularly published by Moody's, an international credit rating agency; the PD is based on the information regularly published by Taiwan Ratings and Moody's, and calculated after adjusting the historical data based on the currently observable data and the overall economic information (e.g. gross domestic product and economic growth rate, etc.). The EAD is measured at the amortized cost of financial assets and interests receivable.

The valuation techniques or significant assumptions for assessing the expected credit losses have no significant change in 2018.

Indovina Bank

Indovina Bank estimated the portfolio expected credit loss incorporating product types, borrower types and counterparty types based on the credit risk characteristics the Bank is exposed to.

Credit category	Definition
Loan portfolio	Grouped by borrower types and enterprise size.
Debt Instrument	Grouped by product class, external credit rating and payment ranks.

a. Loan portfolio

The segmentation of the bank's loan portfolio is based on its risk characteristics, such as product class, counterparty type and enterprise size. The measurement of expected credit loss is estimated by three main parameters, including probability of default, loss given default and exposure at default. The probability of default and loss given default were built by the bank's historical delinquent information and recovery data and calibrated by selected macroeconomic factors for forward-looking adjustment. The estimated amounts of exposure at default were calculated by the amortized cost and interest receivable. At each financial reporting date, the above criteria for a significant increase in credit risk since initial recognition are not hit, the allowance loss shall be measured on the basis of the 12-month expected credit loss method. If financial assets meet the foregoing conditions of significant increases in credit risk or credit deterioration since initial recognition, the allowance losses shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Debt instrument

The segmentation of the bank's bond portfolio is based on its product class, external rating and payment rank. The measurement of expected credit loss is estimated by three main parameters, including probability of default, loss given default and exposure at default. The probability of default and loss given default were built by external information with sufficient historical default data and recovery rates and calibrated by selected macroeconomic factors for forward-looking adjustment. The estimated amounts of exposure at default were calculated by the amortized cost and interest receivable. At each financial reporting date, the above criteria for a significant increase in credit risk since initial recognition are not hit, the allowance loss shall be measured on the basis of the 12-month expected credit loss method. If financial assets meet the foregoing conditions of significant increases in credit risk or credit deterioration since initial recognition, the allowance losses shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

Cathay United Bank Cambodia (CUBC)

CUBC estimated the portfolio expected credit loss incorporating product types, borrower types and counterparty types based on the credit risk characteristics CUBC is exposed to.

Credit category	Definition
Loan portfolio	Grouped by product and borrower types.
Credit Card	Grouped as a whole to estimate by product characteristic

The segmentation of CUBC's loan portfolio is based on its risk characteristics, such as product class, counterparty type and loan classification by NBC. The measurement of expected credit loss is estimated by three main parameters, including probability of default, loss given default and exposure at default. The probability of default and loss given default were built by the internal and external historical delinquent information, default rates and written-off amounts and calibrated by selected macroeconomic factors for forward-looking adjustment. The estimated amounts of exposure at default were calculated by the amortized cost and interest receivable. At each financial reporting date, the above criteria for a significant increase in credit risk since initial recognition are not hit, the allowance loss shall be measured on the basis of the 12-month expected credit loss method. If financial assets meet the foregoing conditions of significant increases in credit risk or credit deterioration since initial recognition, the allowance losses shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(D) Write-off policy

If any of the following conditions apply, Cathay United Bank and its subsidiaries writes off its non-performing and nonaccrual loans as uncollectible, less the estimated recoverable amount.

Cathay United Bank and its subsidiaries can't expect reasonably to collect the financial assets that including the following index:

- a. The recovery activity has stopped.
- b. Assessed the borrower doesn't have sufficient assets or sources of income to pay the overdraft.

Financial assets have been written-off by Cathay United Bank and its subsidiaries may still have ongoing recovery activity, and continue to follow the relevant policies to litigation proceedings.

(E) The consideration of prospective information

Cathay United Bank and Cathay United Bank (China)

Cathay United Bank and Cathay United Bank (China) uses historical data to analyze and identify the significant economic factors that affect the credit risks and expected credit losses of each group of assets, and uses the regression model or imputation adjustment method to estimate the impairment parameter after the prospective adjustment. The significant economic factors and their impact on PD and LGD differ depending on the type of financial instruments.

The significant economic factors identified by Cathay United Bank and Cathay United Bank (China) in 2018 are as follows:

Credit category	Probability of Default (PD)	Loss Given Default (LGD)
Enterprise loan	GDP% Inflation Index Proportion of investment in GDP(%)	GDP%
Consumer loan	Growth rate of GDP(%) Proportion of savings in GDP(%) Unemployment rate % Implied Purchasing Power Parities ("PPP") rate	
Credit card	Growth rate of GDP(%) Proportion of government revenue in GDP(%)	

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Indovina Bank

Based on the qualitative and quantitative analysis of historical default data and macroeconomic factors, the bank applies the selected local and global economic factors in different portfolios. Regression models and interpolation adjustment were used to estimate the forward-looking parameters complied with regulatory requirements. The selected economic factors and their effects on PDs and LGDs varied from different types of portfolios.

The macroeconomic factors selected by Indovina Bank for the forward-looking adjustments in 2018 are as follows:

Segment	Selected Factors
Loan portfolio	Vietnam GDP growth rate
Debt instrument	Global GDP growth rate Global inflation index

Cathay United Bank Cambodia (CUBC)

Based on the qualitative and quantitative analysis of historical default data and regional macroeconomic factors, CUBC chooses the local macroeconomic factor for parameter adjustments. The weighted average method and interpolation adjustment were used to estimate the forward-looking parameters complied with regulatory requirements. The selected economic factors and their effects on PDs varied from different groups of products.

The macroeconomic factors selected by CUBC for the forward-looking adjustments in 2018 are as follows:

Segment	Selected Factors
Corporate loan	Cambodia GDP growth rate
Consumer loan	
Credit Card	

(F) Loss allowance

a. Movement of allowance for doubtful accounts of discounts and loans

The reconciliation from beginning balance to ending balance of allowance for bad debts of discounts and loans for the year ended 31 December 2018 are as follows:

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	Stage 1	Stage 2		Stage 3		Subtotal		
				Lifetime expected credit losses (Not purchased or originated credit- impaired financial asset)	Lifetime expected credit losses (Purchased or originated credit- impaired financial assets)	Impairment charged in accordance with IFRS 9	Difference from impairment charged in accordance with “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non- performing/Non- accrual Loans”	Total
Beginning balance	\$3,724,645	\$1,036,509	\$-	\$4,690,540	\$-	\$9,451,694	\$13,788,238	\$23,239,932
Changes due to financial instruments recognized as at 1 January								
Transfer to lifetime expected credit losses	(99,353)	1,014,519	-	(11,229)	-	903,937	-	903,937
Transfer to credit-impaired financial assets	(31,497)	(46,974)	-	3,067,341	-	2,988,870	-	2,988,870
Transfer to 12-month expected credit losses	105,340	(543,839)	-	(94,806)	-	(533,305)	-	(533,305)
Financial assets that have been derecognized during the period	(1,846,259)	(172,525)	-	(619,678)	-	(2,638,462)	-	(2,638,462)
New financial assets originated or purchased	1,968,981	516,685	-	1,213,006	-	3,698,672	-	3,698,672
Difference from impairment charged in accordance with “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non- performing/Non- accrual Loans”	-	-	-	-	-	-	836,288	836,288
Bad Loans Write-offs	-	-	-	(3,070,128)	-	(3,070,128)	-	(3,070,128)
Foreign exchange and other movements	92,592	(137,054)	-	(262,429)	-	(306,891)	308,328	1,437
Ending balance	\$3,914,449	\$1,667,321	\$-	\$4,912,617	\$-	\$10,494,387	\$14,932,854	\$25,427,241

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Movement of allowance for doubtful accounts of receivables

The reconciliation from beginning balance to ending balance of allowance for doubtful accounts of receivables for the year ended 31 December 2018 are as follows:

	Stage 1	Stage 2		Stage 3	Subtotal			
				Lifetime expected credit losses (Not purchased or originated credit- impaired financial asset)	Lifetime expected credit losses (Purchased or originated credit- impaired financial assets)	Impairment charged in accordance with IFRS 9	Difference from impairment charged in accordance with “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non- performing/Non- accrual Loans”	Total
Beginning balance	\$78,157	\$63,923	\$-	\$2,106,749	\$-	\$2,248,829	\$14,830	\$2,263,659
Changes due to financial instruments recognized as at 1 January								
Transfer to lifetime expected credit losses	(1,861)	64,210	-	(1,634)	-	60,715	-	60,715
Transfer to credit-impaired financial assets	(377)	(637)	-	62,160	-	61,146	-	61,146
Transfer to 12-month expected credit losses	1,251	(19,979)	-	(2,667)	-	(21,395)	-	(21,395)
Financial assets that have been derecognized during the period	(53,572)	(37,863)	-	(296,585)	-	(388,020)	-	(388,020)
New financial assets originated or purchased	80,911	54,338	-	287,174	-	422,423	-	422,423
Difference from impairment charged in accordance with “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non- performing/Non-accrual Loans”	-	-	-	-	-	-	37,522	37,522
Bad loans write-offs	-	-	-	(442,217)	-	(442,217)	-	(442,217)
Foreign exchange and other movements	21,513	(7,027)	-	55,512	-	69,998	(1,882)	68,116
Ending balance	\$126,022	\$116,965	\$-	\$1,768,492	\$-	\$2,011,479	\$50,470	\$2,061,949

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

c. Movement of impairment loss of financial assets at fair value through other comprehensive income

The reconciliation from beginning balance to ending balance of impairment loss of financial assets at fair value through other comprehensive income for the year ended 31 December 2018 are as follows:

	Stage 1	Stage 2		Stage 3		Total
		Lifetime	Lifetime	Lifetime	Lifetime	
		expected credit	expected credit	expected credit	expected credit	
		losses	losses	losses (Not	losses	
		expected credit	expected credit	purchased or	(Purchased or	Impairment
	12-month	losses	losses	originated	originated	charged in
	expected credit	(Collectively	(Individually	credit-impaired	credit-impaired	accordance with
	losses	assessed)	assessed)	financial asset)	financial assets)	IFRS 9
Beginning balance	\$24,182	\$-	\$-	\$-	\$-	\$24,182
Changes due to financial instruments						
recognized as at 1 January						
Transfer to lifetime expected credit						
losses	-	-	-	-	-	-
Transfer to credit-impaired financial						
assets	-	-	-	-	-	-
Transfer to 12-month expected credit						
losses	-	-	-	-	-	-
Financial assets that have been						
derecognized during the period	(38,897)	-	-	-	-	(38,897)
New financial assets originated or						
purchased	327,459	-	-	-	-	327,459
Foreign exchange and other movements	1,889	-	-	-	-	1,889
Ending balance	\$314,633	\$-	\$-	\$-	\$-	\$314,633

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

d. Movement of the allowance for impairment debt instrument investments measured at amortized cost

The reconciliation from beginning balance to ending balance of allowance for impairment of the debt instrument investments measured at amortized cost for the year ended 31 December 2018 are as follows:

	Stage 1	Stage 2		Stage 3		Total
		Lifetime	Lifetime	Lifetime	Lifetime	
		expected credit	expected credit	expected credit	expected credit	
		losses	losses	losses (Not	losses	
		expected credit	expected credit	purchased or	(Purchased or	Impairment
	12-month	losses	losses	originated	originated	charged in
	expected credit	(Collectively	(Individually	credit-impaired	credit-impaired	accordance with
	losses	assessed)	assessed)	financial asset)	financial assets)	IFRS 9
Beginning balance	\$14,852	\$-	\$-	\$-	\$-	\$14,852
Changes due to financial instruments						
recognized as at 1 January						
Transfer to lifetime expected credit losses	-	-	-	-	-	-
Transfer to credit-impaired financial assets	-	-	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-	-	-
Financial assets that have been		-	-	-	-	
derecognized during the period	(32,282)					(32,282)
New financial assets originated or purchased	58,290	-	-	-	-	58,290
Foreign exchange and other movements	(9,673)	-	-	-	-	(9,673)
Ending balance	\$31,187	\$-	\$-	\$-	\$-	\$31,187

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- e. Movement of Reserve for losses on guarantees, the letters of credit receivables and reserve for financing commitments

The reconciliation from beginning balance to ending balance of the reserve for losses on guarantees, the letters of credit receivables and reserve for financing commitments for the year ended 31 December 2018 are as follows:

	Stage 1	Stage 2	Stage 3	Subtotal			
						Difference from impairment charged in accordance with “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”	Total
		Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)	Lifetime expected credit losses (Not purchased or originated credit-impaired financial asset)	Lifetime expected credit losses (Purchased or originated credit-impaired financial assets)	Impairment charged in accordance with IFRS 9	
Beginning balance	\$114,406	\$21,997	\$-	\$23,394	\$-	\$159,797	\$212,749
Changes due to financial instruments recognized as at 1 January							
Transfer to lifetime expected credit losses	(434)	19,554	-	(24)	-	19,096	19,096
Transfer to credit-impaired financial assets	(24)	(35)	-	8,027	-	7,968	7,968
Transfer to 12-month expected credit losses	873	(11,728)	-	(445)	-	(11,300)	(11,300)
Financial assets that have been derecognized during the period	(58,795)	(9,046)	-	(19,919)	-	(87,760)	(87,760)
New financial assets originated or purchased	174,392	57,160	-	1,606	-	233,158	233,158
Difference from impairment charged in accordance with “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”	-	-	-	-	-	-	18,375
Foreign exchange and other movements	21,554	(4,366)	-	(7,521)	-	9,667	9,667
Ending balance	\$251,972	\$73,536	\$-	\$5,118	\$-	\$330,626	\$401,953

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

f. Movement of the allowance for impairment other financial assets

The reconciliation from beginning balance to ending balance of allowance for bad debts of the other financial assets for the year ended 31 December 2018 are as follows:

	Stage 1	Stage 2		Stage 3		Subtotal		
				Lifetime expected credit losses (Not purchased or originated credit- impaired financial asset)	Lifetime expected credit losses (Purchased or originated credit- impaired financial assets)	Impairment charged in accordance with IFRS 9	Difference from “Regulations of overdue collections”	Total
Beginning balance	\$19,028	\$-	\$-	\$-	\$-	\$19,028	\$9	\$19,037
Changes due to financial instruments recognized as at 1 January								
Transfer to lifetime expected credit losses	-	-	-	-	-	-	-	-
Transfer to credit-impaired financial assets	-	-	-	-	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-	-	-	-	-
Financial assets that have been derecognized during the period	(1,581)	-	-	-	-	(1,581)	-	(1,581)
New financial assets originated or purchased	55,191	-	-	-	-	55,191	-	55,191
Difference from “Regulations of overdue collections”	-	-	-	-	-	-	-	-
Foreign exchange and other movements	258	-	-	-	-	258	-	258
Ending balance	\$72,896	\$-	\$-	\$-	\$-	\$72,896	\$9	\$72,905

Cathay United Bank and its subsidiaries in estimating expected credit losses include cash and cash equivalents, due from the Central Bank and call loans to banks, securities purchased under agreements to resell other financial assets and other assets.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

g. Movement of the gross carrying amounts of discounts and loans

The movement of the gross carrying amounts of discounts and loans for the year ended 31 December 2018 are as follows:

	Stage1	Stage2		Stage3		
				Lifetime expected	Lifetime expected	
				credit losses (Not	credit losses	
		Lifetime expected	Lifetime expected	purchased or	(Purchased or	
	12-month	credit losses	credit losses	originated credit-	originated credit-	
	expected credit	(Collectively	(Individually	impaired financial	impaired financial	
	losses	assessed)	assessed)	asset)	assets)	Total
Beginning balance	\$1,399,416,842	\$47,973,789	\$-	\$10,407,468	\$-	\$1,457,798,099
Transfer to lifetime expected						
credit losses	(23,802,859)	23,861,030	-	(58,171)	-	-
Transfer to credit-impaired						
financial assets	(2,338,666)	(909,935)	-	3,248,601	-	-
Transfer to 12-month						
expected credit losses	18,817,944	(18,381,206)	-	(436,738)	-	-
Financial assets that have						
been derecognized during						
the period	(493,360,455)	(16,171,418)	-	(313,462)	-	(509,845,335)
New financial assets						
originated or purchased	647,027,046	23,815,923	-	2,167,168	-	673,010,137
Foreign exchange and other						
movements	3,945,197	(912,449)	-	(133,550)	-	2,899,198
Bad loans write-offs	-	-	-	(3,111,607)	-	(3,111,607)
Ending balance	\$1,549,705,049	\$59,275,734	\$-	\$11,769,709	\$-	\$1,620,750,492

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

h. Movement of the gross carrying amounts of receivables

The movement of the gross carrying amounts of receivables for the year ended 31 December 2018 are as follows:

	Stage1	Stage2		Stage3		
				Lifetime expected	Lifetime expected	
				credit losses (Not	credit losses	
		Lifetime expected	Lifetime expected	purchased or	(Purchased or	
	12-month	credit losses	credit losses	originated credit-	originated credit-	
	expected credit	(Collectively	(Individually	impaired financial	impaired financial	
	losses	assessed)	assessed)	asset)	assets)	Total
Beginning balance	\$74,426,480	\$2,070,086	\$-	\$2,915,898	\$-	\$79,412,464
Transfer to lifetime expected						
credit losses	(639,711)	642,075	-	(2,364)	-	-
Transfer to credit-impaired						
financial assets	(81,508)	(9,042)	-	90,550	-	-
Transfer to 12-month						
expected credit losses	280,500	(276,613)	-	(3,887)	-	-
Financial assets that have						
been derecognized during						
the period	(68,728,339)	(1,848,225)	-	(594,290)	-	(71,170,854)
New financial assets						
originated or purchased	79,100,185	1,081,499	-	459,513	-	80,641,197
Foreign exchange and other						
movements	(400,794)	1,209	-	1,597	-	(397,988)
Bad loans write-offs	-	-	-	(444,144)	-	(444,144)
Ending balance	\$83,956,813	\$1,660,989	\$-	\$2,422,873	\$-	\$88,040,675

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- i. Movement of the gross carrying amounts of financial assets at fair value through other comprehensive income

The movement of the gross carrying amounts of financial assets at fair value through other comprehensive income for the year ended 31 December 2018 are as follows:

	Stage1	Stage2		Stage3		
		Lifetime expected	Lifetime expected	Lifetime expected	Lifetime expected	
		credit losses	credit losses	credit losses (Not	credit losses	
		(Collectively	(Individually	purchased or	(Purchased or	
	12-month	credit losses	credit losses	originated credit-	originated credit-	
	expected credit	losses	losses	impaired financial	impaired financial	
	losses	assessed)	assessed)	asset)	assets)	Total
Beginning balance	\$159,385,272	\$-	\$-	\$-	\$-	\$159,385,272
Transfer to lifetime expected						
credit losses	-	-	-	-	-	-
Transfer to credit-impaired						
financial assets	-	-	-	-	-	-
Transfer to 12-month						
expected credit losses	-	-	-	-	-	-
Financial assets that have						
been derecognized during						
the period	(58,653,554)	-	-	-	-	(58,653,554)
New financial assets						
originated or purchased	85,649,879	-	-	-	-	85,649,879
Foreign exchange and other						
movements	2,201,136	-	-	-	-	2,201,136
Ending balance	\$188,582,733	\$-	\$-	\$-	\$-	\$188,582,733

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- j. Movement of the gross carrying amounts of the debt instrument investments measured at amortized cost and off-balance sheet debt instruments

The movement of the gross carrying amounts of the debt instrument investments measured at amortized cost and off-balance sheet debt instruments for the year ended 31 December 2018 are as follows:

	Stage1	Stage2		Stage3		
				Lifetime expected credit losses (Not purchased or originated credit-impaired financial asset)	Lifetime expected credit losses (Purchased or originated credit-impaired financial assets)	
	12-month expected credit losses	Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)			Total
Beginning balance	\$376,068,060	\$-	\$-	\$-	\$-	\$376,068,060
Transfer to lifetime expected credit losses	-	-	-	-	-	-
Transfer to credit-impaired financial assets	-	-	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-	-	-
Financial assets that have been derecognized during the period	(321,363,670)	-	-	-	-	(321,363,670)
New financial assets originated or purchased	329,822,852	-	-	-	-	329,822,852
Foreign exchange and other movements	36,526,451	-	-	-	-	36,526,451
Ending balance	\$421,053,693	\$-	\$-	\$-	\$-	\$421,053,693

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- k. Movement of the gross carrying amounts of reserve for losses on guarantees, the letters of credit receivables and reserve for financing commitments

The movement of the gross carrying amounts of the reserve for losses on guarantees, the letters of credit receivables and reserve for financing commitments for the year ended 31 December 2018 are as follows:

	Stage1	Stage2		Stage3		
		Lifetime expected	Lifetime expected	Lifetime expected	Lifetime expected	
		credit losses	credit losses	credit losses (Not	credit losses	
				purchased or	(Purchased or	
	12-month	credit losses	credit losses	originated credit-	originated credit-	
	expected credit	(Collectively	(Individually	impaired financial	impaired financial	
	losses	assessed)	assessed)	asset)	assets)	Total
Beginning balance	\$1,159,174,758	\$20,791,905	\$-	\$2,720,794	\$-	\$1,182,687,457
Transfer to lifetime expected						
credit losses	(21,702,661)	21,708,781	-	(6,120)	-	-
Transfer to credit-impaired						
financial assets	(156,808)	(13,707)	-	170,515	-	-
Transfer to 12-month						
expected credit losses	10,454,858	(10,413,362)	-	(41,496)	-	-
Financial assets that have						
been derecognized during						
the period	(310,563,088)	(10,285,353)	-	(551,715)	-	(321,400,156)
New financial assets						
originated or purchased	358,028,697	22,984,631	-	869,489	-	381,882,817
Foreign exchange and other						
movements	12,092,772	257,474	-	952	-	12,351,198
Ending balance	\$1,207,328,528	\$45,030,369	\$-	\$3,162,419	\$-	\$1,255,521,316

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

1. Movement of the gross carrying amounts of other financial assets

The movement of the gross carrying amounts of other financial asset for the year ended 31 December 2018 are as follows:

	Stage1	Stage2		Stage3		
		Lifetime expected	Lifetime expected	Lifetime expected	Lifetime expected	
		credit losses	credit losses	credit losses (Not	credit losses	
		(Collectively	(Individually	purchased or	(Purchased or	
	12-month	credit losses	credit losses	originated credit-	originated credit-	
	expected credit	losses	losses	impairment financial	impairment financial	
	losses	assessed)	assessed)	asset)	assets)	Total
Beginning balance	\$275,151,890	\$-	\$-	\$-	\$-	\$275,151,890
Transfer to lifetime expected						
credit losses	-	-	-	-	-	-
Transfer to credit-impaired						
financial assets	-	-	-	-	-	-
Transfer to 12-month						
expected credit losses	-	-	-	-	-	-
Financial assets that have						
been derecognized during						
the period	(80,449,326)	-	-	-	-	(80,449,326)
New financial assets						
originated or purchased	24,126,618	-	-	-	-	24,126,618
Foreign exchange and other						
movements	254,825					254,825
Ending balance	\$219,084,007	\$-	\$-	\$-	\$-	\$219,084,007

Other financial assets contained cash and cash equivalents, due from the Central Bank and call loans to banks, securities purchased under agreements to resell, guarantee deposits paid and exchange bills negotiated.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

The category of credit asset and the grade of credit quality were narrated as follows:

(A) Category of credit risk

The credit risk of Cathay United Bank was classified into five categories. Normal credit assets shall be classified as “Category One.” The remaining unsound credit assets shall be evaluated based on the status of the loan collaterals and the length of time overdue. Assets that require special mention shall be classified as “Category Two,” assets that are substandard shall be classified as “Category Three,” assets that are doubtful shall be classified as “Category Four,” and assets for which there is loss shall be classified as “Category Five”. For managing the default credits, Cathay United Bank established the regulations governing the procedure to deal with non-performing loans, non-accrual loans and bad debts.

(B) Grade of credit quality

Cathay United Bank sets the level of credit quality based on the characteristics and scale of business (such as establishing the internal rating model of credit risk, setting the credit rating table or relevant rules to classify) to proceed with the risk management.

In order to measure the credit risk of the clients, Cathay United Bank employs the statistical methods and the professional judgment from the experts. Cathay United Bank develops the rating model of business credit after considering the clients’ relevant information. The model shall be reviewed periodically to verify if the calculated results conformed to the reality and revised every parameter to optimize the results.

With respect to consumer credit assets such as mortgages, credit cards, and small-amount credit loans, Cathay United Bank also evaluates default risk of clients by using the credit rating scores developed by Cathay United Bank and the external due diligence services.

The credit quality of Cathay United Bank’s corporate borrowers is classified as excellent, good, average and bad.

To ensure the reasonable estimated values of credit rating system’s design, process, and relevant risk factors, Cathay United Bank executes the relevant verification and test in the model according to the actual default every year so that the calculated results will be close to actual default.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Cathay United Bank evaluates the counterparties' credit quality before transactions and refers to the domestic and foreign credit rating agencies, when rendering different lines of credit based on the credit quality.

(C) Hedge of credit risk and easing policy

a. Collateral

Cathay United Bank adopts a series of policies to lower the credit risk, and one of the frequently-used methods is requesting borrowers to provide collaterals. To ensure the creditor's rights, Cathay United Bank sets the scope available as collaterals and the procedures of appraising, managing, and disposing of the collaterals. In addition, a credit contract is in place to provide the credit claim preservation, collaterals, and offset provisions to stipulate when a credit trigger event occurs, Cathay United Bank may reduce the limit, cut down the payback period, or deem all debts mature. Also, Cathay United Bank will use the deposits that the borrowers lodged in Cathay United Bank to offset the liabilities to lower the credit risk.

Other non-credit business collaterals shall depend on the characteristics of the financial instruments. Only the asset-backed securities and other similar financial instruments are secured by an asset pool of financial instruments.

b. Limit of credit risk and control of credit risk concentration

To avoid the excessive risk concentration, Cathay United Bank limits the credit amounts of single counterparties and groups; Cathay United Bank also sets the investment guide and regulation of risk control of equity investment to restrict the investment limits of single person (company) or related company (group). Furthermore, Cathay United Bank establishes relevant regulations to control the concentration risk of assets, and sets the credit limits by industry, group, country, and stock types to monitor the credit concentration risk.

c. Net settlement agreement

Cathay United Bank usually settles by the gross balance, but signs contract with some counterparties to settle by net balance. If a default happens, Cathay United Bank will terminate all transactions with the counterparty and settle by net balance in order to lower the credit risk.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(D) Cathay United Bank's maximum exposures to credit risk

a. Cathay United Bank and its subsidiaries' discounts and loans

	Stage 1	Stage 2	Stage 3		Difference from impairment charged in accordance with Purchased or Guidelines for Handling Assessment of	
2018.12.31	12-month expected credit loss	Lifetime expected credit losses	Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Assets	Total
Rating grade						
Consumer banking						
Excellent	\$566,722,439	\$471,033	\$-	\$-	\$-	\$567,193,472
Good	365,880,239	867,356	-	-	-	366,747,595
General	9,499,671	5,864,797	-	-	-	15,364,468
Bad	-	-	5,400,428	-	-	5,400,428
Corporate banking						
Excellent	386,965,775	23,866,950	-	-	-	410,832,725
Good	198,235,569	21,375,110	-	-	-	219,610,679
General	22,401,356	6,830,488	-	-	-	29,231,844
Bad	-	-	6,263,226	-	-	6,263,226
Credit card						
Excellent	-	-	-	-	-	-
Good	-	-	-	-	-	-
General	-	-	-	-	-	-
Bad	-	-	106,055	-	-	106,055
Total carrying amount	1,549,705,049	59,275,734	11,769,709	-	-	1,620,750,492
Less: Allowance impairment	(3,914,449)	(1,667,321)	(4,912,617)	-	-	(10,494,387)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	(14,932,854)	(14,932,854)
Total	\$1,545,790,600	\$57,608,413	\$6,857,092	\$-	\$(14,932,854)	\$1,595,323,251

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Cathay United Bank and its subsidiaries' receivables

	Stage 1	Stage 2	Stage 3		Difference from impairment charged in accordance with Purchased or Guidelines for originated Handling Assessment of		Total
2018.12.31	12-month expected credit loss	Lifetime expected credit losses	Lifetime expected credit losses	credit-impaired financial assets	Assets	Assets	
Rating grade							
Consumer banking							
Excellent	\$313,967	\$1,520	\$-	\$-	\$-		\$315,487
Good	374,050	4,774	-	-	-		378,824
General	12,336	13,348	-	-	-		25,684
Bad	-	-	21,714	-	-		21,714
Corporate banking							
Excellent	3,200,148	376,766	-	-	-		3,576,914
Good	2,123,609	80,240	-	-	-		2,203,849
General	101,984	10,680	-	-	-		112,664
Bad	-	-	24,603	-	-		24,603
Credit card							
Excellent	44,617,166	23,730	-	-	-		44,640,896
Good	21,461,738	74,408	-	-	-		21,536,146
General	1,364,878	1,075,523	-	-	-		2,440,401
Bad	-	-	1,705,310	-	-		1,705,310
Others	10,386,937	-	671,246	-	-		11,058,183
Total carrying amount	83,956,813	1,660,989	2,422,873	-	-		88,040,675
Less: Allowance impairment	(126,022)	(116,965)	(1,768,492)	-	-		(2,011,479)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	(50,470)		(50,470)
Total	\$83,830,791	\$1,544,024	\$654,381	\$-	\$(50,470)		\$85,978,726

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- c. The amounts of the financial assets maximum exposures to credit risk that the impairment regulations are invalid to Cathay United Bank and its subsidiaries are as follows:

	2018.12.31	2017.12.31 (Note)
Financial assets at fair value through profit or loss		
Common stocks	\$3,657	
Short-term notes	162,478,516	
Funds and beneficiary Securities	96,785	
Bonds	38,630,552	
Derivative financial instruments	49,475,706	
Financial assets at fair value through other comprehensive income		
Equity instruments	12,087,150	

Note: Cathay United Bank and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay United Bank and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Without taking into account the collateral or other credit enhancement instrument, the maximum credit risk exposure of on-balance-sheet financial assets equals their carrying values. The maximum credit risk exposure of off-balance-sheet items (without considering the collaterals or other credit enhancement is irrevocable) are as follows:

- a. Cathay United Bank

Off balance sheet items	Maximum exposure to credit risk	
	2018.12.31	2017.12.31
Irrevocable loan commitments	\$154,605,389	\$211,222,089
Credit card commitments	669,232,204	626,829,201
Unused commercial letters of credit	4,217,682	3,765,996
Guarantees on duties and contracts	13,534,956	7,167,460
Total	\$841,590,231	\$848,984,746

- b. Indovina Bank

Off balance sheet items	Maximum exposure to credit risk	
	2018.12.31	2017.12.31
Unused commercial letters of credit	\$1,017,801	\$1,629,282
Finance guarantee contracts	2,262,842	2,587,848
Total	\$3,280,643	\$4,217,130

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

c. CUBC Bank

Off balance sheet items	Maximum exposure to credit risk	
	2018.12.31	2017.12.31
Irrevocable loan commitments	\$-	\$647,417
Credit card commitments	447,040	403,120
Finance guarantee contracts	78,161	60,673
Total	\$525,201	\$1,111,210

d. Cathay United Bank (China)

Off balance sheet items	Maximum exposure to credit risk	
	2018.12.31	2017.12.31
Irrevocable loan commitments	\$623,837	\$-
Unused commercial letters of credit	773,078	-
Finance guarantee contracts	170,835	-
Total	\$1,567,750	\$-

To reduce the risk from any businesses, Cathay United Bank conducts an overall assessment and takes appropriate risk reduction measures, such as obtaining collaterals and guarantors. For obtaining of collaterals, Cathay United Bank has *Collateral Management Guidelines*, to ensure that collaterals meet the specific criteria and has the effect of reducing the business risk.

The management deems Cathay United Bank and its subsidiaries able to control and minimize the credit risk exposures in off-balance-sheet items as Cathay United Bank and its subsidiaries use more strict rating procedures when extending credits and conduct reviews regularly.

(E) Credit concentration risk of Cathay United Bank and its subsidiaries

When the counterparties are obviously the same party, or there are several counterparties but engaging in similar business activities and sharing similar economic characteristics, and vulnerable to the same economic impacts or other changes, the credit concentration risk is apparent.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Credit concentration risk of Cathay United Bank and its subsidiaries derives from the assets, liabilities and off-balance-sheet items, and arises from performing obligations or engaging in transactions or cross-line portfolio of risk exposures including credit extension, due from and call loans to other banks, securities investment, receivables and derivatives. Cathay United Bank and its subsidiaries do not significantly concentrate on a single client or counterparty, and the transaction amount with a single client or counterparty accounted for Cathay United Bank's total bills discounts and loans and overdue receivables is not significant. Discounts and loans, guarantees, bills purchased, and acceptances receivable of Cathay United Bank and its subsidiaries according to industry and country are listed below:

Items	2018.12.31		2017.12.31	
	amount	%	amount	%
Industry type				
Manufacturing	\$117,141,000	7.16	\$98,481,993	6.72
Financial institutions and insurance	74,995,593	4.58	67,599,101	4.61
Leasing and real estate	140,808,012	8.60	122,798,794	8.38
Individuals	900,573,664	55.03	822,631,846	56.14
Others	403,005,618	24.63	353,911,306	24.15
Total	<u>\$1,636,523,887</u>	<u>100.00</u>	<u>\$1,465,423,040</u>	<u>100.00</u>

Items	2018.12.31		2017.12.31	
	amount	%	amount	%
Geographic Region				
Domestic	\$1,360,278,586	83.12	\$1,223,249,877	83.47
Asia	160,134,030	9.78	130,593,968	8.91
America	31,418,258	1.92	28,077,424	1.92
Others	84,693,013	5.18	83,501,771	5.70
Total	<u>\$1,636,523,887</u>	<u>100.00</u>	<u>\$1,465,423,040</u>	<u>100.00</u>

(F) Credit quality analysis of the financial assets

Before 1 January 2018, some of the financial assets held by Cathay United Bank and its subsidiaries, such as cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at fair value through profit and loss, securities purchased under agreements to resell, refundable deposits, operating deposits and settlement fund, are excluded from this analysis since the counterparty is normally with good credit quality and is considered as low credit risk.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

In addition to all of the above, the credit quality analysis of the financial assets was shown as follows:

a. Credit quality analysis to loans and receivables of Cathay United Bank

2018.12.31: Cathay United Bank and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay United Bank and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

	Neither past due nor impaired				Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment allowances (D)		Net balance (A)+(B)+(C)-(D)
	Excellent	Good	Average	Subtotal(A)				With objective evidence of impairment individual	Without objective evidence of impairment individual	
2017.12.31										
Receivables										
Credit card										
business	\$49,329,442	\$10,191,113	\$3,585,181	\$63,105,736	\$170,565	\$161,634	\$63,437,935	\$130,938	\$1,238,855	\$62,068,142
Others	13,169,520	2,658,060	64,064	15,891,644	6,803	52,462	15,950,909	12,657	1,042,859	14,895,393
Loans	941,240,553	413,585,185	48,456,790	1,403,282,528	868,799	17,579,331	1,421,730,658	4,239,528	18,313,706	1,399,177,424

b. The credit quality analysis on neither past due nor impaired discounts and loans of Cathay United Bank

2018.12.31: Cathay United Bank and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay United Bank and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

2017.12.31	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	\$288,306,859	\$61,393,161	\$9,757,389	\$359,457,409
Unsecured personal loans	33,796,775	19,384,730	5,789,780	58,971,285
Others	362,886,985	68,568,088	9,065,468	440,520,541
Corporate banking				
Secured	41,310,306	162,034,535	20,899,707	224,244,548
Unsecured	214,939,628	102,204,671	2,944,446	320,088,745
Total	<u>\$941,240,553</u>	<u>\$413,585,185</u>	<u>\$48,456,790</u>	<u>\$1,403,282,528</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

c. Credit quality analysis on securities investment of Cathay United Bank

2018.12.31: Cathay United Bank and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay United Bank and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

2017.12.31	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment (D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade or non- credit rating	Subtotal (A)					
Available-for-sale financial assets								
Bonds	\$124,014,858	\$1,824,503	\$125,839,361	\$-	\$-	\$125,839,361	\$-	\$125,839,361
Stocks	1,512,618	14,319,641	15,832,259	-	146,379	15,978,638	146,379	15,832,259
Others	-	541,355	541,355	-	-	541,355	-	541,355
Held-to-maturity financial assets								
Bonds	24,522,472	2,109,403	26,631,875	-	-	26,631,875	-	26,631,875
Others	5,221,668	-	5,221,668	-	-	5,221,668	-	5,221,668
Investments in debt securities with no active market								
Bonds	69,662,593	-	69,662,593	-	-	69,662,593	-	69,662,593
Others	318,625,000	-	318,625,000	-	-	318,625,000	-	318,625,000

d. Aging analysis on past due but not impaired financial assets of Cathay United Bank

Past due but not impaired loans might result from some temporary administration reasons so the customers is in the early stages of delinquency but no actual impairment has occurred yet. Unless there is other objective evidence shown otherwise, according to the internal credit risk assets impairment evaluation guideline, a loan that is past due for no more than 30 days is typically not to be treated as impairment.

2018.12.31: Cathay United Bank and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay United Bank and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.12.31	Less than 60 days	61 - 90 days	Total
Receivables			
Credit card business	\$98,072	\$72,493	\$170,565
Others	4,299	2,504	6,803
Discounts and loans			
Consumer banking			
Residential mortgage loans	273,792	50,936	324,728
Unsecured personal loans	91,079	76,553	167,632
Others	255,977	45,463	301,440
Corporate banking			
Secured	60,166	-	60,166
Unsecured	14,833	-	14,833

(G) Impairment analysis of financial assets of Cathay United Bank and its subsidiaries

- a. Cathay United Bank and its subsidiaries have recognized accumulated impairment loss for available-for-sale financial assets in the amount of \$146,379 thousand as of 31 December 2017, due to the existence of objective impairment evidence.
- b. Cathay United Bank's impairment assessment of discounts, loans and receivables, please refer to Note 6.(6) and Note 6.(7).

(H) Impairment analysis of non-financial assets of Cathay United Bank and its subsidiaries

- a. Foreclosed properties management policy

Foreclosed properties will be sold when they are available for sale. The proceeds are used to reduce or repay the outstanding claim. Foreclosed properties are classified under other assets in the consolidated balance sheets.

Cathay United Bank, Indovina Bank, and Cathay United Bank (China) have no foreclosed properties. The foreclosed properties in CUBC Bank exhibited objective impairment evidence. CUBC Bank has no recognized impairment loss for foreclosed properties for the years ended 31 December 2018 and 2017. The accumulated impairment loss amounted to \$49,656 thousand and \$53,726 thousand as of 31 December 2018 and 31 December 2017, respectively.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

D. Liquidity risk

The purpose of liquidity risk management is to ensure the availability of funds to meet present and future financial obligations. Liquidity risk is also managed by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds the Bank believes it can generate within that period. The management systems and systems includes the measurement of liquidity risk, Interest rate sensitivity analysis, scenario analysis and emergency response plan. And adopt quantitative management to adjust the liquidity gap in order to ensure proper liquidity in response to changes in daily capital flows and market conditions. The strategic planning of the Bank's liquidity management is under the responsibility of the Asset and Liability Management Committee, and the daily operation and execution are the responsibility of the Treasury Marketing Unit Department. As part of our liquidity risk management, the Group focuses on a number of components, including tapping available sources of liquidity, preserving necessary funds at reasonable cost and continuous contingency planning.

(A) Analysis of financial assets and non-derivative financial liabilities by remaining contractual maturities

a. Financial assets were held to manage liquidity risk

Cathay United Bank and its subsidiaries hold highly marketable and diverse financial assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The financial assets were held to manage liquidity risk including cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at fair value through profit and loss, financial assets at fair value through other comprehensive income, financial assets measured at amortized cost, discounts and loans.

b. Maturity analysis of non-derivative financial liabilities of Cathay United Bank

The table below shows the analysis of the cash outflow of non-derivative financial liabilities on time remaining until the contractual maturity date. The amount disclosed is based on the contractual cash flows and may be different from that included in the consolidated balance sheets.

2018.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$33,388,821	\$17,227,043	\$17,187,533	\$147,450	\$67,950,847
Non-derivative financial liabilities at fair value through profit or loss	-	-	610,767	51,992,332	52,603,099
Securities sold under agreements to repurchase	30,140,774	10,582,338	-	15,436,901	56,160,013
Payables	12,118,626	6,512,187	909,069	402,186	19,942,068
Deposits and remittances	353,788,658	872,227,988	834,010,982	116,509,145	2,176,536,773
Financial debentures payable	7,800	727,699	1,537,213	53,900,000	56,172,712
Other capital outflow at maturity	27,116,530	40,057,002	8,599,063	1,251,007	77,023,602

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$39,789,043	\$23,513,092	\$18,408,292	\$2,851,614	\$84,562,041
Non-derivative financial liabilities at fair value through profit or loss	49,914	-	593,179	50,124,009	50,767,102
Securities sold under agreements to repurchase	97,261,840	9,954,474	-	2,896,151	110,112,465
Payables	11,947,054	7,208,487	70,925	372,275	19,598,741
Deposits and remittances	326,857,503	809,442,125	815,158,881	106,700,709	2,058,159,218
Financial debentures payable	3,850,000	3,900,000	-	56,190,661	63,940,661
Other capital outflow at maturity	20,427,101	37,656,749	7,500,761	729,552	66,314,163

(B) Maturity analysis of derivative financial liabilities

a. Net settled derivative financial instruments

Net settled derivatives engaged by Cathay United Bank include:

- (a) Foreign exchange derivative instruments: foreign exchange options, non-delivery forwards;
- (b) Interest rate derivative instruments: swap options, net settled interest rate swaps and other interest rate agreements.

The table below shows the net settled derivative financial instruments on time remaining until the contractual maturity date. Analysis of contractual maturity date helps to illustrate all derivative financial instruments listed in the consolidated balance sheet. The amount disclosed is based on contractual cash flow and may be different from that included in the consolidated balance sheet. Maturity analysis of net settled derivative financial liabilities was as follows:

2018.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	\$86,688	\$45,095	\$229,800	\$199	\$361,782
- Interest rate derivative instruments	21,092	285,082	543,248	23,522,719	24,372,141
Total	\$107,780	\$330,177	\$773,048	\$23,522,918	\$24,733,923

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	\$98,475	\$14,663	\$213,193	\$463	\$326,794
- Interest rate derivative instruments	3,061,667	292,540	147,564	11,944,700	15,446,471
Total	\$3,160,142	\$307,203	\$360,757	\$11,945,163	\$15,773,265

b. Maturity analysis of gross settled derivative financial instruments

Gross settled derivatives engaged by Cathay United Bank include:

- (a) Foreign exchange derivative instruments: currency futures and swaps
- (b) Interest rate derivative instruments: cross currency swaps
- (c) Credit derivative instruments: all derivatives shown in gross pay a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of such a credit event

The contract maturity date is the basic element to understand Cathay United Bank's gross settled derivative instruments as at balance sheet dates. The disclosed amounts are based on the contractual cash flows and part of the disclosed are not in conformity with related items on consolidated balance sheet. Maturity analysis of gross settled derivative financial liabilities was as follows:

2018.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
- Cash outflow	\$(3,875,082)	\$(4,718,572)	\$(558,507)	\$(296,855)	\$(9,449,016)
- Cash inflow	24,170	17,928	717	-	42,815
- Interest rate derivative instruments					
- Cash outflow	(10,384)	(56,742)	(107,229)	(423,860)	(598,215)
- Cash inflow	-	-	-	-	-
Cash outflow subtotal	(3,885,466)	(4,775,314)	(665,736)	(720,715)	(10,047,231)
Cash inflow subtotal	24,170	17,928	717	-	42,815
Net cash flow	\$(3,861,296)	\$(4,757,386)	\$(665,019)	\$(720,715)	\$(10,004,416)

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
- Cash outflow	\$(2,282,100)	\$(4,014,702)	\$(744,683)	\$(111,439)	\$(7,152,924)
- Cash inflow	11,422	7,488	-	-	18,910
- Interest rate derivative instruments					
- Cash outflow	(59,474)	(233,906)	(130,287)	(205,167)	(628,834)
- Cash inflow	-	-	-	-	-
Cash outflow subtotal	(2,341,574)	(4,248,608)	(874,970)	(316,606)	(7,781,758)
Cash inflow subtotal	11,422	7,488	-	-	18,910
Net cash flow	\$(2,330,152)	\$(4,241,120)	\$(874,970)	\$(316,606)	\$(7,762,848)

(C) Maturity analysis of off-balance sheet items

- a. Irrevocable commitments: include Cathay United Bank's irrevocable loan commitments and credit card commitments.
- b. Financial guarantee contracts: Cathay United Bank acts as a guarantor or an issuer of credit line in a financing guarantee agreement.
- c. Leasing commitments: Cathay United Bank acts as a lessee in an irrevocable operating lease agreement and the minimum lease payments are shown as follows:

2018.12.31	Not later than 1 year	1~5 years	Later than 5 years	Total
Irrevocable loan commitments	\$109,990,204	\$35,237,143	\$9,378,042	\$154,605,389
Credit card commitments	55,543,412	237,450,848	376,237,944	669,232,204
Financial guarantee contracts	12,492,672	4,793,131	466,835	17,752,638
Leasing commitments				
Non-cancellable operating lease payments	1,435,798	3,501,147	277,120	5,214,065
Total	<u>\$179,462,086</u>	<u>\$280,982,269</u>	<u>\$386,359,941</u>	<u>\$846,804,296</u>

2017.12.31	Not later than 1 year	1~5 years	Later than 5 years	Total
Irrevocable loan commitments	\$191,776,099	\$18,595,520	\$850,470	\$211,222,089
Credit card commitments	52,188,926	285,821,408	288,818,867	626,829,201
Financial guarantee contracts	9,933,790	940,456	59,210	10,933,456
Leasing commitments				
Non-cancellable operating lease payments	1,666,530	2,938,921	75,995	4,681,446
Total	<u>\$255,565,345</u>	<u>\$308,296,305</u>	<u>\$289,804,542</u>	<u>\$853,666,192</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Cathay Century and its subsidiaries

Cathay Century and its subsidiaries' principal financial risk management objective are to manage the market risk, credit risk and liquidity risk related to its operating activities. Cathay Century and its subsidiaries identifies, measures and manages the aforementioned risks based on the Company's policy and risk appetite.

Cathay Century and its subsidiaries have established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the board of directors and audit committee must be carried out based on related protocols and internal control procedures. Cathay Century and its subsidiaries comply with its financial risk management policies at all times.

A. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk (such as equity instrument).

In practice, it is rarely the case that a single risk variable will change independently from other risk variable; there is usually interdependency between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

(A) Foreign currency risk

Cathay Century and its subsidiaries are exposed to foreign exchange risk from US and NT dollars exchanges for investing in foreign special purpose money trust. Since the amount of investment is significant, Cathay Century and its subsidiaries engage in forward foreign exchange contracts for hedging purposes.

Cathay Century and its subsidiaries is further exposed to exchange rate risk for engaging in reinsurance business involving transactions denominated in non-functional currency. Because this type of transaction usually has a relatively shorter collection period, the exchange rate fluctuations are not significant. Cathay Century and its subsidiaries do not engage in hedging in relation to this type of transaction.

Cathay Century and its subsidiaries' self-evaluation showed that the terms of the hedging instrument and the hedged items are the same, so as to maximize the effectiveness of the hedge.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(B) Interest rate risk

Interest rate risk results from changes in the market interest rates which cause the fair value of financial instruments or the future cash flow to fluctuate. Cathay Century and its subsidiaries' interest rate risk primarily results from floating rate investments classified as financial assets at fair value through profit and loss and financial assets at fair value through other comprehensive income.

(C) Equity price risk

Cathay Century and its subsidiaries hold equity securities of local and foreign listed companies. Their prices are affected by uncertainties about the future values of the investment securities. Equity securities of listed companies held by Cathay Century and its subsidiaries are classified under financial assets at fair value through profit and loss or financial assets at fair value through other comprehensive income. Cathay Century and its subsidiaries manage the equity price risk through diversification and placing limits on individual and total equity instruments.

B. Credit risk

The credit risk of insurance contracts comes mainly from reinsurance business. That is, the reinsurer's default or bad financial condition which leads to the inability to pay the reinsurance claims. Reinsurance contracts are arranged in accordance with the "Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms". The reinsurer with whom Cathay Insurance and its subsidiaries reinsure are mostly reinsurers with better credit ratings and qualified as reinsurers. Relevant risk control procedures are also established to regularly keep track and monitor changes in the credit rating of reinsurers.

In compliance with Article 5 of the "Regulations Governing the Provision of Unqualified Reinsurance Reserves for Insurance Company", transactions with unqualified reinsurers are disclosed in the notes to the financial statements which include summary of unqualified reinsurance contracts and types of reinsurance, reinsurance premium expense of unqualified reinsurance contracts, as well as general description of the amount of unqualified reserve and its components.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(A) Cathay Century's major unqualified reinsurance counterparties are listed below:

As of 31 December 2018

Name	Type
Best RE (L) Limited	Reinsurance ceded contracts of liability insurance
Tugu Insurance Company HK	Facultative reinsurance of marine and fire insurance
Cathay Insurance Company Ltd. (China)	Facultative reinsurance of marine insurance
Emirates Re	Reinsurance ceded contracts of fire insurance
Trust International Insurance and Reinsurance Company B.S.C.	Reinsurance ceded contracts of marine and fire insurance
	Facultative reinsurance of marine, fire and liability insurance

As of 31 December 2017

Name	Type
Best RE (L) Limited	Reinsurance ceded contracts of Other property insurance
	Facultative reinsurance of marine and fire insurance
Lemma Insurance Company	Facultative reinsurance of fire insurance
Cathay Insurance Company Ltd. (China)	Facultative reinsurance of marine insurance

(B) As of 31 December 2018 and 2017, Cathay Century's unqualified reinsurance expenses amounted to \$35,899 and \$11,554 thousand, respectively. °

(C) The reserve for unqualified reinsurance and the components of this account include:

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Unearned premium reserve	\$17,949	\$5,777
Claims recoverable from reinsurers of paid claims overdue less than nine month	60,165	2,524
Claims recoverable from reinsurers which were reported but unpaid	5,003	40,060
Reserve for unqualified reinsurance	<u>\$83,117</u>	<u>\$48,361</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(D) Credit risk management policies

Cathay Century and its subsidiaries trade only with established and creditworthy third parties. Cathay Century and its subsidiaries' policy is that all customers who trade on credit terms are subject to credit verification procedures and that premium receivable and notes receivable collections are monitored on an ongoing basis. Therefore, Cathay Century and its subsidiaries' bad debt are insignificant. On the other hand, in the event counterparty's creditworthiness deteriorates, Cathay Century and its subsidiaries will suspend the related contracts and resume exercising relevant rights and obligations when transaction status is restored.

Cathay Century and its subsidiaries' secured lending operations must be approved and verified by performing credit verification procedures, and obtain real property security provided by the counterparty. In the event the counterparty's creditworthiness deteriorates, Cathay Century and its subsidiaries may exercise under their own discretion the relevant security rights upon presentation, to protect Cathay Century and its subsidiaries' interests.

Cathay Century and its subsidiaries' credit risk exposure of financial transaction include: issuer risk, counterparty risk and the credit risk of underlying assets.

- a. Issuer risk is the risk that the issuer of the debt instrument held by Cathay Century and its subsidiaries or banks with which Cathay Century and its subsidiaries maintain deposits fail to deliver in accordance with the agreement due to default, bankruptcy or settlement, and Cathay Century and its subsidiaries incur financial losses as a result.
- b. Counterparty risk is the risk that a counterparty of Cathay Century and its subsidiaries fail to deliver as obligated before the settlement date which then cause losses to Cathay Century and its subsidiaries
- c. Credit risk of the underlying assets is the risk of loss due to weakened credit quality, increase in credit premium, credit rating downgrade or default of underlying assets linked to a financial instrument.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(E) Credit concentration risk analysis

- a. The amounts of credit risk exposure of Cathay Century and its subsidiaries' financial assets are as follows:

2018.12.31	The amount of credit risk exposure - by area					
Financial assets	Taiwan	Asia	Europe	North Americas	Emerging market and others	Total
Cash and cash equivalents	\$8,039,616	\$215,539	\$224,365	\$927,751	\$759,722	\$10,166,993
Financial assets at fair value through profit or loss	785,960	-	-	-	-	785,960
Financial assets at fair value through other comprehensive income	1,045,844	-	-	-	-	1,045,844
Financial assets measured at amortized cost (Note)	2,118,265	356,861	1,493,025	3,275,261	1,802,130	9,045,542
Total	\$11,989,685	\$572,400	\$1,717,390	\$4,203,012	\$2,561,852	\$21,044,339
Proportion	56.97%	2.72%	8.16%	19.97%	12.18%	100.00%

2017.12.31	The amount of credit risk exposure - by area					
Financial assets	Taiwan	Asia	Europe	North Americas	Emerging market and others	Total
Cash and cash equivalents	\$5,891,152	\$95,401	\$87,956	\$541,678	\$912,916	\$7,529,103
Financial assets at fair value through profit or loss	90,521	-	-	-	-	90,521
Available-for-sale financial assets (Note)	2,138,591	79,416	-	-	221,805	2,439,812
Debt instruments investments with no active market exists	1,100,000	272,655	321,203	304,210	10,512	2,008,580
Held-to-maturity investments	999,988	-	1,130,412	2,942,947	1,532,959	6,606,306
Total	\$10,220,252	\$447,472	\$1,539,571	\$3,788,835	\$2,678,192	\$18,674,322
Proportion	54.73%	2.40%	8.24%	20.29%	14.34%	100.00%

Note: Guarantee deposits paid in bonds are included.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(F) Determinants for whether the credit risk has increased significantly since initial recognition

- a. Cathay Century and its subsidiaries assesses, at each reporting date, whether the credit risk of a financial instrument in the scope of impairment requirements under IFRS 9 has increased significantly since initial recognition. To make this assessment, Cathay Century and its subsidiaries considered reasonable and supportable information (including forward-looking information) which indicated that credit risk has increased significantly since initial recognition. The main indicators included external credit rating, past due information, credit spread and other market information which showed that the credit risk related to borrowers and issuers has increased significantly.
- b. Low credit risk: If the credit risk at the reporting date is determined to be low, an entity can assume that the credit risk of the financial instrument has not increased significantly since initial recognition.

(G) Definitions of a default occurring on a financial asset and a credit-impaired financial asset

The definition of a default occurring on financial assets of Cathay Century and its subsidiaries is the same as a credit-impaired financial asset. If one or more of the criteria below are met, a default occurs and a financial asset is credit-impaired:

- a. Quantitative factor: when contractual payments are more than 90 days past due, a default occurs and a financial asset is credit-impaired.
- b. Qualitative factor: an evidence indicates that the issuers or borrowers cannot pay the contractual payments or that they have significant financial difficulties, for example:
 - (a) The issuers and borrowers have entered bankruptcy or are probable to file bankruptcy or financial reorganization.
 - (b) The borrowers fail to make interest or principal payments based on original terms and conditions.
 - (c) The collaterals of the borrowers are seized provisionally or enforced.
 - (d) The borrowers file for a change in credit conditions due to financial difficulties.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- c. The abovementioned definitions of default and credit impairment are applicable to all financial assets held by Cathay Century and its subsidiaries, and are aligned with those of financial assets for internal credit risk management. The definitions are also applicable to related impairment assessment model.

(H) Measurement of expected credit losses

a. Methods and assumptions adopted

For financial instruments on which the credit risk has not increased significantly since initial recognition, Cathay Century and its subsidiaries measured loss allowance for financial instruments at an amount equal to 12-month expected credit losses; for financial instruments on which the credit risk has increased significantly since initial recognition or are credit-impaired, Cathay Century and its subsidiaries measured loss allowance for financial instruments at an amount equal to the lifetime expected credit losses.

To measure expected credit losses, Cathay Century and its subsidiaries multiply exposure at default by 12-month and the lifetime probability of default of the issuers, guarantee agencies and counterparties and loss given default. Cathay Century and its subsidiaries also considered the effect of the time value of money to calculate 12-month expected credit losses and the lifetime expected credit losses respectively.

Default rate is the rate that an on issuer, guarantee agency or counterparty defaults. Loss given default is the loss rate resulted from the default of issuers, guarantee agencies and counterparties. Loss given default used by Cathay Century and its subsidiaries in impairment assessment is based on information regularly issued by Moody's. Probability of default is based on information regularly issued by Taiwan Ratings and Moody's and is determined based upon current observable information and macroeconomic information (gross domestic product and economic growth rate, for example) with adjustments of historic data. Exposure at default is measured at the amortized cost and interest receivables of the financial assets.

b. Consideration of forward-looking information

Cathay Century and its subsidiaries take forward-looking information into consideration while measuring expected credit losses of the financial assets.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(I) Gross carrying amount of maximum credit risk exposure and category of credit quality

a. Financial assets of Cathay Century

		2018.12.31					
		Stage 1	Stage 2	Stage 3			
		12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Loss allowance	Gross carrying amount
Investment grade	Debt instruments at fair value through other comprehensive income	\$1,045,844	\$-	\$-	\$-	\$(148)	\$1,045,696
	Financial assets measured at amortized cost (Note 3)	8,539,903	-	-	-	(3,587)	8,536,316

Financial assets	2017.12.31 (Note 1)					
	Normal assets (Note 2)		Past due but not impaired	Impaired	Impaired reserve	Total
	Investment grade	Non- investment grade				
Cash and cash equivalents	\$7,529,103	\$-	\$-	\$-	\$-	\$7,529,103
Financial assets at fair value through profit or loss	90,521	-	-	-	-	90,521
Available-for-sale financial assets (Note 3)	2,439,812	-	-	-	-	2,439,812
Debt instruments investments with no active market exists	2,008,580	-	-	-	-	2,008,580
Held-to-maturity investments	6,606,306	-	-	-	-	6,606,306
Total	\$18,674,322	\$-	\$-	\$-	\$-	\$18,674,322
Proportion	100.00%	0.00%	0.00%	0.00%	0.00%	100.00%

Note 1: Cathay Century adopted IFRS 9 on 1 January 2018. Cathay Century elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Note 2: Investment grade assets refer to those with credit rating of at least BBB- granted by a credit rating agency; non-investment grade assets are those with credit rating lower than BBB- granted by a credit rating agency.

Note 3: Guarantee deposits paid in bonds are included.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Loans of Cathay Century

2018.12.31						
	Stage 1	Stage 2	Stage 3			
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased or originated credit- impaired financial assets	Loss allowance	Gross carrying amount
Non-investment Loans						
grade	\$239,701	\$-	\$-	\$-	\$(2,885)	\$236,816

Secured loans	2017.12.31(Note)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$244,769	\$-	\$-	\$-	\$-	\$244,769	\$2,922	\$241,847
Corporate Finance	-	-	-	-	10,125	10,125	202	9,923
Total	\$244,769	\$-	\$-	\$-	\$10,125	\$254,894	\$3,124	\$251,770

Note: Cathay Century adopted IFRS 9 on 1 January 2018. Cathay Century elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(J) Movement of loss allowance is summarized below:

a. Debt instruments at fair value through other comprehensive income

	Lifetime expected credit losses					Total of
	12-month expected credit losses	Collectively assessed	Individually assessed	Not purchased or originated credit-impaired financial assets	Purchased or originated credit-impaired financial assets	impairment charged in accordance with IFRS 9
2018.1.1	\$150	\$-	\$-	\$-	\$-	\$150
Changes in models/risk parameters	(2)	-	-	-	-	(2)
2018.12.31	\$148	\$-	\$-	\$-	\$-	\$148

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Financial assets measured at amortized cost

	Lifetime expected credit losses					Total of impairment charged in accordance with IFRS 9
	12-month expected credit losses	Collectively assessed	Individually assessed	Not purchased or originated credit-impaired financial assets	Purchased or originated credit-impaired financial assets	
2018.1.1	\$3,571	\$-	\$-	\$-	\$-	\$3,571
Changes in models/risk parameters	(29)	-	-	-	-	(29)
2018.12.31	\$3,542	\$-	\$-	\$-	\$-	\$3,542

c. Other assets

	Lifetime expected credit losses					Total of impairment charged in accordance with IFRS 9
	12-month expected credit losses	Collectively assessed	Individually assessed	Not purchased or originated credit-impaired financial assets	Purchased or originated credit-impaired financial assets	
2018.1.1	\$68	\$-	\$-	\$-	\$-	\$68
Changes in models/risk parameters	(23)	-	-	-	-	(23)
2018.12.31	\$45	\$-	\$-	\$-	\$-	\$45

d. Loans

	Lifetime expected credit losses					Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets		Total
	12-month expected credit losses	Collectively assessed	Individually assessed	Not purchased or originated credit-impaired financial assets	Purchased or originated credit-impaired financial assets	Subtotal of impairment charged in accordance with IFRS 9	Assets	
2018.1.1	\$45	\$-	\$-	\$-	\$-	\$45	\$3,079	\$3,124
Changes in models/risk parameters	8	-	-	-	-	8	-	8
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	-	(247)	(247)
2018.12.31	\$53	\$-	\$-	\$-	\$-	\$53	\$2,832	\$2,885

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

C. Operational Risk

In order to avoid the potential losses caused by failed internal controls, employee fraud or misconduct and management negligence, Cathay Century had set up the standard operating procedures and computer systems based on the business nature of the front, middle, and back departments, and manage the operational risk effectively by strict systems of internal control, internal audits, external audits, and regulatory compliance. Cathay Century had set and implemented “Regulations Reporting the Losses by Operational Risk” as well to establish the data base of losses resulting from operational risk by “Losses by Operational Risk Reporting System”.

D. Liquidity risk

(A) Source of liquidity risk

Liquidity risks of the financial instruments are classified as “funding liquidity risk” and “market liquidity risk”. “Funding liquidity risk” represents the default risk that Cathay Century is unable to turn assets into cash or obtain sufficient funds. “Market liquidity risk” represents the risk of significant changes in fair value that Cathay Century faces when it sells or offsets its assets during market disorder.

(B) Liquidity risk management

Cathay Century and its subsidiaries established a capital liquidity management mechanism based on the business features and monitoring short-term cash flow. Considering the trading volume and holding position, Cathay Century and its subsidiaries carefully manage the market liquidity risk. Moreover, Cathay Century and its subsidiaries have drawn up a plan for capital requirements with respect to abnormal and emergency conditions to deal with significant liquidity risk.

Depending on the actual management need or special situation, Cathay Century and its subsidiaries uses models to assess cash flow risk, such as cash flow model or stress testing model.

Stress testing analysis is used to test changes of capital liquidity in the event of extreme in order to ensure liquidity. Stress scenarios, including significant market volatility, a variety of credit events, non-anticipated events of the financial market liquidity crunch and any other scenario which may trigger liquidity pressures is used to assess Cathay Century and its subsidiaries’ overall capital supply, demand and changes in cash flow gap.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

In the event of cash flow gap, the risk management department will conduct an internal discussion and report the result to supervisors and the funding management department. The risk management department will take necessary measures to prevent further stressful events.

(C) The table below summarizes the maturity profile of Cathay Century and its subsidiaries' financial liabilities based on contractual undiscounted payments.

	2018.12.31					
	Book value	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Liabilities						
Payables	\$2,622,777	\$2,607,649	\$5,053	\$4,379	\$5,696	\$-
Financial liabilities at fair value through profit or loss	50,041	50,041	-	-	-	-

	2017.12.31					
	Book value	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Liabilities						
Payables	\$2,542,406	\$2,515,114	\$15,234	\$4,707	\$7,351	\$-
Financial liabilities at fair value through profit or loss	3,238	3,238	-	-	-	-
Preferred stock liability	1,000,000	-	1,000,000	-	-	-

E. Market risk analysis

Market risk is the risk of potential revenue and portfolio value reduction due to the fluctuations of market risk factors, such as exchange rates, commodity prices, interest rates, credit spreads, and stock prices.

Cathay Century and its subsidiaries continue to use market risk management tools such as value-at-risk and stress testing to completely and effectively measure, monitor and manage market risk.

(A) Value-at-risk

Value-at-risk is used to measure the maximum potential loss of a portfolio in a certain future time horizon and confidence level when the market risk factors changes. Cathay Century and its subsidiaries estimate value at risk on the next day (week or two weeks) with a 99% level of confidence.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

The value-at-risk model must reasonably, completely and accurately measure the maximum potential risk to be used as Cathay Century and its subsidiaries' risk management model. The risk management model must conduct back testing on an ongoing basis to ensure the model can effectively measure the maximum potential risk of a financial instrument or a portfolio.

(B) Stress testing

In addition to the value-at-risk model, Cathay Century and its subsidiaries periodically uses stress testing to assess the potential risk of extreme incidents. Stress testing is used to evaluate the potential impact on portfolio values when a series of financial variables undergo extreme changes.

Cathay Century and its subsidiaries conduct stress testing regularly on positions by simple sensitivity analysis and scenario analysis. The stress testing contains changes of various risk factors in all historical scenarios that may cause losses in an investment portfolio.

a. Simple Sensitivity

Simple sensitivity mainly measures changes in value of portfolio caused by specific risk factor.

b. Scenario Analysis

Scenario Analysis measures the change in the total value of portfolio under stressful events. The measures include:

(a) Historical scenarios

The measure selects from historical data of a certain period and adds the volatility of the risk factors selected to a given portfolio, and then calculates the amount of loss.

(b) Hypothetical scenarios

Hypothetical scenario makes reasonable hypothesis with respect to possible extreme market changes and includes the risk factors related to the changes in the current portfolio to estimate the amount of loss that may incur.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

The risk management department conducts stress testing regularly under historical scenario and hypothetical scenario for Cathay Century and its subsidiaries to perform risk analysis, risk alert and business management based on the stress test report.

2018.12.31	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$(339,393)
Interest rate risk (Yield curve)	20bp	(145,145)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(109,381)

2018.12.31		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	\$318	\$295
	CNY appreciate 1 %	8,888	-
	HKD appreciate 1 %	901	3,538
	USD appreciate 1 %	34,043	5,143
	VND appreciate 1 %	6,138	-
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(4,935)	-
	Yield curve (CNY) flat rises 1bp	(92)	-
	Yield curve (NTD) flat rises 1bp	(1,354)	(946)
Equity securities price sensitivity	Increase 1% in equity price	-	33,939

2017.12.31	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$(590,461)
Interest rate risk (Yield curve)	20bp	(175,672)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(124,777)

2017.12.31		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	\$16	\$868
	CNY appreciate 1 %	9,765	680
	HKD appreciate 1 %	565	3,933
	USD appreciate 1 %	31,139	8,884
	VND appreciate 1 %	5,896	-
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(6,100)	(66)
	Yield curve (CNY) flat rises 1bp	(62)	(53)
	Yield curve (NTD) flat rises 1bp	(1,390)	(1,029)
Equity securities price sensitivity	Increase 1% in equity price	-	59,046

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Cathay Securities and its subsidiaries

A. Risk management policies

(A) Risk management objectives

Adhering to the risk management policies of the Company, Cathay Securities and its subsidiaries manage the risks efficiently and elastically on operating activities to maximize the profit in conformity with domestic and foreign regulations.

(B) Risk management policies

Cathay Securities and its subsidiaries uses “risk management policies” as a guiding principle to establish risk management objectives, coverage, organization duties and operating, management principles and reports etc.

The management policies of Cathay Securities and its subsidiaries cover different types of risk including market risk, credit risk, operation risk, liquidity risk, capital adequacy management, regulation risk and other risks related to operating activities. Cathay Securities and its subsidiaries identify relevant risks and have integrated planning of risk management in accordance with the management policies before operating business.

(C) Risk management organizational structure

a. Board of directors

The board of directors has the ultimate responsibilities for risk management. The board has the primary responsibility for the determination of the risk management strategies and for ensuring that approved risk management policies are in accordance with the nature of operating activities, types of operating business and they cover different types of risk. Also, the board is required to monitor that the implementation of risk management policies is effective.

b. Risk Management Committee

The Risk Management Committee is responsible for reviewing risk management policies, principles, and directions of trading management, and for determining the appropriate degree of risk exposures and monitoring the implementation of the risk management policies. Risk Management Committee is established by the board of directors and the members include general manager, finance executive, accounting executive, and risk management executive, as relevant trading executive. The committee meetings are typically held quarterly and provisional meetings are called by the chairman of the board.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

c. Risk Management Department

Risk management department reports to the board of directors. The supervisor and staff of the department are prohibited from holding the positions at trading or settlement department simultaneously. Their responsibilities are to plan and implement risk management policies, principles and directions, review policies periodically to ensure that those policies are suitable for the business development. Risk management department also establishes online monitor and prevention system and reaction mechanism.

d. Business unit

Each business unit participates in the planning of risk management mechanism and executes daily risk management and report to ensure that the risk model services division implementation is with the same base of the consistency of credibility and is in accordance with the internal control procedures to comply with the regulations and risk management policies.

e. Auditing office

Auditing office participates in the planning of risk management mechanism and executes risk management and internal control procedures periodically. All staff members should be also responsible for monitoring and documenting problems of internal control procedures periodically to ensure that the appropriate actions of improvement have been taken in time.

f. Finance Department

Finance department participates in the planning of risk management mechanism. The department is responsible of executing liquidity risk management and providing the liquidity risk report to risk management department periodically.

g. Accounting Department

The accounting department participates in the planning of risk management mechanism and providing the form of capital adequacy to risk management department monthly.

h. Legal Affairs Office

Legal Affairs Office executes regulation risk management to ensure that business operations and risk management procedures all in comply with the regulations.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(D) Risk Management Workflows

Risk management workflows for Cathay Securities and its subsidiaries includes risk identification, risk measurement, risk management mechanism, and risk reporting. Risk assessment and response strategies to each risk are addressed as follows:

a. Market Risk

(a) Definition

Market risk is the risk of losses in positions that include stocks, bonds, and derivatives etc. arising from the movement in market prices.

(b) Controls:

Cathay Securities and its subsidiaries set up training directions including the limits of authorization, risk limitation, stop-loss rules, and responses to the exceeded limits by each product or service line and actual operations and implement those control procedures efficiently through the risk control staff in front desk and on-line monitor system. Furthermore, Cathay Securities and its subsidiaries provide market risk management report periodically that includes market price assessments, the dollar amounts of surplus/shortfall and arbitrage, Value at Risk, back-testing model and perform pressure test by each extreme scenario to control the risks that Cathay Securities and its subsidiaries face and manage all risks as a whole efficiently.

b. Credit Risk

(a) Definition

Credit risk is the risk that counterparty or debtor will not meet its obligations under a contract due to the aggravation of financial conditions or other factors, leading to a financial loss. The risk of losses incurred to Cathay Securities and its subsidiaries to its subsidiaries

(b) Controls

Cathay Securities and its subsidiaries check and review the credit position to each counterparty before trading and manage risk exposure after trading. Risks arising from securities trading are monitored and controlled based on the credit rating model. Investment concentration and risks are analyzed and documented periodically. Investment limit to each counterparty is established by its credit rating (TCRI, Taiwan Ratings, S&P, Moody's, and Fitch). In addition, the customers covered by the high-risk range of self-managed credit integrity and the credit balance of the underlying account for a certain percentage of the market credit balance are regularly reviewed and the credit risk emergency notification mechanism for the Company is established.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

c. Operational Risk

(a) Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes the legal risk, but excludes strategy risk and credit risk.

(b) Controls

Cathay Securities and its subsidiaries establish authority levels and the segregation of duties for the processes of front, middle and back offices. Trading, confirmation, settlement, financial accounting, and trading document are archive for future reference. The strict processes are also established to prevent fraud and negligence. Cathay Securities and its subsidiaries request each department to establish and implement internal audit and control policies authentically. The reporting mechanism for loss events from operational risk and database are established to understand causes of the loss.

In addition, the auditing office is established and reports to the board of directors. The functions of the office are to implement daily process check to establish completed internal audit control and provide internal review report periodically to lower the loss arising from the operation failures.

d. Liquidity Risk

(a) Definition

Liquidity is defined as the capability of Cathay Securities and its subsidiaries to acquire the sufficient capital and to support assets growth and payout the liabilities. Market liquidity is the risk of loss caused by significant changes in market prices when dealing with or offsetting the position of the market due to lack of market depth or disorder.

(b) Controls

Measurement index for liquidity risk is established and Cathay Securities and its subsidiaries compiles the liquidity risk management report periodically to review capital conditions and cash flow gap as of balance dates. Capital allocation planning is based on the compiled structure analysis as of balance sheet dates. Meanwhile, acquiring the credit line of short-term financing from other financial institutions and managing receipts and payments properly to sustain appropriate liquidity and ensure the ability to make the payment. The investment business unit shall conduct market liquidity risk control at the time of purchase according to market liquidity management indicators and specifications.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

e. Legal Risk

(a) Definition

Legal risk is a risk of loss that results from a counterparty being unable to legally enter into a contract due to the defective contract or the qualification.

(b) Controls

The procedures of making and reviewing legal documentation are established. All the document related to the contracts is required to be reviewed and approved by the legal office and may be advised by the external lawyer's opinions.

f. Capital adequacy management

(a) Definition

Cathay Securities and its subsidiaries implement capital management to sustain appropriate capital adequacy ratio, accelerate the business growth and ensure the perfection of capital structure.

(b) Controls

Cathay Securities and its subsidiaries establishes capital adequacy index and compiles the report periodically to evaluate the appropriateness of capital adequacy ratio and the perfection of the capital structure.

g. Reputation risk and strategy risk

(a) Definition

Reputation Risk is a risk of loss resulting from damages to Cathay Securities and its subsidiaries' reputation to lose customers or revenues, and Cathay Securities and its subsidiaries might need to undertake a prodigious amount of legal fees or other losses from damages. Strategy risk is another risk of current or potential loss to revenue or capital resulting from a strategy that turns out to be defective or inappropriate, or lack of proper responses to the competitors.

(b) Controls

Cathay Securities and its subsidiaries establish internal responses and reactions to the reputation risk and strategy risk for mitigation of damages.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Risk management policies and principles are established based on above mentioned risks and management mechanisms from each risk source are set out specifically. Cathay Securities and its subsidiaries also establish the constraint for each risk and review the appropriateness of each constraint periodically. Moreover, the risk management implementation reports are reported to the risk management committee, board of directors, and risk management office of Cathay financial holdings to elaborate on Cathay Securities and its subsidiaries' risk tolerance and the appropriateness of current risk management scheme.

(E) Hedge and Mitigation of Risk Strategy

The hedge and mitigation of risk strategy for Cathay Securities and its subsidiaries are to implement dynamic hedge through investment products to duplicate the same cash flows when derivatives mature. The hedge for outstanding stock warrants and structured products uses Delta Neutral as a principle. If the prices of those investment positions fluctuate significantly in the financial market, the violation of hedge operating due to the impact from the significant events, or the violation of the hedge operation occurs due to material events, the business department is required to explain in writing and report to the risk management department.

Cathay Securities and its subsidiaries establish the approval limit and stop-loss mechanism by each attributes of the product. When the position meets the stop-loss point, the risk management department will inform the supervisor or position administrator in time and monitor the change of the position. In addition, the business department should operate in accordance with approval limits. If the stop-loss point is met, the investment position should be sold or the business department is required to provide an exception report detailing the reason and specific responding measures.

B. Credit risk analysis

(A) Source of credit risk

Issuer credit risk is a risk that Cathay Securities and its subsidiaries may encounter. Credit risks due to conducting financial transactions include the credit risks from issuers, counterparties, and underlying assets:

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- a. Issuer credit risk is a risk that Cathay Securities and its subsidiaries may encounter financial losses because the issuers (guarantors) or banks are not able to pay where it is obligated to do on financial liabilities instruments or bank savings which Cathay Securities and its subsidiaries invest in.
- b. Counterparty credit risk is a risk that the counterparty will not live up to its obligations to perform or pay on the designated dates and Cathay Securities and its subsidiaries are exposed to the risk of financial losses.
- c. Underlying asset credit risk is a risk that Cathay Securities and its subsidiaries may encounter the losses from the fact that the credit quality turns weak and credit charges increase, credit rating reduces, or the terms of contract are violated from underlying asset which is related to the certain financial instruments.

Financial assets which make Cathay Securities and its subsidiaries face the credit risk include bank accounts, debt securities, the trading from Over-the-Counter derivatives, repurchase and resell debts, trading from the securities lending, refundable deposits, futures deposit in bank, other refundable deposits and account receivables etc.

(B) Determinants for whether the credit risk has increased significantly since initial recognition

- a. Cathay Securities and its subsidiaries assess, at each reporting date, whether the credit risk of a financial instrument in the scope of impairment requirements under IFRS 9 has increased significantly since initial recognition. To make this assessment, Cathay Securities and its subsidiaries consider reasonable and supportable information (including forward-looking information) which indicates that credit risk has increased significantly since initial recognition. Main indicators include external credit rating, past due information, credit spread and other market information which shows that the credit risk related to borrowers and issuers has increased significantly.
- b. Low credit risk: If the credit risk at the reporting date is determined to be low, an entity can assume that the credit risk of the financial instrument has not increased significantly since initial recognition.

(C) Definitions of a default occurring on a financial asset and a credit-impaired financial asset

The definition of a default occurring on financial assets of Cathay Securities and its subsidiaries is the same as a credit-impaired financial asset. If one or more of the criteria below are met, a default occurs and a financial asset is credit-impaired:

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- a. Qualitative factor: an evidence indicates that the issuers or borrowers cannot pay the contractual payments or that they have significant financial difficulties, for example:
 - (a) The issuers and borrowers have entered bankruptcy or are probable to cease business, apply for reorganization, bankruptcy or dissolution of the sale of the main assets that have a significant impact on the continued operation of the Cathay Securities and its subsidiaries; or
 - (b) The borrowers fail to make interest or principal payments based on original terms and conditions.
- b. The abovementioned definitions of a default occurring on a financial asset and a credit impairment are applicable to all financial assets held by Cathay Securities and its subsidiaries, and are align with those of relevant financial assets for internal credit risk management. The definitions are also applicable to related impairment assessment model.

(D) Measurement of expected credit losses

- a. Methods and assumptions adopted

For financial instruments on which the credit risk has not increased significantly since initial recognition, Cathay Securities and its subsidiaries measure loss allowance for financial instruments at an amount equal to 12-month expected credit losses; for financial instruments on which the credit risk has increased significantly since initial recognition or are credit-impaired, Cathay Securities and its subsidiaries measure loss allowance for financial instruments at an amount equal to the lifetime expected credit losses.

To measure expected credit losses, Cathay Securities and its subsidiaries multiply exposure at default by 12-month and the lifetime probability of default of the issuers, guarantee agencies and borrowers and loss given default. Cathay Securities and its subsidiaries also consider the effect of the time value of money to calculate 12-month expected credit losses and the lifetime expected credit losses respectively.

Default rate is the rate that an issuer, guarantee agency and a borrower defaults. Loss given default is the loss rate resulted from the default of issuers, guarantee agencies and borrowers. Loss given default used by Cathay Securities and its subsidiaries in impairment assessment is based on information regularly issued by Moody's. Probability of default is based on information regularly issued by Taiwan Ratings and Moody's and is determined based upon current observable information and macroeconomic information (gross domestic product and economic growth rate, for example) with adjustments of historic data. Exposure at default is measured at the amortized cost and interest receivables of the financial assets.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Consideration of forward-looking information

Cathay Securities and its subsidiaries take forward-looking information into consideration while measuring expected credit losses of the financial assets.

C. Capital Liquidity Risk Analysis:

(A) Cash flow analysis

Capital liquidity risk is the risk that Cathay Securities and its subsidiaries are unable to acquire the sufficient capital at the reasonable cost within the reasonable time and results in cash flow gap, or the risk that Cathay Securities and its subsidiaries sell assets at a loss to meet the cash flow requirement.

2018.12.31

Cash Flows Analysis of Financial Liabilities

Financial Liabilities	Payment Terms				Total
	Less than 1 month	1 to 3 months	3 to 6 months	More than 6 months	
Short-term loans	\$336,381	\$-	\$-	\$-	\$336,381
Bonds payables	3,729,367	-	-	-	3,729,367
Financial liabilities at fair value through profit or loss – current	2,712,304	-	-	-	2,712,304
Liabilities for bonds with repurchase agreements	3,332,528	-	-	-	3,332,528
Deposits for securities borrowed	42,173	84,346	126,519	506,073	759,111
Securities lending margin – deposit received	731	1,462	2,193	8,773	13,159
Futures trader's equity	5,839,564	-	-	-	5,839,564
Ledgers of securities firms' settlement accounts customer's equity	7,653	-	-	-	7,653
Account payables	4,863,717	-	-	345,795	5,209,512
Other financial liabilities - current	105,870	-	-	-	105,870
Others	44,731	647	-	-	45,378
Total	<u>\$21,015,019</u>	<u>\$86,455</u>	<u>\$128,712</u>	<u>\$860,641</u>	<u>22,090,827</u>
Proportion	<u>95.13%</u>	<u>0.39%</u>	<u>0.58%</u>	<u>3.90%</u>	<u>100.00%</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Short-term loans, bonds payables and repurchase bonds are fund procurement instruments and matured within three months.

2018.12.31					
Cash Flow Gap					
Financial Assets	Received Terms				Total
	Less than 1 month	1 to 3 months	3 to 6 months	More than 6 months	
Cash and cash equivalents	\$3,158,088	\$-	\$-	\$-	\$3,158,088
Financial assets at fair value through profit or loss-current					
Operation Securities	4,634,086	-	-	-	4,634,086
Call option-futures	19,149	-	-	-	19,149
Futures trading margin	433,813	-	-	-	433,813
Structured products	272	-	-	-	272
Financial assets at fair value through other comprehensive income-current	3,379,521	-	-	-	3,379,521
Securities financing receivables	146,700	293,400	440,100	1,760,405	2,640,605
Refinancing margin and refinancing deposits receivable	1,215	2,430	3,645	14,586	21,876
Security lending receivable	66,890	-	-	-	66,890
Client margin accounts	5,847,830	-	-	-	5,847,830
Security lending deposits price and security lending margin – deposits paid	102,118	204,236	306,354	1,225,411	1,838,119
Account receivables	4,721,054	-	-	25,942	4,746,996
Others	381,826	-	-	900,000	1,281,826
Subtotal	22,892,562	500,066	750,099	3,926,344	28,069,071
Residual cash	\$1,877,543	\$413,611	\$621,387	\$3,065,703	\$5,978,244

(B) Capital liquidity risk stress testing

Cathay Securities and its subsidiaries perform stress testing periodically to measure and evaluate the changes of capital liquidity under occurrence of extreme and abnormal events for ensuring that Cathay Securities and its subsidiaries sustain the proper capital liquidity. Stress scenario including the significant fluctuation in the financial market, the occurrence of all kinds of credit event, and the assumption of unexpected tightening of capital liquidity in financial market are used to measure the capability of acquiring sufficient capital to meet the demand on cash and the changes of cash flow gap.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

If the cash flow gap arises under the specific stress scenario, the following procedures are used to prevent the occurrence of the stress events:

- a. Raising funding and balance sheet adjustment are made in accordance with Cathay Securities and its subsidiaries “Crisis Management Principles” and “Regulations of Emergency Management”.
- b. Financing: (i) short-term loan credit line (ii) collateralized time deposits (iii) issuance of commercial paper.
- c. Balance sheet adjustment: (i) sales of securities (ii) collect short-term capital invested in currency market.

D. Market risk analysis

Cathay Securities and its subsidiaries assess, monitor, and manage market risks completely and effectively by applying sensitivity analysis, Value at Risk (“VaR”) and stress testing continuously

(A) Sensitivity Analysis

Sensitivity analysis is to measure the degree of impacts on each products and portfolio from the movement of specific market simple. The monitoring and relevant controls to the businesses Cathay Securities and its subsidiaries operate are established. The degree of risk exposure are monitored and measured by the following sensitivity:

- a. Price value of basis point (PVBPP): denoting the change in the value of a position given a basis point change in the yield curve.
- b. Delta: measuring the change in the value of a position given 1% price change of a certain underlying asset.
- c. Gamma: measuring the dollar amount of change in Delta of a position given 1% price change of a certain underlying asset.
- d. Vega: denoting the change in the value of a position given 1%price change of a certain underlying asset.

(B) Value at Risk

Cathay Securities and its subsidiaries Value at Risk (“VaR”) is the risk of the most probable loss on the portfolio in position arising from the movements in market risk simples by measuring portfolio over a specific time frame and at a certain confidence level. Cathay Securities measures VaR for the next day within an investment portfolio over a week and at 99% confidence level. Also, Back Test at VaR is performed each year to ensure the accuracy of this model.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

VaR at one single trading day within 99% confidence level

<u>2018.1.1~2018.12.31</u>	<u>NT\$ (in thousands)</u>
Period Ended	\$11,948
Average	32,631
Lowest	6,389
Highest	154,268

(C) Stress Test

Cathay Securities and its subsidiaries perform monthly Stress Test to assess the degree of impact on the asset portfolio arising from foreign and domestic significant events and find the risk simples which have more significant influence on the asset portfolio. Follow-up and review reports will be documented. Customized or extreme scenario which take rapid changes in foreign and domestic financial environment into consideration are also performed irregularly and measured the maximized losses arising from these scenarios for ensuring that Cathay Securities and its subsidiaries manage each potential scenario effectively.

Stress Test Scenario including Historical Scenario and Hypothesis Scenario:

a. Historical Scenario

Cathay Securities and its subsidiaries assess the dollar amount of losses for the investment portfolio by choosing a specific time frame of historical event and taking the fluctuation of risk simples into the consideration such as the immediate, significant, and comprehensive impact on financial market from bankruptcy of Lehman Brothers in 2008 and Great East Japan earthquake in 2011.

b. Hypothesis Scenario

Cathay Securities and its subsidiaries make hypothesis with rational expectations from the extreme market movements to assess the dollar amount of losses for the investment position by taking the movement of relevant risk simples into consideration including 10% drop on the total values of stock market arising from the global system breakdown.

2018.12.31
Table of Stress Test

<u>Risk Simples</u>	<u>Price Risk</u>	<u>Changes (+/-)</u>	<u>Changes in profit and loss</u>
Equity Risk	Stock index	-10%	\$69,450
Interest Risk	Yield Curve	+100bps	(149,493)
Exchange Risk	Exchange Rate	+3%	(1,527)
Product Risk	Price	-10%	-

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(8) Structured entities

A. Consolidated structured entities

Cathay life and its subsidiaries own real estate investment and management organizations as consolidated structured entities. As of 31 December 2018 and 31 December 2017, Cathay life and its subsidiaries provides loans amounting to all GBP 345,000 thousand to the consolidated structured entities, respectively.

B. Unconsolidated structured entities

(A) The Group do not provide financial support or other support to the unconsolidated structured entities. The Group's maximum exposure to loss from its interests in the unconsolidated structured entities are limited to the carrying amount of assets the Group recognized. The information of the recognized unconsolidated structured entities is disclosed as follows:

<u>Types of structured entity</u>	<u>Nature and purpose</u>	<u>Interests owned</u>
Private equity fund	Investment in private equity funds to receive returns	Investment in shares or limited partnership interests issued by the fund
Securitization vehicle	Investment in asset-backed security to receive returns	Investment in securitization vehicles issued by the entity

(B) As of 31 December 2018 and 31 December 2017, the carrying amount of assets recognized by Cathay Life and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

	<u>2018.12.31</u>	
	<u>Private equity funds</u>	<u>Asset-backed securities</u>
Financial assets at fair value through profit or loss	\$77,198,514	\$29,059,383
Financial assets at fair value through other comprehensive income	-	53,974,279
Financial assets measured at amortized cost	-	152,673,283
Total	<u>\$77,198,514</u>	<u>\$235,706,945</u>

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2017.12.31	
	Private equity funds	Asset-backed securities
Available-for-sale financial assets	\$51,152,449	\$75,857,755
Debt instrument investments for which no active market exists	-	133,790,164
Held-to-maturity financial assets	-	6,175,423
Total	\$51,152,449	\$215,823,342

(C) As of 31 December 2018 and 31 December 2017 the carrying amount of assets recognized by Cathay United Bank and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

	2018.12.31	
	Private Fund	Asset Securitization commodity
Financial assets at fair value through other comprehensive income	\$-	\$3,191,683
Financial assets measured at amortized cost	-	47,970,374
Total	\$-	\$51,162,057

	2017.12.31	
	Private Fund	Asset Securitization commodity
Available-for-sale financial assets	\$-	\$581,533
Held-to-maturity financial assets	-	9,843,981
Investments in debt securities with no active market	-	27,141,758
Total	\$-	\$37,567,272

(D) As of 31 December 2018 and 31 December 2017 the carrying amount of assets recognized by Cathay Century and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

	2018.12.31	
	Private Fund	Asset Securitization commodity
Financial assets at fair value through profit or loss	\$-	\$96,907
Financial assets measured at amortized cost	-	640,847
Total	\$-	\$737,754

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2017.12.31	
	Private Fund	Asset Securitization commodity
Available-for-sale financial assets	\$-	\$117,283
Held-to-maturity financial assets	-	680,481
Total	\$-	\$797,764

- (9) Exchange rates used to translate material financial assets and liabilities denominated in foreign currencies are disclosed as follows at 31 December 2018 and 31 December 2017:

	2018.12.31			2017.12.31		
	Foreign Currency	Exchange Rate	NT\$	Foreign Currency	Exchange Rate	NT\$
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	\$116,959,170	30.7330	\$3,594,506,172	\$100,965,332	29.8480	\$3,013,613,230
CNY	21,336,505	4.4762	95,506,464	31,634,624	4.5835	144,997,299
<u>Non-Monetary Items</u>						
USD	9,875,093	30.7330	303,491,233	13,110,182	29.8480	391,312,712
<u>Financial Liabilities</u>						
<u>Monetary Items</u>						
USD	13,039,573	30.7330	400,745,197	12,348,268	29.8480	368,571,103

As the Group has a large variety of foreign currencies, it is not possible to disclose the foreign currency exchange gains or losses based on each foreign currency's exposure to major impact. The foreign currency exchange gains for the years ended 31 December 2018 and 2017 were \$57,450,748 thousand and \$(116,155,990) thousand, respectively.

(10) Discretionary account management

As of 31 December 2018 and 31 December 2017, Cathay Life contracts with securities investment trust business for discretionary investments management. The investment details are disclosed as follows:

	2018.12.31		2017.12.31	
Items	Carrying amount	Fair value	Carrying amount	Fair value
Domestic stocks	\$118,377,980	\$118,377,980	\$146,469,572	\$146,469,572
Overseas stocks	60,215,861	60,215,861	55,439,633	55,439,633
Reverse repurchase bonds	12,410,000	12,410,000	8,910,000	8,910,000
Cash in banks	17,914,307	17,914,307	34,384,975	34,384,975
Beneficiary certificates	1,830,959	1,830,959	318,911	318,911
Futures and options	216,603	216,603	138,296	138,296
Total	\$210,965,710	\$210,965,710	\$245,661,387	\$245,661,387

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

As of 31 December 2018, Cathay Life entered into discretionary account management contracts in the amounts of \$97,612,149 thousand, US\$1,417,500 thousand, and HK\$2,023,000 thousand. As of 31 December 2017, Cathay Life entered into discretionary account management contracts in the amounts of \$107,000,000 thousand, US\$1,595,000 thousand, and HK\$2,750,000 thousand.

As of 31 December 2018 and 31 December 2017, Cathay Century and its subsidiaries contract with securities investment trust business for discretionary investments management. The investment details are disclosed as follows:

Items	2018.12.31		2017.12.31	
	Carrying amount	Fair value	Carrying amount	Fair value
Listed stocks	\$736,041	\$736,041	\$1,076,002	\$1,076,002
Repurchase bonds	150,000	150,000	320,431	320,431
Cash in banks	640,437	640,437	203,770	203,770
Futures and options	2,009	2,009	2,008	2,008
Total	\$1,528,487	\$1,528,487	\$1,602,211	\$1,602,211

As of 31 December 2018 and 31 December 2017, Cathay Century and its subsidiaries entered into discretionary account management contracts all in the amount of \$1,200,000 thousand.

(11) Capital management

Currently, the Group and its subsidiaries' capital adequacy ratios meet the statutory requirements. Under the pretext that the Company and its subsidiaries meet the statutory capital adequacy requirement, dynamic capital management mechanism is employed to increase the capital efficiency of the subsidiaries. After the redistribution of capital, the subsidiaries' ability to take risks will not be affected. Under such scenario, the Company will conduct overall planning based on the distribution of the subsidiaries' capital in order to strengthen the efficiency of capital operation within the group.

A. Capital adequacy ratio on a consolidated basis

2018.12.31			
Items	Ownership interest	Eligible capital	Statutory capital
The Company	100.00%	519,377,399	584,547,133
Cathay United Bank	100.00%	247,142,545	162,837,923
Cathay Securities	100.00%	5,208,773	2,070,194
Cathay Life	100.00%	488,752,735	335,101,600
Cathay Century	100.00%	9,831,977	5,318,228
Cathay Venture	100.00%	3,735,531	1,901,290
Cathay Securities Investment Trust	100.00%	2,559,779	1,497,116
Less: Item		(629,644,535)	(584,106,686)
Subtotal		(A) 646,964,204	(B) 509,166,798
Consolidated capital adequacy ratios		(C) =(A)/(B)	127.06%

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.12.31

Items	Ownership interest	Eligible capital	Statutory capital
The Company	100.00%	\$598,740,346	\$640,868,787
Cathay United Bank	100.00%	245,474,892	142,872,941
Cathay Securities	100.00%	5,224,350	2,419,203
Cathay Life	100.00%	454,450,732	293,686,834
Cathay Century	100.00%	10,065,445	5,137,390
Cathay Venture	100.00%	3,548,009	1,793,578
Cathay Securities Investment Trust	100.00%	2,328,954	1,397,407
Less: Item		(687,553,971)	(640,207,073)
Subtotal		(A) \$632,278,757	(B) \$447,969,067
Consolidated capital adequacy ratios		(C) =(A)/(B)	141.14%

B. Eligible capital

2018.12.31

Items	Amount
Common Stock	125,632,102
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	15,333,000
Preferred Stocks and subordinated financial debenture	-
Capital collected in advance	-
Capital surplus	165,449,364
Legal reserve	40,976,121
Special reserve	149,346,119
Accumulated profit	95,553,376
Equity adjustments	(72,558,752)
Less: Goodwill	(1,330)
Less: Deferred assets	(352,601)
Less: Treasury stock	-
Consolidated eligible capital	\$519,377,399

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.12.31

Items	Amount
Common Stock	\$125,632,102
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	8,333,000
Preferred Stocks and subordinated financial debenture	-
Capital collected in advance	-
Capital surplus	130,452,105
Legal reserve	35,339,841
Special reserve	149,106,971
Accumulated profit	99,296,739
Equity adjustments	50,906,313
Less: Goodwill	(6,649)
Less: Deferred assets	(320,076)
Less: Treasury stock	-
Consolidated eligible capital	\$598,740,346

(12) According to Article 46 of the Financial Holding Company Act

Application form for all subsidiaries of a financial holding company's credit lending, endorsement, or other transactions to the same person, same related parties, or same affiliated enterprises.

2018.12.31

Expressed in millions of New Taiwan Dollars ; %

Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
Central Bank of the Republic of China (Taiwan)	399,277,531	76.69
Treasury Bond/ Treasury Bills	132,598,940	25.47
FREDDIE MAC	129,027,818	24.78
Taiwan Semiconductor Manufacturing Company Limited	74,238,519	14.26
United States Treasury Note/Bond	73,745,396	14.16
FANNIE MAE	67,563,733	12.98

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
AT&T Inc.	54,747,153	10.52
State of California	47,322,383	9.09
Citigroup Inc.	45,520,778	8.74
Bank of China Ltd.	41,541,278	7.98
Verizon Communications Inc.	40,902,017	7.86
Industrial & Commercial Bank of China	39,999,241	7.68
JPMorgan Chase & Co	39,314,331	7.55
Indonesia Government International Bond	39,001,702	7.49
Goldman Sachs Group Inc.	38,553,202	7.41
National Treasury Agency, Ministry of Finance	37,227,000	7.15
Wells Fargo & Co	36,977,710	7.1
China Development Bank Corp	34,559,700	6.64
TAIPEIFUBON COMMERCIAL BANK CO., LTD	33,014,661	6.34
Bank Of America N.A.	32,493,184	6.24
Government National Mortgage Association	32,474,771	6.24
Central Taiwan Science Park Administration	30,000,000	5.76
ELECTRICITE DE FRANCE	29,955,463	5.75
HSBC Holdings PLC	29,837,825	5.73
Comcast Corp	29,023,420	5.57
Southern Taiwan Science Park Administration	28,610,000	5.5
Russian Foreign Bond - Eurobond	27,766,225	5.33
Barclays PLC	26,008,631	5.0
Mexico Government International Bond	25,860,368	4.97
Saudi Government International Bond	24,633,394	4.73
BNP Paribas	24,287,648	4.67
Qatar Government International Bond	23,861,711	4.58
UBS AG	23,314,932	4.48
LARGAN Precision Co., Ltd.	22,579,209	4.34
Lloyds Bank PLC	21,380,340	4.11
Bank of Taiwan	20,954,003	4.02
NATIONAL BANK OF CANADA	20,592,332	3.96
MediaTek Inc.	20,315,238	3.9

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
ROYAL BANK OF SCOTLAND PLC	20,268,289	3.89
Taiwan Cooperative Bank Co., Ltd.	20,225,711	3.88
Colombia Government International Bond	20,152,170	3.87
China Construction Bank Corp	19,794,649	3.8
Morgan Stanley	19,734,027	3.79
Societe Generale	19,277,505	3.7
Microsoft Corp	18,915,896	3.63
CVS Health Corp	18,475,907	3.55
CTBC Bank Co., Ltd.	18,164,325	3.49
Fubon Financial Holding Co., Ltd.	17,995,905	3.46
Anheuser-Busch InBev Worldwide Inc.	17,923,421	3.44
Standard Chartered PLC	17,100,953	3.28
Postal Savings Bank of China Co., Ltd.	17,097,907	3.28
China Cinda Asset Management Co., Ltd.	16,700,737	3.21
Sinopec Group Overseas Development Ltd.	16,507,620	3.17
Amazon.com Inc.	16,400,406	3.15
Credit Suisse Group AG	16,349,486	3.14
Nan Ya Plastics Corporation	16,320,582	3.13
Panama Government International Bond	16,161,211	3.1
European Investment Bank	15,927,657	3.06
Vietnam Government Bond	15,518,405	2.98
Hua Nan Commercial Bank	15,193,303	2.92
Cooperatieve Centrale Raiffeisen-Boerenleenbank BA/Netherlands	15,000,705	2.88
CITIC LIMITED	14,959,944	2.87
Corp Nacional del Cobre de Chile	14,858,901	2.85
Australia and New Zealand Banking Group Limited	14,808,087	2.84
Credit Agricole Corporate & Investment Bank SA	14,760,152	2.84
Formosa Plastics Corporation	14,715,681	2.83
Vodafone Group PLC	14,664,014	2.82
Taiwan Mobile Co., Ltd.	14,655,757	2.81
Barings Global Investment Fund plc	14,536,425	2.79

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
Yuanta Securities Investment Trust Co., Ltd.	14,509,609	2.79
Apple Inc	14,490,084	2.78
Taiwan Business Bank Co., Ltd.	14,295,753	2.75
Israel Government International Bond	14,125,228	2.71
BPCE SA	13,890,630	2.67
Land Bank Of Taiwan Co., Ltd.	13,594,840	2.61
Anthem Inc.	13,579,509	2.61
Chang Hwa Commercial Bank	13,431,068	2.58
CTBC Financial Holding Co., Ltd.	13,371,051	2.57
TransCanada PipeLines Ltd.	13,258,252	2.55
Telefonica Emisiones SAU	13,152,875	2.53
Hon Hai Precision Industry Co., Ltd.	13,026,873	2.5
CNOOC Ltd.	12,907,397	2.48
Mega International Commercial Bank Co., Ltd.	12,761,985	2.45
Nationwide Building Society	12,722,694	2.44
E.SUN COMMERCIAL BANK, LTD.	12,624,035	2.42
Prudential Financial Inc.	12,436,788	2.39
American International Group Inc.	12,091,464	2.32
Barclays Bank	11,803,503	2.27
Peruvian Government International Bond	11,772,959	2.26
Chunghwa Telecom Co., Ltd.	11,627,796	2.23
Bank of Nova Scotia	11,579,292	2.22
National Australia Bank Ltd.	11,573,255	2.22
Far EasTone Telecommunications Co., Ltd.	11,394,113	2.19
Yuanta Futures Co., Ltd.	11,326,745	2.18
AbbVie Inc.	11,204,647	2.15
YUANTA COMMERCIAL BANK	11,103,992	2.13
Far East Horizon Limited	11,086,205	2.13
Natixis	10,947,587	2.1
ROYAL BANK OF CANADA	10,884,935	2.09
Credit Agricole SA	10,860,644	2.09
Commonwealth Bank of Australia	10,826,985	2.08

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
Taiwan Cement Corp.	10,789,871	2.07
Deutsche Bank AG	10,764,464	2.07
Nexen Energy ULC	10,697,511	2.05
Westpac Banking Corp	10,665,973	2.05
Alibaba Group Holding Ltd.	10,665,685	2.05
AIA Group Ltd.	10,503,624	2.02
ABN AMRO Bank	10,483,469	2.01
Phillips 66	10,298,126	1.98
CPC Corporation, Taiwan	10,294,792	1.98
Kommunalbanken AS	10,248,040	1.97
Abbott Laboratories	10,150,243	1.95
BECTON DICKINSON AND CO	10,110,907	1.94
Bank SinoPac	10,107,817	1.94
Petroleos Mexicanos	10,088,747	1.94
MetLife Inc.	10,071,984	1.93
THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.	10,022,755	1.93
Department of Finance, Taipei City Government	10,000,000	1.92
New Taipei City Government	10,000,000	1.92
Southern Copper Corp	9,906,550	1.9
HSBC	9,852,189	1.89
Capital Futures Corp.	9,750,118	1.87
Capital Investment Trust Corporation.	9,708,450	1.86
LONDON CLEARING HOUSE	9,694,417	1.86
DRAGON STEEL CORPORATION	9,688,298	1.86
Comision Federal de Electricidad	9,601,515	1.84
Woori Bank	9,441,294	1.81
BAT CAPITAL CORP	9,429,619	1.81
Oracle Corp	9,416,563	1.81
Brazilian Government International Bond	9,383,260	1.8
China Bills Finance Corporation	9,362,585	1.8
State Grid Overseas Investment Ltd.	9,279,275	1.78

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
Bank of Communications Co., Ltd.	9,238,859	1.77
America Movil SAB de CV	9,195,100	1.77
iShares US Preferred Stock ETF	9,178,323	1.76
UnitedHealth Group Inc.	9,026,415	1.73
BBVA Global Markets BV	9,016,149	1.73
Tencent Holdings Ltd.	8,973,168	1.72
Formosa Chemicals & Fibre Corporation	8,964,498	1.72
Enel Finance International NV	8,889,716	1.71
First Commercial Bank	8,858,482	1.7
Hungary Government International Bond	8,797,160	1.69
Banco Santander SA	8,776,444	1.69
Reliance Industries Ltd.	8,771,411	1.68
REPUBLICA ORIENT URUGUAY	8,740,843	1.68
Amgen Inc.	8,641,521	1.66
BBVA Bancomer SA	8,607,564	1.65
PERTAMINA PT	8,459,151	1.62
Altria Group Inc.	8,414,231	1.62
OVPH LTD	8,365,813	1.61
AstraZeneca PLC	8,363,500	1.61
Halliburton Co	8,354,403	1.6
SG Issuer	8,258,105	1.59
MIZUHO SECURITIES CO., LTD.	8,255,001	1.59
China Steel Corporation	8,168,286	1.57
Express Scripts Holding Co	8,124,222	1.56
Spain Government International Bond	8,104,814	1.56
ING Groep NV	8,055,005	1.55
Pfizer Inc.	8,017,248	1.54
AXA Funds Management SA	8,011,272	1.54
Shinhan Bank	7,959,854	1.53
QUANTA COMPUTER INC.	7,903,465	1.52
Export-Import Bank of China	7,831,265	1.5
Agricultural Bank of Taiwan	7,729,353	1.48
Credit Suisse Group Funding Guernsey Ltd.	7,700,610	1.48
KRAFT HEINZ FOODS CO	7,603,571	1.46

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
Mega Financial Holding Company Ltd.	7,593,878	1.46
Taishin International Bank	7,525,515	1.45
China Government Bond	7,499,052	1.44
CTBC Securities	7,485,924	1.44
SOUTHERN CO	7,461,438	1.43
United Technologies Corp	7,438,728	1.43
Central American Bank for Economic Integration	7,436,298	1.43
ASE Technology Holding Co., Ltd.	7,431,235	1.43
Agricultural Development Bank of China	7,321,511	1.41
STANDARD LIFE INVESTMENTS	7,301,933	1.4
QUALCOMM Inc.	7,275,781	1.4
Bayer US Finance LLC	7,262,414	1.39
China Overseas Land & Investment Ltd.	7,245,169	1.39
Taiwan Railways Administration	7,222,930	1.39
MEGA BILLS FINANCE CO., LTD.	7,170,043	1.38
Taishin Financial Holding Co., Ltd.	6,974,693	1.34
Gilead Sciences Inc.	6,921,183	1.33
South Africa Government International Bond	6,899,174	1.33
DP World Ltd.	6,864,745	1.32
ADCB Finance Cayman Ltd.	6,853,937	1.32
IPIC GMTN Ltd.	6,830,458	1.31
BHP Billiton Finance USA Ltd.	6,806,582	1.31
HKT Capital No 1 Ltd.	6,786,730	1.3
CELGENE CORP	6,760,899	1.3
Occidental Petroleum Corp	6,715,724	1.29
Fubon Life Insurance Co., Ltd.	6,704,181	1.29
Hon Han Investment Co., Ltd.	6,703,950	1.29
Intel Corp	6,666,873	1.28
Invesco Management S.A.	6,635,425	1.27
Enbridge Inc.	6,608,544	1.27
Aetna Inc.	6,591,793	1.27
Yuanta Financial Holding Co., Ltd.	6,451,609	1.24
Delta Electronics, Inc.	6,413,400	1.23
ALLERGAN FUNDING SCS	6,251,203	1.2

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
Cornell Capital LLC	6,244,899	1.2
Bank Nederlandse Gemeenten NV	6,177,654	1.19
Walgreens Boots Alliance Inc.	6,113,962	1.17
Malayan Banking Bhd	6,109,303	1.17
DUKE ENERGY CORP	6,108,676	1.17
Intesa Sanpaolo SpA	6,062,655	1.16
Kroger Co.	6,055,931	1.16
Molson Coors Brewing Co.	6,037,330	1.16
Discovery Communications LLC	6,020,560	1.16
HUA NAN FINANCIAL HOLDINGS CO., LTD.	6,014,872	1.16
Advanced Semiconductor Engineering, Inc.	6,000,000	1.15
CHINA DEVELOPMENT FINANCIAL HOLDING CORP.	5,990,579	1.15
Vale Overseas Ltd.	5,916,914	1.14
Bank of Tokyo-Mitsubishi UFJ Ltd.	5,902,902	1.13
CATCHER TECHNOLOGY CO., LTD.	5,857,017	1.12
Blackstone Group LP	5,846,399	1.12
Dow Chemical Co	5,842,965	1.12
Deutsche Telekom International Finance BV	5,818,068	1.12
Grupo Televisa SA	5,774,608	1.11
Waterland securities Investment consulting	5,749,817	1.1
Reynolds American Inc.	5,728,870	1.1
Burlington Northern Santa Fe LLC	5,711,997	1.1
Shell International Finance BV	5,697,324	1.09
China Network Systems Co., Ltd.	5,659,492	1.09
UniCredit SpA	5,555,582	1.07
Alphabet Inc.	5,536,292	1.06
Compal Electronics, Inc.	5,535,072	1.06
SinoPac Financial Holdings Co., Ltd.	5,530,976	1.06
Canadian Natural Resources Ltd.	5,520,126	1.06
Barrick North America Finance LLC	5,486,454	1.05
Yuanta Securities Co., Ltd.	5,455,704	1.05
BANCO DE BOGOTA SA	5,451,855	1.05
Italy Buoni Poliennali Del Tesoro	5,441,403	1.05

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
Marathon Petroleum Corp	5,424,335	1.04
ConocoPhillips	5,412,378	1.04
Rogers Communications Inc.	5,365,166	1.03
Newmont Mining Corp	5,268,077	1.01
First Financial Holding Co., Ltd.	5,242,161	1.01
National Bank of Abu Dhabi PJSC	5,239,732	1.01
Pacific Gas & Electric Co	5,228,349	1.0
21st Century Fox America Inc.	5,189,866	1.0
Petronas Capital Ltd.	5,151,449	0.99
DBS Bank Limited	5,100,317	0.98
EVA Airways Corporation	5,047,575	0.97
SinoPac Futures	5,044,766	0.97
Gazprom OAO Via Gaz Capital SA	5,044,044	0.97
HSBC France SA	5,037,301	0.97
CBS Corp	5,013,612	0.96
Taiwan Cooperative Financial Holding Co., Ltd.	5,007,375	0.96
Oman Government International Bond	4,943,405	0.95
KGI Futures	4,938,105	0.95
Chile Government International Bond	4,935,938	0.95
China Mobile Ltd.	4,881,893	0.94
Macquarie Group Ltd.	4,816,289	0.93
Robeco Asset Management	4,808,679	0.92
Apache Corp	4,735,781	0.91
BANK OF MONTREAL	4,673,378	0.9
Top Luxury Investment Ltd.	4,661,855	0.9
Fubon Securities Investment Trust Corporation.	4,620,201	0.89
Realty Income Corp	4,617,692	0.89
GRAND CENTRAL LIMIT	4,609,950	0.89
CYBER COMPANY INC.	4,609,950	0.89
SIGNUM MAGNOLIA LIMITED	4,608,639	0.89
Banco Santander Mexico SA Institucion de Banca Multiple Grupo Financiero Santand	4,572,572	0.88
BELLAVITA COMPANY	4,570,581	0.88
Anheuser-Busch InBev Finance Inc.	4,561,869	0.88

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
QNB Finance Ltd.	4,556,923	0.88
The Vanguard Group, Inc.	4,542,322	0.87
UBAM	4,529,334	0.87
PTTEP Canada International Finance Ltd.	4,513,464	0.87
CNAC HK Finbridge Co., Ltd.	4,437,865	0.85
Landesbank Baden-Wuerttemberg	4,426,428	0.85
Union Pacific Corp	4,421,134	0.85
Caisse des Depots et Consignations	4,400,165	0.85
CIGNA CORP	4,314,758	0.83
O-Bank	4,298,298	0.83
MYRIAD INTL HOLDINGS BV	4,281,232	0.82
Suncor Energy Inc.	4,238,711	0.81
Evergreen Marine Corporation	4,223,713	0.81
Visa Inc.	4,223,388	0.81
Takeda Pharmaceutical Co., Ltd.	4,221,591	0.81
Valero Energy Corp	4,218,011	0.81
Sony Corp	4,154,945	0.8
Anadarko Petroleum Corp	4,150,745	0.8
Capital One Financial Corp	4,114,907	0.79
ENI SpA	4,109,101	0.79
Humana Inc	4,105,778	0.79
Fubon Securities Co., Ltd.	4,097,243	0.79
DBS Bank (Taiwan) Ltd.	4,092,138	0.79
JPMorgan Asset Management (Europe) S.a.r.l.	4,031,256	0.77
Berkshire Hathaway Energy Co	4,025,866	0.77
State Street Corporation	4,010,481	0.77
Taichung City Government	4,005,000	0.77
Hsin-Da-Huang Construction Co., Ltd.	3,995,857	0.77
Romanian Government International Bond	3,991,714	0.77
Nordea Bank AB	3,989,840	0.77
Jih Sun Securities Co., Ltd.	3,984,319	0.77
iShares JP Morgan USD Emerging Markets Bond ETF	3,965,129	0.76
Dominion Resources Inc.	3,949,938	0.76
Manulife Financial Corp	3,935,011	0.76

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
CHIPBOND TECHNOLOGY CORPORATION	3,921,160	0.75
SHERWIN-WILLIAMS CO	3,920,544	0.75
JPMorgan Chase	3,909,272	0.75
Commercial Mortgage Pass Through Certificates	3,900,152	0.75
China Merchants Bank Co., Ltd.	3,876,563	0.74
Qtel International Finance Ltd.	3,855,838	0.74
ICICI Bank Ltd.	3,852,313	0.74
Petroleos del Peru SA	3,842,956	0.74
Abu Dhabi National Energy Co	3,842,435	0.74
Global Infrastructure Management	3,827,445	0.74
Kinder Morgan Inc/DE	3,818,630	0.73
GAM Fund Management Limited	3,816,938	0.73
Orange SA	3,815,220	0.73
NRW.BANK	3,806,140	0.73
Globalwafers. Co., Ltd.	3,780,275	0.73
Voya Financial Inc.	3,776,259	0.73
Nederlandse Waterschapsbank NV	3,769,169	0.72
Formosa Petrochemical Corporation	3,761,184	0.72
Infraestructura Energetica Nova SAB de CV	3,741,365	0.72
TYSON FOODS INC	3,728,686	0.72
Honglong Industrial Co., Ltd.	3,690,000	0.71
Shamrock Group Limited	3,687,960	0.71
India Government	3,683,188	0.71
CNPC HK Overseas Capital Ltd.	3,676,571	0.71
MasterLink Securities Corp.	3,675,763	0.71
LEGAL & GENERAL GROUP	3,668,283	0.7
PCCW Capital No 5 Ltd.	3,664,967	0.7
EMERA US FINANCE LP	3,662,940	0.7
Thaioil Treasury Center Co., Ltd.	3,652,448	0.7
Thermo Fisher Scientific Inc.	3,644,981	0.7
DIGITIMES Inc.	3,643,362	0.7
Columbia Management Investment Advisers LLC	3,611,285	0.69
DAH CHUNG BILLS FINANCE CORP.	3,600,000	0.69
Enel Chile SA	3,552,780	0.68

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
Ping An Insurance Group Co	3,550,831	0.68
China Life Insurance Co., Ltd.	3,547,852	0.68
Principal Financial Group Inc.	3,523,252	0.68
BOC Aviation Pte Ltd.	3,520,400	0.68
Nucor Corp	3,512,473	0.67
Far Eastern Electronic Toll Collection Co., Ltd.	3,470,421	0.67
HONGKONG ELECTRIC FIN	3,438,865	0.66
Cisco Systems Inc.	3,436,211	0.66
Nisource Finance Corp	3,427,600	0.66
ING Bank NV	3,398,138	0.65
CIC	3,376,987	0.65
Marathon Oil Corp	3,375,402	0.65
Sumitomo Mitsui Banking Corp	3,360,554	0.65
SIMPLO TECHNOLOGY CO., LTD.	3,354,163	0.64
Lockheed Martin Corp	3,340,910	0.64
PayPal Holdings Inc.	3,338,273	0.64
SinoPac Securities Inc.	3,333,925	0.64
UBS AG	3,331,727	0.64
Banco de Credito e Inversiones	3,322,711	0.64
Sinopec Capital Ltd.	3,315,835	0.64
International Bills Finance Corporation	3,300,878	0.63
Srisawad Corp PCL	3,296,702	0.63
SOUTHERN CO GAS CAPITAL	3,282,627	0.63
PERUSAHAAN GAS NEGARA PT	3,270,920	0.63
Turkey Government International Bond	3,257,419	0.63
Corp Andina de Fomento	3,256,458	0.63
United Overseas Bank Ltd.	3,247,135	0.62
Bell Canada	3,242,457	0.62
FREMF Mortgage Trust	3,239,822	0.62
Neuberger Berman Investment Funds plc.	3,233,503	0.62
Hartford Financial Services Group Inc.	3,232,194	0.62
Deutsche Bank A.G.	3,215,346	0.62
Hamilton Lane Advisors, L.L.C	3,211,287	0.62
Grupo Bimbo SAB de CV	3,205,652	0.62

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
BanColombia SA	3,187,516	0.61
FedEx Corp	3,183,020	0.61
KINDOM CONSTRUCTION CORP.	3,168,000	0.61
Huarong Finance 2017 Co	3,161,541	0.61
Min Hue Company	3,150,000	0.61
Philippine Government International Bond	3,146,981	0.6
Salesforce.com Inc.	3,140,534	0.6
BARRICK GOLD CORP	3,122,884	0.6
Shen Shawn Company	3,100,000	0.6
Lincoln National Corp	3,097,595	0.59
Eirles Two Ltd.	3,073,300	0.59
INTERNATIONAL FAR EASTERN LEASING CO., LTD.	3,073,300	0.59
SILICONWARE PRECISION INDUSTRIES CO., LTD.	3,073,300	0.59
Export-Import Bank of Korea	3,070,506	0.59
Allstate Corp	3,066,806	0.59
AU Optronics Corporation	3,047,774	0.59
NVIDIA Corp	3,047,526	0.59
Banco de Credito del Peru	3,031,335	0.58
Devon Energy Corp	3,028,261	0.58
Yilan County Government	3,000,000	0.58

Name	Total balance	Total balance to financial holding company's net value (%)
B. The same natural person and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.		
Dong and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	13,531,091	2.6
Ko and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	11,197,935	2.15

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Su and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	10,868,286	2.09
Lee and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	6,120,340	1.18
Yang and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	5,727,840	1.1
Lee and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	5,722,840	1.1
Hsu and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	5,659,025	1.09
Chang and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	5,412,513	1.04
Wang and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	5,327,603	1.02
Jiang and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	4,587,258	0.88
Chen and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	3,223,391	0.62
Wu and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	3,150,135	0.61
Huang and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	3,040,844	0.58
Chen and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	3,008,505	0.58

Name	Total balance	Total balance of Financial Holding company's net value (%)
C. The same related parties		
Government of the Republic of China and its supervisory agency	651,941,401	125.22
Government of the USA and its supervisory agency	302,811,718	58.16

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Name	Total balance	Total balance of Financial Holding company's net value (%)
C. The same related parties		
Group of TSMC	76,799,564	14.75
Group of Yuanta Financial Holding	51,418,506	9.88
Citigroup Inc and its related parties	47,899,859	9.2
JPMorgan and its related parties	44,612,097	8.57
Government of the Indonesia and its supervisory agency	42,294,178	8.12
HSBC Bank PLC and its related parties	42,028,266	8.07
Bank of China and its related parties	41,618,885	7.99
Goldman Sachs Group Inc and its related parties	39,230,796	7.54
Group of Fubon	38,526,802	7.4
Bank of America Corporation and its related parties	34,446,728	6.62
Government of the France and its supervisory agency	34,355,628	6.6
Government of the Russia and its supervisory agency	32,810,269	6.3
Group of TACB	28,710,276	5.51
State of Qatar and its related parties	27,717,549	5.32
Group of Yong Feng Yu	27,713,316	5.32
Group of Hon Tai	27,265,077	5.24
BNP Paribas and its related parties	26,814,795	5.15
UBS AG and its related parties	26,646,659	5.12
The Far Eastern Group	25,208,730	4.84
Government of the China and its supervisory agency	22,082,135	4.24
Group of Capital Financial	22,070,365	4.24
Standard Chartered Bank and its related parties	21,808,087	4.19
Group of China Steel Corporation	21,062,094	4.05
Group of CTBC Financial Holding Co., Ltd.	21,006,804	4.03
Morgan Stanley and its related parties	20,141,035	3.87
Anheuser-Busch InBev NV and its related parties	19,918,795	3.83
Group of ASE Technology Holding Co., Ltd.	19,788,508	3.8
Group of Nan Ya Plastics Corporation	18,584,246	3.57
BBVA and its related parties	17,623,713	3.39
Group of Mega Financial Holding Company Ltd.	17,458,979	3.35

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Name	Total balance	Total balance of Financial Holding company's net value (%)
C. The same related parties		
Group of China Development Financial Holding Corporation	15,486,401	2.97
Group of Taishin Financial Holding Company Ltd.	15,292,208	2.94
Credit Agricole SA and its related parties	15,196,391	2.92
Deutsche Bank AG and its related parties	14,752,557	2.83
Group of Formosa Plastics Corporation	14,732,373	2.83
Group of E.SUN FINANCIAL HOLDING COMPANY, LTD.	13,752,191	2.64
Group of O-Bank	13,745,795	2.64
Telefonica SA and its related parties	13,562,096	2.6
ING Group and its related parties	13,544,486	2.6
EVERGREEN Group	13,054,631	2.51
Barclays Bank PLC and its related parties	12,154,122	2.33
Group of CHT	11,889,576	2.28
National Australia Bank Ltd and its related parties	11,680,946	2.24
Foxconn Technology Group	11,668,239	2.24
NOVA SCOTIA and its related parties	11,601,457	2.23
He Shin Group	11,589,122	2.23
Commonwealth Bank of Australia and its related parties	10,845,181	2.08
Westpac Banking Corp and its related parties	10,666,005	2.05
Government of the UK and its supervisory agency	10,517,189	2.02
Taiwan Chemical Fiber Group	9,797,900	1.88
Group of Waterland	9,730,960	1.87
China Network Group	9,386,625	1.8
Triumph Transcend Group	8,772,179	1.68
Group of Hua Nan Financial Holdings Co., Ltd.	8,305,112	1.6
Pfizer Inc and its related parties	8,265,586	1.59
Quanta Computer Group	8,236,942	1.58
Uni-President Group	8,232,666	1.58
DBS and its related parties	7,673,756	1.47
Group of First Financial Holding Co. Ltd.	7,450,742	1.43
Barrick Gold Corp and its related parties	6,866,073	1.32

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Name	Total balance	Total balance of Financial Holding company's net value (%)
C. The same related parties		
Group of Delta Electronics	6,415,728	1.23
Group of Formosa Petrochemical Corporation	6,392,756	1.23
Dominion Resources Inc/VA and its related parties	5,759,656	1.11
NEW KINPO GROUP	5,662,232	1.09
ConocoPhillips and its related parties	5,492,184	1.05
Group of Sino-American Silicon	5,487,745	1.05
Suncor Energy Inc and its related parties	4,624,673	0.89
UMC Group	4,568,046	0.88
Group of Central Trade	4,481,435	0.86
Group of Shin Kong Financial Holding Co., Ltd.	4,286,387	0.82
TBC Group	3,966,586	0.76
BenQ Group	3,816,003	0.73
Sumitomo Corp and its related parties	3,765,227	0.72
SIMPLO TECHNOLOGY GROUP	3,354,186	0.64
SEASPANCORPORATION GROUP	3,336,501	0.64
Group of Kindom Construction	3,229,550	0.62
HueTeng Group	3,040,000	0.58
The Navigators Group	3,005,799	0.58

(13) Business or trading activities within Subsidiaries:

A. Business or trading behaviors

Please refer to Note 7 for further details.

B. Integrate business activities:

By integrating the insurance, securities, banking and other various financial institutions, the Company has become a full-functioning financial platform. Through 675 branches and nearly 30 thousand professional sales representatives across Taiwan, the Company is able to develop its cross-selling marketing strategy and provide a one-stop shopping service for its customers.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

C. Cross utilization of information:

In compliance with “Financial Holding Companies Act”, “Personal Data Protection Act”, “Financial Holding Subsidiaries Cross-selling Activities Acts”, “Self-disciplinary Rules Governing the Activities of the FHC” and other related regulations from FSC, Executive Yuan, the Company has stipulated “Cross-selling Activities Acts between Cathay Financial Holdings and its Subsidiaries”, “Cross-selling Activities Contracts between Cathay Financial Holdings and its Subsidiaries”, “Non-disclosure Agreement of Business Information and Customers’ Personal Data between Cathay Financial Holdings and its Subsidiaries”, “Non-disclosure Measures Declaration of Cathay Financial Holdings and its Subsidiaries”, “Cathay Financial Holdings’ Supervision of its Subsidiaries’ Marketing Practices”, and “Points Governing Cathay Financial Holdings’ Data Storage Management Measures” to provide customers with exit mechanism and to cross-utilize customers’ personal data under a safe and secure environment and provide comprehensive and integrated financial service to the customers.

D. Locations and business utilities:

In order to provide more comprehensive financial service and comply with the “Financial Holding Subsidiaries Cross-selling Activities Acts”, the Company has applied and obtained approval from the competent authority.

- (A) All the business units of Cathay United Bank (164 branches) may engage in cross-selling activities for insurance business and securities business. According to the opening regulations, Cathay United Bank on 29 April 2016 may engage in life insurance business and promote life insurance products.
- (B) Cathay Life may engage in cross-selling activities for banking, property and casualty insurance businesses in all its business and service units (122 locations).
- (C) Cathay Security may engage in cross-selling activities in Cathay Life’s Zhongxiao branch (and other 32 branches). The shared business locations are available for account opening.

E. Allocation of revenues, costs, expenses, profits and losses:

Revenue, costs, expenses, profits or losses arising from integrated business activities between the subsidiaries are allocated to each subsidiary based on the related business features or other reasonable allocation methods.

(14) Significant contracts

None

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

13. Information regarding investment in Mainland China

(1) Information on significant transactions:

No.	Items	Schedule
A.	Aggregate purchases or sales of the same securities reaching NT\$300 million or 10 percent of paid-in capital or more.	None
B.	Acquisition of real estate reaching NT\$300 million or 10 percent of paid-in capital or more.	None
C.	Disposal of real estate reaching NT\$300 million or 10 percent of paid-in capital or more.	None
D.	Service charge discounts on transactions with related parties in an aggregate amount of \$5 million or more.	None
E.	Accounts receivable from related parties reaching NT\$300 million or 10 percent of paid-in capital or more.	Schedule 5
F.	Sell-off by a subsidiary of non-performing loans of NT\$5 billion or more.	Note 16.(3)
G.	The type of any securitization product offered or to be offered by a subsidiary that has applied for and received approval to do so in accordance with the Financial Asset Securitization Act or the Real Estate Securitization Act, and information related thereto.	None
H.	Trading derivative instruments.	Note 12.(1)

(2) Information on investees:

No.	Items	Schedule
A.	Lending funds to others.	None
B.	Providing endorsements or guarantees for others.	None
C.	Holding of securities at the end of the period.	Schedule 1
D.	Aggregate purchases or sales of the same securities reaching NT\$300 million or 10 percent of paid-in capital or more.	None
E.	Acquisition of real estate reaching NT\$300 million or 10 percent of paid-in capital or more.	Schedule 4
F.	Disposal of real estate reaching NT\$300 million or 10 percent of paid-in capital or more.	Schedule 4
G.	Service charge discounts on transactions with related parties in an aggregate amount of \$5 million or more.	None
H.	Accounts receivable from related parties reaching NT\$300 million or 10 percent of paid-in capital or more.	Schedule 2
I.	Trading in derivative instruments.	Note 12.(1)
J.	Names, locations and related information of investees.	Schedule 3

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(3) Information on investments in the Mainland Area:

- A. On 25 December 2002 and 24 July 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Life to remit USD 22,850 thousand and USD 27,150 thousand, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from USD 50,000 thousand to USD 48,330 thousand approved by MOEAIC on 20 December 2010. Also, MOEAIC authorized Cathay Life to remit USD 59,000 thousand as the registered capital again on 16 May 2008. MOEAIC authorized Cathay Life to remit USD 3,400 thousand as the registered capital again on 2 April 2012. MOEAIC also authorized the revision of the amount of USD 32,520 thousand of unexecuted project to CNY 200,000 thousand to avoid currency risk on 14 September 2013. The total registered capital was USD 110,730 thousand. On 25 September 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life's subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on 29 December 2004 and changed its name to Cathay Lujiazui Life Insurance Company Ltd. following approval by the China Insurance Regulatory Commission on 12 August 2014. Cathay Life has remitted USD 48,330 thousand to the subsidiary as of 31 December 2009. Cathay Life injected additional USD 29,880 thousand on 29 September 2010, CNY 200,000 thousand on 8 May 2014. On 23 August 2017, MOEAIC authorized Cathay Life to remit CNY 700,000 thousand and the amount was remitted on 20 September 2017. As of 31 December 2018, Cathay Life's remittances to the subsidiary totaled approximately CNY 900,000 thousand and USD 78,210 thousand. Please refer to Schedule 5.
- B. On 17 October 2007, MOEAIC authorized Cathay Life to remit USD 26,390 thousand as the registered capital to establish a China-based general insurance subsidiary (in the form of a joint venture with Cathay Century Insurance) of which was also approved by China Insurance Regulatory Commission on 8 October 2007. On 6 March 2008, MOEAIC authorized Cathay Life to increase the remittances from USD 26,390 thousand to USD 28,960 thousand. On 15 August 2008, MOEAIC further authorized Cathay Life to revise the remittance from USD 28,960 thousand to USD 28,140 thousand. The joint venture company named Cathay Insurance Company Ltd. (China) established by Cathay Life and Cathay Century Insurance in Shanghai has acquired a business license of an enterprise as legal person on 26 August 2008. On 28 May 2013, MOEAIC authorized Cathay Life to remit CNY 200,000 thousand to increase the share capital. As of 31 December 2018, Cathay Life's remittances to this general insurance company totaled approximately CNY 200,000 thousand and USD 28,140 thousand. Please refer to Schedule 5.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- C. On 1 November 2011 and 11 April 2012, MOEAIC authorized Cathay Life to remit CNY 300,000 (USD 47,000) thousand and CNY 500,000 (USD 80,000) thousand, respectively. A total of USD 127,000 thousand was used as the registered capital to establish a China-based company named Lin Yuan (Shanghai) Real Estate Co., Ltd. Cathay Life's subsidiary, Lin Yuan (Shanghai) Real Estate Co., Ltd. has acquired a business license of an enterprise as legal person on 15 August 2012. On 1 April 2013, MOEAIC authorized Cathay Life to remit CNY 700,000 (USD 111,000) thousand to increase the share capital. As of 31 December 2018, Cathay Life's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately CNY 1,500,000 thousand. Please refer to Schedule 5.
- D. On 31 December 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Century to USD 28,963 thousand to establish an insurance subsidiary, engaging in the business of property insurance business. On 8 October 2007, China Insurance Regulatory Commission (CIRC) authorized Cathay Century to prepare to build a property insurance company in form of joint venture with Cathay life Insurance. The joint venture company named Cathay Insurance Company Ltd. (China) established in Shanghai has acquired a business license of an enterprise as a legal person on 26 August 2008. On 28 May 2013, the MOEAIC authorized Cathay Century to CNY 200,000 thousand to establish an insurance subsidiary. On 13 June 2013 and 18 March 2014, each amount of the company's remittance was CNY 100,000 thousand and was authorized by CIRC. Cathay Century was approved by the Ministry of Economic Affairs Investment Review Committee No. 10700281680 to remit CYN 245,000 thousand as share capital on 23 November 2018. As of 31 December 2018, Cathay Century has totally remitted USD 97,290 thousand. Please refer to Schedule 5.
- E. MOEAIC approved Cathay United Bank to remit to China CNY 400,000 (USD 60,070) thousand. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank's Shanghai Branch was CNY 400,000 (USD 59,770) thousand. The remaining amount of USD 300 thousand was repatriated by Shanghai Branch, Cathay United Bank on 5 November 2010. The investment amounts were revised by Cathay United Bank by reporting to MOEAIC in 18 January 2011 and were approved on 24 January 2011. In addition, MOEAIC further approved Cathay United Bank to remit CNY 600,000 (USD 95,020) thousand to China. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank's Shanghai Branch was CNY 600,000 (USD 94,930) thousand. The remaining amount of USD 90 thousand was repatriated by Cathay United Bank's Shanghai Branch on 1 February 2012. The investment amounts were revised by Cathay United Bank by reporting to MOEAIC on 20 March 2012 and were approved on 26 March 2012. MOEAIC approved Cathay United Bank's Shanghai Branch to increase the working capital of CNY 1,000,000 (USD 164,000) thousand on 27 February 2014. According to MOEAIC, further approved working capital of Cathay United Bank's Qingdao Branch was CNY 600,000 (USD 98,200) thousand on 21 January 2014. And the approved working capital of Cathay United Bank's Shamchun Branch was CNY 400,000 (USD 60,710) thousand on 5 January 2015. Please refer to Schedule 5.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

F. On 9 January 2012, MOEAIC authorized Cathay Securities Investments Trust to remit CNY 66,600 thousand as the registered capital to establish a China-based company named CDBS Cathay Asset Management (in the form of a joint venture with China Development Bank Securities). Cathay Securities Investment Trust held 33.3% number of shares. CDBS Cathay Asset Management's capital is CNY 200,000 thousand, and has acquired a business license of an enterprise legal person on 16 August 2013. On 9 November 2016, the board of Cathay Securities Investments Trust approved to increase investment in CDBS Cathay Asset Management accounted for using the equity method as percentage of original ownership amounted to CNY 53,280 thousand. The proposal was authorized by the FSC and MOEAIC on 16 May 2017 and 9 June 2017, respectively, on 29 September 2017 increase capital and will be executed after obtaining approval by the China authorities. As of 31 December 2018, Cathay Securities Investment Trust remittances to CDBS Cathay Asset Management totaled approximately CNY 119,880 thousand. Please refer to Schedule 5.

G. On 5 March 2014, MOEAIC authorized Cathay Securities to invest in Cathay Investment Consulting (Shanghai) Co. Ltd., which was granted business license with registration number 310115400293635 on 11 June 2014 by Shanghai Pudong New Area Market Supervisory Authority of the People's Republic of China. The registered paid-in capital amounted to CNY 8,000 (\$38,970) thousand. Please refer to Schedule 5.

14. Segment information

The Group separated operating segments based on the natures of business and they classified into five reportable segments for the purpose of management:

- (1) Banking operating segments: Banking operating segments operate the permitted businesses of commercial banks provided by the Banking Act of the Republic of China, foreign exchange business, guarantee business, advisory service of foreign currency investments, trust business, offshore banking units and other financial business of investments from returning expatriates.
- (2) Life insurance operating segments: Life insurance operating segments operate the sales of traditional insurance policies, investment-linked insurance policies and floating-rate annuity insurance products.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

- (3) Properties insurance operating segments: Properties insurance operating segments engage in fire insurance, marine insurance, land and air insurance, liability insurance, bonding insurance, reinsurance and other insurance.
- (4) Securities operating segments: Securities operating segments are responsible for securities brokerage, discretionary and underwriting and dedicates to the innovation and development of financial products and services by providing a variety of new financial products.
- (5) Other operating segments: Such segments include assets, liabilities, revenue and expenditure which are not able to be allocated to certain operating segments.

To formulate strategies of the allocation of resources and assessment of performance, the management monitors results of operating segments. The accounting policies are the same as the summary of significant accounting policies in Note 4.

A. Income information of reporting segment

2018.1.1~2018.12.31

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$33,538,751	146,668,694	544,505	169,704	(293,435)	180,628,219
Net income other than interest	18,220,102	259,033,019	5,955,454	2,743,592	7,345,660	293,297,827
Total income	51,758,853	405,701,713	6,499,959	2,913,296	7,052,225	473,926,046
Bad debt expenses, commitments and Provision for premiums reserve	(5,031,541)	443,350	-	(1,056)	(9,839)	(4,599,086)
The net change of insurance liabilities	-	(333,715,568)	(406,370)	-	-	(334,121,938)
Operating expenses	(30,212,098)	(35,753,800)	(3,558,008)	(2,284,372)	(7,797,970)	(79,606,248)
Income (loss) from continuing operations before income taxes	16,515,214	36,675,695	2,535,581	627,868	(755,584)	55,598,774
Income taxes (expense) benefit	(3,231,103)	1,986,759	(348,971)	(101,212)	(2,081,991)	(3,776,518)
Consolidated net income	13,284,111	38,662,454	2,186,610	526,656	(2,837,575)	51,822,256

Note: All of the internal transactions between the operating segments have been eliminated.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.1.1~2017.12.31

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$29,752,189	\$138,037,832	\$539,420	\$162,112	\$(30,803)	\$168,460,750
Net income other than interest	18,071,424	383,501,406	5,537,277	2,567,167	6,315,250	415,992,524
Total income	47,823,613	521,539,238	6,076,697	2,729,279	6,284,447	584,453,274
Bad debt expenses and Provision for premiums reserve	(3,494,144)	128,473	57	(93,930)	-	(3,459,544)
The net change of insurance liabilities	-	(445,842,583)	10,043	-	-	(445,832,540)
Operating expenses	(28,273,885)	(34,930,420)	(3,326,942)	(2,176,347)	(6,817,979)	(75,525,573)
Income (loss) from continuing operations before income taxes	16,055,584	40,894,708	2,759,855	459,002	(533,532)	59,635,617
Income taxes (expense) benefit	(2,765,646)	2,185,302	(296,675)	(79,029)	(2,006,345)	(2,962,393)
Consolidated net income	13,289,938	43,080,010	2,463,180	379,973	(2,539,877)	56,673,224

Note: All of the internal transactions between the operating segments have been eliminated.

(A) Revenues from each external customer are all less than 10% of total revenue of the Group.

(B) Income of operating segments is measured before taxes. Income of operating segments is the basis of resources distribution and performance.

B. Segment information

Revenue from external customers

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Taiwan	\$47,681,807	\$47,519,365
Other countries	132,946,412	120,941,385
Total	<u>\$180,628,219</u>	<u>\$168,460,750</u>

Revenue is classified by the residency of customers.

Note:

(A) Revenues from each external customer were all less than 10% of total revenue of the Group.

(B) Income of operating segments is measured before taxes. Income of operating segments is the basis of resources distribution and performance.

English Translation of Financial Statements Originally Issued in Chinese

15.The company's financial statements

**Cathay Financial Holding Co., Ltd.
Balance sheets
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

	2018.12.31	2017.12.31
Assets		
Cash and cash equivalents	\$445,353	\$1,212,677
Financial assets at fair value through profit or loss	35,444,500	-
Financial assets at fair value through other comprehensive income	102,304	-
Receivables - net	266,902	527,534
Current income tax assets	6,428,841	4,341,510
Available-for-sale financial assets - net	-	91,136
Held-to-maturity financial assets - net	-	41,000,000
Investments accounted for using the equity method - net	548,662,186	605,207,073
Property and equipment - net	11,767	11,247
Intangible assets - net	1,330	6,649
Deferred tax assets	352,601	320,076
Other assets - net	59,474	31,797
Total assets	\$591,775,258	\$652,749,699
Liabilities & Equity		
Liabilities		
Commercial paper payable - net	\$59,260,000	\$42,940,000
Payables	9,894,697	1,156,176
Current income tax liabilities	1,719,191	8,262,477
Provisions	739,257	933,466
Deferred tax liabilities	266,714	226,707
Other liabilities	164,069	163,802
Total liabilities	72,043,928	53,682,628
Equity		
Capital stock		
Common stock	125,632,102	125,632,102
Preferred stock	15,333,000	8,333,000
Capital surplus	165,449,364	130,452,105
Retained earnings		
Legal reserve	40,976,121	35,339,841
Special reserve	149,346,119	149,106,971
Undistributed earnings	95,553,376	99,296,739
Other equity	(72,558,752)	50,906,313
Total equity	519,731,330	599,067,071
Total liabilities and equity	\$591,775,258	\$652,749,699

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Statements of Comprehensive Income

For the years ended 31 December 2018 and 2017

(Expressed in thousands of New Taiwan Dollars , except earning per share)

	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Income		
Gains on investment - equity method	\$52,652,017	\$57,734,234
Other operating income	1,826,183	1,416,301
	<u>54,478,200</u>	<u>59,150,535</u>
Expenses and loss		
Operating expenses	(1,106,414)	(822,604)
Other expenses and losses	(310,465)	(213,888)
	<u>(1,416,879)</u>	<u>(1,036,492)</u>
Profit before income tax from continuing operations	53,061,321	58,114,043
Income tax expense	(1,594,078)	(1,807,308)
Profit after income tax from continuing operations	<u>51,467,243</u>	<u>56,306,735</u>
Net Income	<u>51,467,243</u>	<u>56,306,735</u>
Other comprehensive income		
Not to be reclassified to profit or loss in subsequent periods:		
Remeasurements of defined benefit plans	(2,507)	(4,019)
Unrealized gains from equity instruments investments measured at fair value through other comprehensive income	11,167	-
Share of other comprehensive income of associates and joint ventures accounted for using the equity method - not to be reclassified to profit or loss in subsequent periods	(648,367)	(1,543,727)
Income tax relating to the components not to be reclassified to profit or loss in subsequent periods	1,502	683
To be reclassified to profit or loss in subsequent periods:		
Unrealized gains from available-for-sale financial assets	-	5,448
Share of other comprehensive income of associates and joint ventures accounted for using the equity method - not to be reclassified to profit or loss in subsequent periods	(174,696,504)	46,224,976
Other comprehensive (loss) income, net of tax	<u>(175,334,709)</u>	<u>44,683,361</u>
Total comprehensive (loss) income	<u><u>\$(123,867,466)</u></u>	<u><u>\$100,990,096</u></u>
Earnings per share (expressed in dollars)		
Basic earnings per share:		
Net income	<u>\$3.95</u>	<u>\$4.47</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.
Statements of Changes in Equity
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars)

Items	Capital stock		Retained earnings					Other equity							Total
	Common stock	Preferred stock	Capital Surplus	Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of a foreign operation	Unrealized gains (losses) from financial assets at air value through other comprehensive income	Unrealized gains (losses) from available-for-sale financial assets	Gains (losses) on hedging instruments / Effective portion of gains (losses) on hedging instruments in cash flow hedges	Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	Remeasurements of defined benefit plans	Revaluation gains on property	Other comprehensive income reclassified using overlay approach	
Balance on 1 January 2017	\$125,632,102	\$8,333,000	\$130,448,697	\$30,577,724	\$149,108,336	\$73,001,761	\$(7,274,912)	\$-	\$4,023,159	\$191,534	\$120,321	\$(945,933)	\$10,108,783	\$-	\$523,324,572
Appropriations and distribution for 2016															
Legal reserve				4,762,117		(4,762,117)									-
Common stock cash dividends						(25,126,420)									(25,126,420)
Preferred stock cash dividends						(124,585)									(124,585)
Reversal of special reserve					(1,365)	1,365									-
Other additional paid-in capital															
Share of changes in net assets of associates and joint ventures accounted for using the equity method			(804)												(804)
Net income for the years ended 31 December 2017 (Note 1)						56,306,735									56,306,735
Other comprehensive income for the years ended 31 December 2017							(3,548,330)		49,766,641	12,113	(1,311,348)	(503,746)	268,031		44,683,361
Comprehensive income for the years ended 31 December 2017	-	-	-	-	-	56,306,735	(3,548,330)	-	49,766,641	12,113	(1,311,348)	(503,746)	268,031	-	100,990,096
Share-based payment transaction			4,212												4,212
Balance on 31 December 2017	\$125,632,102	\$8,333,000	\$130,452,105	\$35,339,841	\$149,106,971	\$99,296,739	\$(10,823,242)	\$-	\$53,789,800	\$203,647	\$(1,191,027)	\$(1,449,679)	\$10,376,814	\$-	\$599,067,071
Balance on 1 January 2018	\$125,632,102	\$8,333,000	\$130,452,105	\$35,339,841	\$149,106,971	\$99,296,739	\$(10,823,242)	\$-	\$53,789,800	\$203,647	\$(1,191,027)	\$(1,449,679)	\$10,376,814	\$-	\$599,067,071
Effects on retrospective application and restatement	-	-	-	-	-	(3,653,038)	-	37,343,476	(53,789,800)	-	-	-	-	55,941,777	35,842,415
Balance on 1 January 2018 (Adjusted)	125,632,102	8,333,000	130,452,105	35,339,841	149,106,971	95,643,701	(10,823,242)	37,343,476	-	203,647	(1,191,027)	(1,449,679)	10,376,814	55,941,777	634,909,486
Appropriations and distribution for 2016															
Legal reserve															
Special reserve															
Common stock cash dividends															
Preferred stock cash dividends															
Reversal of special reserve															
Appropriations and distribution for 2017															
Legal reserve				5,636,280		(5,636,280)									-
Special reserve					234,146	(234,146)									-
Common stock cash dividends						(31,408,025)									(31,408,025)
Preferred stock cash dividends						(1,899,924)									(1,899,924)
Other additional paid-in capital															
Share of changes in net assets of associates and joint ventures accounted for using the equity method			(5,066)												(5,066)
Net income for the years ended 31 December 2018 (Note 2)						51,467,243									51,467,243
Other comprehensive income for the years ended 31 December 2018							(1,326,629)	(67,359,757)		(30,358)	1,965,111	128,541	46,241	(108,757,858)	(175,334,709)
Comprehensive income for the years ended 31 December 2018	-	-	-	-	-	51,467,243	(1,326,629)	(67,359,757)	-	(30,358)	1,965,111	128,541	46,241	(108,757,858)	(123,867,466)
Issue of preferred stock		7,000,000	35,000,000												42,000,000
Share-based payment transaction			2,325												2,325
Disposal of equity instrument at fair value through other comprehensive (losses) income						(12,429,335)		12,429,335							-
Others					5,002	50,142							(55,144)		-
Balance on 31 December 2018	\$125,632,102	\$15,333,000	\$165,449,364	\$40,976,121	\$149,346,119	\$95,553,376	\$(12,149,871)	\$(17,586,946)	\$-	\$173,289	\$774,084	\$(1,321,138)	\$10,367,911	\$(52,816,081)	\$519,731,330

Note1: For the year ended 2017, the remuneration to directors and supervisors in the amount of \$2,700 thousand and employees' compensation in the amount of \$5,812 thousand have been deducted from the Statement of Comprehensive Income.

Note2: For the year ended 2018, the remuneration to directors and supervisors in the amount of \$2,700 thousand and employees' compensation in the amount of \$5,307 thousand have been deducted from the Statement of Comprehensive Income.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Financial Holding Co., Ltd.
Statements of Cash Flows
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Cash flows from operating activities		
Profit before income tax from continuing operations	\$53,061,321	\$58,114,043
Adjustments :		
Income and other adjustments with no cash flow effects		
Depreciation expenses	2,621	2,094
Amortization expenses	5,319	5,319
Net gains from financial assets and liabilities at fair value through profit or loss	(469,000)	-
Interest expenses	271,859	171,795
Interest income	(1,322,284)	(1,405,666)
Share of profit of associates and joint ventures accounted for using the equity method	(52,652,017)	(57,734,234)
Losses on disposal of property and equipment	88	191
Gains on reversal of impairment losses	(2,888)	-
Unrealized foreign exchange (gains) losses	(3,084)	11,548
Others	2,325	4,212
Changes in operating assets and liabilities		
Decrease in other financial assets	-	430,111
Increase in other assets	(60)	(16,257)
Increase in payables	106,369	28,983
(Decrease) increase in provisions	(196,716)	10,683
Increase (decrease) in other liabilities	267	(22,063)
Interest received	1,433,990	1,410,223
Interest paid	(299,475)	(171,795)
Income taxes paid	(1,434,143)	(1,032,490)
Net cash used in operating activities	(1,495,508)	(193,303)
Cash flows from investing activities		
Disposal of financial assets at cost	6,000,000	-
Acquisition of investments accounted for using the equity method	(42,000,000)	(15,668,000)
Acquisition of property and equipment	(3,229)	(5,833)
Increase in other assets	-	(4,542)
Dividends received	11,716,278	20,483,981
Net cash (used in) flows from investing activities	(24,286,951)	4,805,606
Cash flows from financing activities		
Increase in commercial paper payable	16,320,000	6,960,000
Increase in cash capital	42,000,000	-
Cash dividends paid	(33,307,949)	(25,251,005)
Net cash flows from (used in) financing activities	25,012,051	(18,291,005)
Effects of exchange rate changes on cash and cash equivalents	3,084	(11,548)
Decrease in cash and cash equivalents	(767,324)	(13,690,250)
Cash and cash equivalents at the beginning of periods	1,212,677	14,902,927
Cash and cash equivalents at the end of periods	\$445,353	\$1,212,677
The components of cash and cash equivalents		
Cash and cash equivalents presented in balance sheet	\$445,353	\$1,212,677
Cash and cash equivalents at the end of periods	\$445,353	\$1,212,677

English Translation of Financial Statements Originally Issued in Chinese

16. Informaiton of subsidiaries

(1) The major subsidiaries' condensed balance sheets and statements of comprehensive income

**Cathay Life Insurance Co., Ltd.
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Cash and cash equivalents	\$164,504,001	\$201,115,297
Receivables	70,860,435	77,861,873
Financial assets at fair value through profit or loss	1,128,633,727	42,735,409
Financial assets at fair value through other comprehensive income	921,964,604	-
Available-for-sale financial assets	-	1,502,895,656
Financial assets for hedging/Derivative financial assets for hedging	216,611	246,444
Investments accounted for using the equity method	97,135,294	88,768,088
Financial assets measured at amortized cost	2,258,061,756	-
Investment in debt securities with no active market	-	2,378,799,262
Held-to-maturity financial assets	-	50,808,599
Other financial assets	1,999,406	4,500,000
Investment property	427,098,786	422,287,644
Loans	594,129,442	617,373,227
Reinsurance contract assets	1,480,860	726,118
Property and equipment	29,848,752	29,532,953
Intangible assets	33,545,574	35,653,303
Deferred tax assets	38,165,870	28,356,809
Other assets	36,918,943	23,898,695
Separate account product assets	546,852,734	555,129,997
Total assets	\$6,351,416,795	\$6,060,689,374
Liabilities		
Payables	\$27,799,042	\$16,112,637
Financial liabilities at fair value through profit or loss	27,499,106	1,104,658
Bonds payable	70,000,000	70,000,000
Preferred stock liability	-	5,000,000
Insurance liabilities	5,267,978,184	4,911,915,146
Reserve for insurance contract with feature of financial instruments	930,654	472,573
Foreign exchange volatility reserve	17,075,289	11,589,138
Liability reserve	56,245	56,245
Deferred tax liabilities	28,476,919	36,348,432
Other liabilities	8,155,913	17,372,503
Separate account product liabilities	546,852,734	555,129,997
Total liabilities	5,994,824,086	5,625,101,329
Stockholders' equity		
Capital stock	57,265,274	53,065,274
Capital surplus	51,535,925	13,767,663
Retained earnings	331,036,962	326,660,113
Other equity	(83,245,452)	42,094,995
Total stockholders' equity	356,592,709	435,588,045
Total liabilities and stockholders' equity	\$6,351,416,795	\$6,060,689,374

**Cathay Life Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$799,466,715	\$861,140,395
Operating costs	(751,709,190)	(807,086,790)
Operating expenses	(21,472,697)	(21,676,305)
Operating profit	26,284,828	32,377,300
Non-operating income and expenses	1,310,502	1,429,361
Profit from continuing operations before income tax	27,595,330	33,806,661
Income tax profit	2,593,990	2,483,477
Profit from continuing operations after income tax	30,189,320	36,290,138
Net income	30,189,320	36,290,138
Other comprehensive (loss) income	(173,807,449)	45,981,870
Total comprehensive (loss) income	\$(143,618,129)	\$82,272,008
Primary earnings per share	\$5.47	\$6.84

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Lujiazui Life Insurance Co., Ltd.
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Cash and cash equivalents	\$1,388,582	\$2,799,589
Receivables	832,546	1,163,541
Financial assets at fair value through profit or loss	29,502,960	62,584
Available-for-sale financial assets	-	8,128,348
Financial assets measured at amortized cost	134,286	-
Investment in debt securities with no active market	-	14,024,356
Held-to-maturity financial assets	-	823,696
Loans	460,032	185,535
Reinsurance contract assets	38,050	32,340
Property and equipment	143,339	116,674
Intangible assets	38,541	27,330
Other assets	3,187,274	2,948,413
Separate account product assets	111,527	139,182
Total assets	\$35,837,137	\$30,451,588
Liabilities		
Payables	\$1,478,177	\$1,950,310
Current income tax liabilities	444,535	-
Insurance liabilities	15,555,689	10,036,076
Reserve for insurance contract with feature of financial instruments	8,388,059	8,289,036
Other liabilities	76,453	49,886
Separate account product liabilities	111,527	139,182
Total liabilities	26,054,440	20,464,490
Stockholders' equity		
Capital stock	13,497,155	13,497,155
Retained earnings	(3,502,959)	(3,522,642)
Other equity	(211,499)	12,585
Total stockholders' equity	9,782,697	9,987,098
Total liabilities and stockholders' equity	\$35,837,137	\$30,451,588

**Cathay Lujiazui Life Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$12,027,156	\$8,312,772
Operating costs	(9,773,603)	(6,674,558)
Operating expenses	(1,725,984)	(1,759,378)
Operating profit (loss)	527,569	(121,164)
Non-operating income and expenses	(1,976)	9,664
Profit (loss) from continuing operations before income tax	525,593	(111,500)
Income tax expense	(505,910)	(80,715)
Profit (loss) from continuing operations after income tax	19,683	(192,215)
Net income (loss)	19,683	(192,215)
Other comprehensive loss	(224,084)	(228,635)
Total comprehensive loss	\$(204,401)	\$(420,850)
Primary earnings per share	Note	Note

Note: Cathay Lujiazui Life is a limited company; there is no information about earning per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Life Insurance Company (Vietnam)
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Cash and cash equivalents	\$2,903,659	\$934,009
Receivables	502,968	381,301
Financial assets at fair value through profit or loss	8,881,532	-
Available-for-sale financial assets	-	6,426,711
Financial assets measured at amortized cost	477,000	-
Investment in debt securities with no active market	-	183,960
Loans	45,374	29,789
Property and equipment	10,781	13,886
Intangible assets	388	112
Other assets	85,851	62,321
Total assets	\$12,907,553	\$8,032,089
Liabilities		
Payables	\$103,318	\$58,664
Current income tax liabilities	-	17,860
Insurance liabilities	3,238,790	1,989,642
Other liabilities	195	304
Total liabilities	3,342,303	2,066,470
Stockholders' equity		
Capital stock	9,090,730	5,410,990
Retained earnings	124,494	478,442
Other equity	350,026	76,187
Total stockholders' equity	9,565,250	5,965,619
Total liabilities and stockholders' equity	\$12,907,553	\$8,032,089

**Cathay Life Insurance Company (Vietnam)
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$1,622,136	\$1,552,735
Operating costs	(1,445,934)	(1,065,596)
Operating expenses	(533,033)	(391,239)
Operating (loss) profit	(356,831)	95,900
Non-operating income and expenses	3,899	2,677
(Loss) profit from continuing operations before income tax	(352,932)	98,577
Income tax expense	(1,016)	(18,404)
(Loss) profit from continuing operations after income tax	(353,948)	80,173
Net (loss) income	(353,948)	80,173
Other comprehensive income	273,839	62,162
Total comprehensive (loss) income	\$(80,109)	\$142,335
Primary earnings per share	Note	Note

Note: Cathay Life Insurance Company (Vietnam) is a limited company; there is no information about earning per share.

English Translation of Financial Statements Originally Issued in Chinese

**Lin Yuan (Shanghai) Real Estate Co., Ltd.
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$1,065,285	\$843,290
Investment property	7,175,348	6,536,159
Property and equipment	4	549,458
Total assets	\$8,240,637	\$7,928,907
Liabilities		
Current liabilities	\$1,621	\$1,316
Deferred tax liabilities	410,120	307,251
Other liabilities	91,550	92,484
Total liabilities	503,291	401,051
Stockholders' equity		
Capital stock	7,223,435	7,223,435
Retained earnings	890,272	614,591
Other equity	(376,361)	(310,170)
Total stockholders' equity	7,737,346	7,527,856
Total liabilities and stockholders' equity	\$8,240,637	\$7,928,907

**Lin Yuan (Shanghai) Real Estate Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$393,131	\$241,081
Operating expenses	(44,346)	(66,113)
Operating profit	348,785	174,968
Non-operating income and expenses	(64)	(17)
Profit from continuing operations before income tax	348,721	174,951
Income tax expense	(73,040)	(42,108)
Profit from continuing operations after income tax	275,681	132,843
Net income	275,681	132,843
Other comprehensive loss	(66,191)	(96,535)
Total comprehensive income	\$209,490	\$36,308
Primary earnings per share	Note	Note

Note: Lin Yuan (Shanghai) Real Estate Co. Ltd. is a limited company; there is no information about earnings per share

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Woolgate Exchange Holding 1 Limited
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$2,431,476	\$2,178,540
Investment property	10,658,651	12,012,179
Total assets	<u>\$13,090,127</u>	<u>\$14,190,719</u>
Liabilities		
Current liabilities	<u>\$104,856</u>	<u>\$99,103</u>
Total liabilities	<u>104,856</u>	<u>99,103</u>
Stockholders' equity		
Capital stock	16,654,013	16,654,013
Retained earnings	495,404	1,166,022
Other equity	<u>(4,164,146)</u>	<u>(3,728,419)</u>
Total stockholders' equity	<u>12,985,271</u>	<u>14,091,616</u>
Total liabilities and stockholders' equity	<u>\$13,090,127</u>	<u>\$14,190,719</u>

**Cathay Woolgate Exchange Holding 1 Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$(285,888)	\$(106,998)
Operating expenses	<u>(728)</u>	<u>(702)</u>
Operating loss	<u>(286,616)</u>	<u>(107,700)</u>
Loss from continuing operations before income tax	(286,616)	(107,700)
Income tax expense	<u>(118,505)</u>	<u>(145,611)</u>
Loss from continuing operations after income tax	<u>(405,121)</u>	<u>(253,311)</u>
Net loss	<u>(405,121)</u>	<u>(253,311)</u>
Other comprehensive (loss) income	<u>(435,729)</u>	<u>201,324</u>
Total comprehensive loss	<u>\$(840,850)</u>	<u>\$(51,987)</u>
Primary earnings per share	<u>Note</u>	<u>Note</u>

Note: Cathay Woolgate Exchange Holding 1 Limited is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Woolgate Exchange Holding 2 Limited
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$24,448	\$22,438
Investment property	107,663	121,335
Total assets	<u>\$132,111</u>	<u>\$143,773</u>
Liabilities		
Current liabilities	\$973	\$952
Total liabilities	<u>973</u>	<u>952</u>
Stockholders' equity		
Capital stock	168,222	168,222
Retained earnings	4,994	12,278
Other equity	(42,078)	(37,679)
Total stockholders' equity	<u>131,138</u>	<u>142,821</u>
Total liabilities and stockholders' equity	<u>\$132,111</u>	<u>\$143,773</u>

**Cathay Woolgate Exchange Holding 2 Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$(2,890)	\$(1,086)
Operating expenses	(729)	(693)
Operating loss	(3,619)	(1,779)
Loss from continuing operations before income tax	(3,619)	(1,779)
Income tax expense	(1,010)	(1,340)
Loss from continuing operations after income tax	(4,629)	(3,119)
Net loss	(4,629)	(3,119)
Other comprehensive (loss) income	(4,399)	2,051
Total comprehensive loss	<u>\$(9,028)</u>	<u>\$(1,068)</u>
Primary earnings per share	<u>Note</u>	<u>Note</u>

Note: Cathay Woolgate Exchange Holding 2 Limited is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Walbrook Holding 1 Limited
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$715,710	\$619,438
Investment property	20,859,540	22,019,380
Total assets	<u>\$21,575,250</u>	<u>\$22,638,818</u>
Liabilities		
Current liabilities	\$97,272	\$91,915
Other non-current liabilities	12,748,557	13,177,287
Total liabilities	<u>12,845,829</u>	<u>13,269,202</u>
Stockholders' equity		
Capital stock	10,189,090	10,189,090
Retained earnings	459,840	807,170
Other equity	(1,919,509)	(1,626,644)
Total stockholders' equity	<u>8,729,421</u>	<u>9,369,616</u>
Total liabilities and stockholders' equity	<u>\$21,575,250</u>	<u>\$22,638,818</u>

**Cathay Walbrook Holding 1 Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$156,638	\$471,780
Operating costs	(474,491)	(419,367)
Operating expenses	(1,492)	(6,951)
Operating (loss) profit	<u>(319,345)</u>	<u>45,462</u>
(Loss) profit from continuing operations before income tax	(319,345)	45,462
Income tax expense	(27,985)	-
(Loss) profit from continuing operations after income tax	<u>(347,330)</u>	<u>45,462</u>
Net (loss) income	(347,330)	45,462
Other comprehensive (loss) income	(292,865)	139,286
Total comprehensive (loss) income	<u>\$(640,195)</u>	<u>\$184,748</u>
Primary earnings per share	<u>Note</u>	<u>Note</u>

Note: Cathay Walbrook Holding 1 Limited is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Walbrook Holding 2 Limited
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$34,867	\$30,556
Investment property	1,097,871	1,158,915
Total assets	<u>\$1,132,738</u>	<u>\$1,189,471</u>
Liabilities		
Current liabilities	\$4,953	\$4,838
Other non-current liabilities	670,977	693,541
Total liabilities	<u>675,930</u>	<u>698,379</u>
Stockholders' equity		
Capital stock	536,268	536,268
Retained earnings	21,286	40,247
Other equity	(100,746)	(85,423)
Total stockholders' equity	<u>456,808</u>	<u>491,092</u>
Total liabilities and stockholders' equity	<u>\$1,132,738</u>	<u>\$1,189,471</u>

**Cathay Walbrook Holding 2 Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$8,244	\$24,827
Operating costs	(24,973)	(22,072)
Operating expenses	(929)	(849)
Operating (loss) profit	<u>(17,658)</u>	<u>1,906</u>
(Loss) profit from continuing operations before income tax	(17,658)	1,906
Income tax expense	(1,303)	-
(Loss) profit from continuing operations after income tax	<u>(18,961)</u>	<u>1,906</u>
Net (loss) income	(18,961)	1,906
Other comprehensive (loss) income	(15,323)	7,295
Total comprehensive (loss) income	<u>\$(34,284)</u>	<u>\$9,201</u>
Primary earnings per share	<u>Note</u>	<u>Note</u>

Note: Cathay Walbrook Holding 2 Limited is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

Conning Holdings Limited
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$5,211,249	\$4,604,691
Financial assets at fair value through profit or loss	732,967	239,368
Financial assets at fair value through other comprehensive income	3,642	-
Investment in debt securities with no active market	-	3,006
Held-to-maturity financial assets	-	6,175,423
Investments accounted for using the equity method	2,711,174	-
Property and equipment	555,709	233,778
Intangible assets	10,460,456	10,592,201
Deferred tax assets	86,585	91,882
Other non-current assets	276,065	216,672
Total assets	\$20,037,847	\$22,157,021
Liabilities		
Current liabilities	\$3,589,885	\$7,222,207
Liability reserve	169,031	415,757
Deferred tax liabilities	382,176	388,369
Other non-current liabilities	424,208	379,310
Total liabilities	4,565,300	8,405,643
Stockholders' equity		
Capital stock	99,343	93,791
Capital surplus	15,624,196	14,413,268
Retained earnings	151,020	84,428
Other equity	(1,047,381)	(1,439,878)
Non-controlling interest	645,369	599,769
Total stockholders' equity	15,472,547	13,751,378
Total liabilities and stockholders' equity	\$20,037,847	\$22,157,021

Conning Holdings Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$6,314,239	\$5,804,132
Operating costs	(715,813)	(787,112)
Operating expenses	(5,368,382)	(4,898,966)
Operating profit	230,044	118,054
Profit from continuing operations before income tax	230,044	118,054
Income tax (expense) profit	(101,187)	98,597
Profit from continuing operations after income tax	128,857	216,651
Net income	128,857	216,651
Other comprehensive income (loss)	410,288	(1,091,949)
Total comprehensive income (loss)	\$539,145	\$(875,298)
Primary earnings per share	Note	Note

Note: Conning Holdings Limited is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Century Insurance Co., Ltd.
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Cash and cash equivalents	\$10,045,082	\$7,420,391
Receivables	2,256,600	2,095,541
Financial assets at fair value through profit or loss	5,887,384	90,521
Financial assets at fair value through other comprehensive income	1,451,444	-
Available-for-sale financial assets	-	11,050,902
Financial assets measured at amortized cost	8,017,014	-
Investments accounted for using the equity method	1,684,638	1,739,672
Investment in debt securities with no active market	-	1,998,068
Held-to-maturity financial assets	-	6,114,610
Loans	236,816	251,770
Reinsurance contract assets	5,859,867	6,186,264
Property and equipment	115,426	69,476
Intangible assets	65,246	46,492
Deferred tax assets	147,546	174,813
Other assets	1,760,175	679,965
Total assets	\$37,527,238	\$37,918,485
Liabilities		
Payables	\$2,556,850	\$2,512,322
Financial liabilities at fair value through profit or loss	50,041	3,238
Preferred stock liability	-	1,000,000
Insurance liabilities	23,433,602	22,594,714
Liability reserve	440,082	426,446
Deferred tax liabilities	298,914	254,789
Other liabilities	722,673	609,655
Total liabilities	27,502,162	27,401,164
Stockholders' equity		
Capital stock	3,057,052	3,057,052
Capital surplus	502,500	502,500
Retained earnings	7,278,171	7,256,757
Other equity	(812,647)	(298,988)
Total stockholders' equity	10,025,076	10,517,321
Total liabilities and stockholders' equity	\$37,527,238	\$37,918,485

**Cathay Century Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$18,370,972	\$17,581,119
Operating costs	(12,784,200)	(11,920,415)
Operating expenses	(3,702,149)	(3,488,954)
Operating profit	1,884,623	2,171,750
Non-operating income and expenses	(25,802)	(16,936)
Profit from continuing operations before income tax	1,858,821	2,154,814
Income tax expense	(348,985)	(296,677)
Profit from continuing operations after income tax	1,509,836	1,858,137
Net income	1,509,836	1,858,137
Other comprehensive (loss) income	(659,438)	224,239
Total comprehensive income	\$850,398	\$2,082,376
Primary earnings per share	\$4.94	\$6.32

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Insurance Co., Ltd (Vietnam)
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Cash and cash equivalents	\$140,839	\$127,944
Receivables	102,179	54,719
Financial assets measured at amortized cost	509,226	-
Investment in debt securities with no active market	-	10,512
Held-to-maturity financial assets	-	491,697
Reinsurance contract assets	249,311	294,563
Property and equipment	6,759	5,669
Intangible assets	149	2,355
Deferred tax assets	-	-
Other assets	38,543	36,446
Total assets	\$1,047,006	\$1,023,905
Liabilities		
Payables	\$70,307	\$32,226
Insurance liabilities	352,073	391,660
Deferred tax liabilities	134	106
Other liabilities	10,668	10,355
Total liabilities	433,182	434,347
Stockholders' equity		
Capital stock	845,585	845,585
Retained earnings	(97,383)	(116,597)
Other equity	(134,378)	(139,430)
Total stockholders' equity	613,824	589,558
Total liabilities and stockholders' equity	\$1,047,006	\$1,023,905

**Cathay Insurance Co., Ltd (Vietnam)
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$236,756	\$208,066
Operating costs	(73,657)	(66,691)
Operating expenses	(145,881)	(120,232)
Operating profit	17,218	21,143
Non-operating income and expenses	2,022	1,440
Profit from continuing operations before income tax	19,240	22,583
Income tax (expense) profit	(26)	3
Profit from continuing operations after income tax	19,214	22,586
Net income	19,214	22,586
Other comprehensive income (loss)	5,052	(45,699)
Total comprehensive income (loss)	\$24,266	\$(23,113)
Primary earnings per share	Note	Note

Note: Cathay Century (Vietnam) is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay United Bank Co., Ltd.
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Cash and cash equivalents	\$66,762,454	\$58,342,595
Due from the Central Bank and call loans to banks	102,596,003	121,859,843
Financial assets at fair value through profit or loss	246,407,565	309,972,777
Financial assets at fair value through other comprehensive income	180,253,805	-
Financial assets measured at amortized cost	419,828,413	-
Securities purchased under agreements to resell	40,462,461	85,388,175
Receivables	85,277,180	76,953,234
Discounts and loans	1,533,747,366	1,399,567,004
Available-for-sale financial assets	-	142,212,975
Held-to-maturity financial assets	-	31,853,543
Investments accounted for using the equity method	25,501,114	9,017,435
Other financial assets	1,271	1,276
Investment in debt securities with no active market	-	388,287,593
Property and equipment	24,755,100	24,262,267
Investment property	1,439,686	1,547,372
Intangible assets	7,509,044	7,398,865
Deferred tax assets	1,861,573	2,223,266
Other assets	34,418,482	23,704,316
Total assets	\$2,770,821,517	\$2,682,592,536
Liabilities		
Due to the Central Bank and call loans from banks	\$67,728,200	\$84,375,047
Financial liabilities at fair value through profit or loss	102,960,537	87,305,126
Securities sold under agreements to repurchase	55,974,509	109,941,425
Payables	23,816,109	22,794,360
Current income tax liabilities	87,061	408,947
Deposits and remittances	2,174,157,863	2,056,168,811
Financial debentures payable	55,600,000	63,350,000
Other financial liabilities	76,509,334	66,057,646
Liability reserve	3,389,976	3,187,664
Deferred tax liabilities	1,645,038	1,580,152
Other liabilities	7,187,344	8,959,880
Total liabilities	2,569,055,971	2,504,129,058
Stockholders' equity		
Capital stock	91,197,623	78,604,060
Capital surplus	33,610,983	33,610,983
Retained earnings	75,580,519	67,103,367
Other equity	1,376,421	(854,932)
Total stockholders' equity	201,765,546	178,463,478
Total liabilities and stockholders' equity	\$2,770,821,517	\$2,682,592,536

**Cathay United Bank Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Interest income	\$49,156,871	\$42,724,485
Interest expenses	(18,330,503)	(15,037,732)
Net interest income	30,826,368	27,686,753
Non-interest income	27,659,677	25,268,099
Total income	58,486,045	52,954,852
Bad debt expense and reserve for loss on guarantees	(4,341,281)	(2,729,328)
Operating expenses	(30,118,732)	(28,399,121)
Profit from continuing operations before income tax	24,026,032	21,826,403
Income tax expense	(3,005,700)	(2,524,000)
Profit from continuing operations after income tax	21,020,332	19,302,403
Net income	21,020,332	19,302,403
Other comprehensive loss	(917,206)	(1,112,732)
Total comprehensive income	\$20,103,126	\$18,189,671
Primary earnings per share	\$2.30	\$2.17

English Translation of Financial Statements Originally Issued in Chinese

Indovina Bank Limited
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.12.31	2017.12.31
Assets		
Cash and cash equivalents	\$7,227,395	\$6,211,898
Due from the Central Bank and call loans to banks	5,987,001	4,953,082
Financial assets at fair value through profit or loss	3,517,852	2,012,283
Financial assets at fair value through other comprehensive income	6,751,075	-
Financial assets measured at amortized cost	1,194,094	-
Securities purchased under agreements to resell	3,711,200	2,095,480
Available-for-sale financial assets	-	6,266,930
Receivables	236,705	124,196
Discounts and loans	35,458,419	29,183,283
Held-to-maturity financial assets	-	2,491,542
Property and equipment	358,040	370,421
Intangible assets	16,095	14,276
Deferred tax assets	10,969	-
Other assets	537,864	533,777
Total assets	\$65,006,709	\$54,257,168
Liabilities		
Due to the Central Bank and call loans from banks	\$17,064,034	\$10,099,989
Financial liabilities at fair value through profit or loss	-	102,525
Payables	803,520	765,044
Current income tax liabilities	15,349	1,755
Deposits and remittances	38,981,124	35,414,936
Liability reserve	15,349	-
Deferred tax liabilities	-	122,206
Other liabilities	44,371	62,536
Total liabilities	56,923,747	46,568,991
Stockholders' equity		
Capital stock	6,094,911	6,094,911
Retained earnings	1,671,965	1,769,012
Other equity	316,086	(175,746)
Total stockholders' equity	8,082,962	7,688,177
Total liabilities and stockholders' equity	\$65,006,709	\$54,257,168

Indovina Bank Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Interest income	\$3,659,132	\$3,065,431
Interest expenses	(1,923,480)	(1,420,766)
Net interest income	1,735,652	1,644,665
Non-interest income	129,098	641,449
Total income	1,864,750	2,286,114
Bad debt expense and reserve for loss on guarantees	(616,298)	(709,872)
Operating expenses	(683,495)	(650,912)
Profit from continuing operations before income tax	564,957	925,330
Income tax expense	(98,920)	(202,924)
Profit from continuing operations after income tax	466,037	722,406
Net income	466,037	722,406
Other comprehensive income (loss)	491,832	(340,943)
Total comprehensive income	\$957,869	\$381,463
Primary earnings per share	Note	Note

Note: Indovina Bank is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank (Cambodia) Corporation Limited
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.12.31	2017.12.31
Assets		
Cash and cash equivalents	\$1,915,910	\$2,237,632
Due from the Central Bank and call loans to banks	3,330,578	1,574,440
Financial assets at fair value through other comprehensive income	786	-
Available-for-sale financial assets	-	764
Receivables	134,914	127,783
Discounts and loans	6,787,997	5,807,880
Property and equipment	159,357	157,404
Intangible assets	63,118	57,336
Other assets	57,197	47,212
Total assets	\$12,449,857	\$10,010,451
Liabilities		
Payables	\$127,987	\$122,169
Current income tax liabilities	53,237	29,195
Deposits and remittances	8,952,862	6,784,217
Liability reserve	430	-
Deferred tax liabilities	9,902	10,473
Other liabilities	20,383	33,810
Total liabilities	9,164,801	6,979,864
Stockholders' equity		
Capital stock	3,020,769	3,020,769
Retained earnings	223,500	61,476
Other equity	40,787	(51,658)
Total stockholders' equity	3,285,056	3,030,587
Total liabilities and stockholders' equity	\$12,449,857	\$10,010,451

Cathay United Bank (Cambodia) Corporation Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Interest income	\$579,306	\$500,275
Interest expenses	(105,072)	(130,896)
Net interest income	474,234	369,379
Non-interest income	105,073	90,274
Total income	579,307	459,653
Bad debt expense and reserve for loss on guarantees	(63,543)	(54,945)
Operating expenses	(303,176)	(251,414)
Profit from continuing operations before income tax	212,588	153,294
Income tax expense	(50,564)	(35,649)
Profit from continuing operations after income tax	162,024	117,645
Net income	162,024	117,645
Other comprehensive income (loss)	92,444	(182,924)
Total comprehensive income (loss)	\$254,468	\$(65,279)
Primary earnings per share	\$1.61	\$1.34

English Translation of Financial Statements Originally Issued in Chinese

**Cathay United Bank (China) Co., Ltd.
Condensed Balance Sheet
As of 31 December 2018
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31
Assets	
Cash and cash equivalents	\$2,510,637
Due from the Central Bank and call loans to banks	5,483,627
Financial assets at fair value through profit or loss	759,799
Financial assets at fair value through other comprehensive income	13,567,235
Securities purchased under agreements to resell	438,471
Receivables	465,933
Discounts and loans	19,329,468
Property and equipment	82,396
Intangible assets	107,821
Other assets	47,706
Total assets	\$42,793,093
Liabilities	
Due to the Central Bank and call loans from banks	\$20,372,825
Financial liabilities at fair value through profit or loss	447,241
Payables	301,361
Current income tax liabilities	29,171
Deposits and remittances	5,569,841
Liability reserve	15,672
Deferred tax liabilities	2,828
Other liabilities	58,985
Total liabilities	26,797,924
Stockholders' equity	
Capital stock	14,377,562
Capital surplus	2,522,670
Retained earnings	135,424
Other equity	(1,040,487)
Total stockholders' equity	15,995,169
Total liabilities and stockholders' equity	\$42,793,093

**Cathay United Bank (China) Co., Ltd.
Condensed Statement of Comprehensive Income
For the period 3 September to 31 December 2018
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.9.3~2018.12.31
Interest income	\$635,948
Interest expenses	(274,946)
Net interest income	361,002
Non-interest income	119,529
Total income	480,531
Bad debt expense and reserve for loss on guarantees	(10,419)
Operating expenses	(234,745)
Profit from continuing operations before income tax	235,367
Income tax expense	(74,821)
Profit from continuing operations after income tax	160,546
Net income	160,546
Other comprehensive income	284,165
Total comprehensive income	\$444,711
Primary earnings per share	Note 1

Note 1: Cathay United Bank (China) is a limited company; there is no information about earnings per share.

Note 2: Cathay United Bank (China) Co., Ltd. was incorporated to the consolidated financial statements on 3 September 2018.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Securities Corporation
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$20,551,688	\$25,614,023
Financial assets at fair value through other comprehensive income - non current	106	-
Available-for-sale financial assets - non current	-	18
Investments accounted for using the equity method	1,923,564	1,559,266
Property and equipment	126,491	156,523
Intangible assets	52,757	47,520
Deferred tax assets	37,894	5,410
Other non-current assets	602,950	549,778
Total assets	\$23,295,450	\$27,932,538
Liabilities		
Current liabilities	\$15,537,861	\$20,652,294
Deferred tax liabilities	1,129	10,463
Other non-current liabilities	30,471	24,485
Total liabilities	15,569,461	20,687,242
Stockholders' equity		
Capital stock	5,700,086	5,510,000
Capital surplus	491,766	491,766
Retained earnings	1,258,708	1,008,860
Other equity	275,429	234,670
Total stockholders' equity	7,725,989	7,245,296
Total liabilities and stockholders' equity	\$23,295,450	\$27,932,538

**Cathay Securities Corporation
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Revenues	\$3,170,391	\$2,901,034
Service fee expenses	(116,540)	(99,310)
Employee benefit expenses	(1,070,928)	(994,707)
Share of the profit of associates and joint ventures accounted for using the equity method	(9,649)	(2,410)
Operating expenses	(1,434,388)	(1,472,514)
Non-operating income and expenses	23,677	20,807
Profit from continuing operations before income tax	562,563	352,900
Income tax expense	(101,212)	(79,029)
Profit from continuing operations after income tax	461,351	273,871
Net income	461,351	273,871
Other comprehensive income (loss)	19,606	(7,261)
Total comprehensive income	\$480,957	\$266,610
Primary earnings per share	\$0.81	\$0.48

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Futures Co., Ltd.
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$7,515,226	\$5,454,433
Financial assets at fair value through other comprehensive income - non current	326,429	-
Available-for-sale financial assets	-	328,236
Property and equipment	68,306	69,862
Investment property	290,341	290,341
Intangible assets	26,461	31,657
Other non-current assets	148,795	154,443
Total assets	\$8,375,558	\$6,328,972
Liabilities		
Current liabilities	\$7,159,143	\$5,148,201
Deferred tax liabilities	6,821	6,554
Other non-current liabilities	1,675	1,675
Total liabilities	7,167,639	5,156,430
Stockholders' equity		
Capital stock	667,000	667,000
Retained earnings	245,263	207,975
Other equity	295,656	297,567
Total stockholders' equity	1,207,919	1,172,542
Total liabilities and stockholders' equity	\$8,375,558	\$6,328,972

**Cathay Futures Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$317,407	\$239,019
Operating expenses	(331,931)	(259,367)
Operating loss	(14,524)	(20,348)
Non-operating income and expenses	82,637	54,375
Profit from continuing operations before income tax	68,113	34,027
Income tax expense	(7,494)	(93)
Profit from continuing operations after income tax	60,619	33,934
Net income	60,619	33,934
Other comprehensive (loss) income	(1,911)	22,421
Total comprehensive income	\$58,708	\$56,355
Primary earnings per share	\$0.91	\$0.51

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities (Hong Kong) Limited
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$1,334,030	\$1,173,810
Property and equipment	17,811	16,005
Intangible assets	1,937	1,880
Other non-current assets	35,216	80,360
Total assets	<u>\$1,388,994</u>	<u>\$1,272,055</u>
Liabilities		
Current liabilities	\$691,159	\$904,870
Total liabilities	<u>691,159</u>	<u>904,870</u>
Stockholders' equity		
Capital stock	1,108,244	728,544
Retained earnings	(373,892)	(305,128)
Other equity	(36,517)	(56,231)
Total stockholders' equity	<u>697,835</u>	<u>367,185</u>
Total liabilities and stockholders' equity	<u>\$1,388,994</u>	<u>\$1,272,055</u>

Cathay Securities (Hong Kong) Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Revenues	\$71,274	\$102,482
Service fee expenses	(4,028)	(5,263)
Employee benefit expenses	(42,377)	(39,166)
Operating expenses	(97,238)	(90,954)
Non-operating income and expenses	3,605	1,273
Loss from continuing operations before income tax	(68,764)	(31,628)
Income tax expense	-	-
Loss from continuing operations after income tax	<u>(68,764)</u>	<u>(31,628)</u>
Net loss	(68,764)	(31,628)
Other comprehensive income (loss)	19,714	(35,918)
Total comprehensive loss	<u>\$(49,050)</u>	<u>\$(67,546)</u>
Primary earnings per share	<u>Note</u>	<u>Note</u>

Note: Cathay Securities (Hong Kong) Limited is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Securities Investment Trust Co., Ltd.
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$2,265,450	\$1,927,099
Financial assets at fair value through		
other comprehensive income - non current	9,318	-
Available-for-sale financial assets - non current	-	8,362
Financial assets carried at cost - non current	-	13,986
Investments accounted for using the equity method	506,230	563,400
Property and equipment	45,880	54,691
Intangible assets	13,735	8,677
Deferred tax assets	23,303	16,367
Other non-current assets	304,793	259,320
Total assets	\$3,168,709	\$2,851,902
Liabilities		
Current liabilities	\$471,774	\$384,855
Other non-current liabilities	137,156	138,093
Total liabilities	608,930	522,948
Stockholders' equity		
Capital stock	1,500,000	1,500,000
Capital surplus	13,908	13,908
Retained earnings	1,116,659	855,115
Other equity	(70,788)	(40,069)
Total stockholders' equity	2,559,779	2,328,954
Total liabilities and stockholders' equity	\$3,168,709	\$2,851,902

**Cathay Securities Investment Trust Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$2,411,578	\$1,755,727
Operating expenses	(1,549,993)	(1,256,839)
Operating gross profit	861,585	498,888
Non-operating income and expenses	(48,656)	26,369
Profit from continuing operations before income tax	812,929	525,257
Income tax expense	(171,152)	(85,842)
Profit from continuing operations after income tax	641,777	439,415
Net income	641,777	439,415
Other comprehensive loss	(26,522)	(12,734)
Total comprehensive income	\$615,255	\$426,681
Primary earnings per share	\$4.28	\$2.93

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Private Equity Co., Ltd.
Condensed Balance Sheet
As of 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$48,145	\$49,963
Other non-current assets	626	21
Total assets	<u>\$48,771</u>	<u>\$49,984</u>
Liabilities		
Current liabilities	\$611	\$86
Total liabilities	<u>611</u>	<u>86</u>
Stockholders' equity		
Capital stock	50,000	50,000
Retained earnings	(1,840)	(102)
Total stockholders' equity	<u>48,160</u>	<u>49,898</u>
Total liabilities and stockholders' equity	<u>\$48,771</u>	<u>\$49,984</u>

**Cathay Private Equity Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018
and for the period 15 November to 31 December 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.11.15~2017.12.31
Operating income	\$-	\$-
Operating expenses	(2,212)	(126)
Operating loss	(2,212)	(126)
Non-operating income and expenses	39	3
Loss from continuing operations before income tax	(2,173)	(123)
Income tax profit	435	21
Loss from continuing operations after income tax	(1,738)	(102)
Net loss	(1,738)	(102)
Total comprehensive loss	<u>\$(1,738)</u>	<u>\$(102)</u>
Primary earnings per share	<u>\$(0.35)</u>	<u>\$(0.02)</u>

Note : Cathay Private Equity Co., Ltd. was incorporated to the consolidated financial statements on 15 November 2017.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Venture Inc.
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$239,721	\$753,153
Financial assets at fair value through other comprehensive income - non current	3,229,147	-
Available-for-sale financial assets - non current	-	2,549,427
Investments accounted for using the equity method	279,048	275,945
Property and equipment	3,842	3,064
Deferred tax assets	51,627	6,373
Other non-current assets	1,126	1,126
Total assets	\$3,804,511	\$3,589,088
Liabilities		
Current liabilities	\$62,904	\$35,670
Other non-current liabilities	6,076	5,408
Total liabilities	68,980	41,078
Stockholders' equity		
Capital stock	3,359,087	3,173,235
Capital surplus	128,625	128,625
Retained earnings	247,913	337,806
Other equity	(94)	(91,656)
Total stockholders' equity	3,735,531	3,548,010
Total liabilities and stockholders' equity	\$3,804,511	\$3,589,088

**Cathay Venture Inc.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$230,565	\$283,108
Operating costs	(32,237)	(31,798)
Operating expenses	(14,028)	(21,032)
Non-operating income and expenses	(10,322)	(1,116)
Profit from continuing operations before income tax	173,978	229,162
Income tax profit (expense)	13,329	(22,659)
Profit from continuing operations after income tax	187,307	206,503
Net income	187,307	206,503
Other comprehensive income (loss)	214	(387,299)
Total comprehensive income (loss)	\$187,521	\$(180,796)
Primary earnings per share	\$0.56	\$0.65

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(2) Profitability of The Company, consolidated profitability, and profitability of insurance business, bank business and securities business.

December 31, 2018

Unit: %

Items		Consolidated	The Company	Cathay Life	Cathay Century	Cathay United Bank	Cathay Securities
Return on assets	before income tax	0.61	8.29	0.44	4.93	0.88	2.20
	after income tax	0.57	8.04	0.48	4.00	0.77	1.80
Return on equity	before income tax	9.47	9.19	6.69	18.10	12.53	7.52
	after income tax	8.83	8.91	7.32	14.70	10.96	6.16
Net profit margin		10.93	95.01	3.78	8.22	35.94	14.55

December 31, 2017

Unit: %

Items		Consolidated	The Company	Cathay Life	Cathay Century	Cathay United Bank	Cathay Securities
Return on assets	before income tax	0.70	9.51	0.58	5.68	0.84	1.42
	after income tax	0.67	9.22	0.63	4.90	0.74	1.11
Return on equity	before income tax	10.48	10.36	8.48	21.84	13.05	4.96
	after income tax	9.96	10.03	9.11	18.83	11.54	3.85
Net profit margin		9.70	95.54	4.21	10.57	36.45	9.44

Note: 1. Return on assets = income before (after) tax / average assets

2. Return on equity = income before (after) tax / average equity

3. Net profit margin = income after tax / net income

4. Income before (after) tax refer to the amount of profit or loss accumulated to the season from January of that year.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(3) Cathay United Bank's substantial financial and business position.

A. Cathay United Bank Asset quality

Nonperforming loans and overdue receivables

Period			December 31, 2018					December 31, 2017				
Items			Nonperforming Loans (Note 1)	Loans	Nonperforming Loans Ratio (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	Nonperforming Loans (Note 1)	Loans	Nonperforming Loans Ratio (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Corporate Banking	Secured		\$592,658	\$233,463,729	0.25%	\$3,600,918	607.59%	\$1,125,595	\$227,153,763	0.50%	\$3,597,381	319.60%
	Unsecured		321,166	372,650,615	0.09%	6,367,224	1982.53%	348,731	324,245,080	0.11%	6,063,661	1738.78%
Consumer Banking	Housing mortgage (Note 4)		594,249	358,859,786	0.17%	5,649,230	950.65%	649,728	359,677,045	0.18%	5,467,051	841.44%
	Cash card		-	-	-	-	-	-	-	-	-	-
	Small-scale credit loans (Note 5)		164,226	71,310,220	0.23%	1,876,794	1142.81%	102,381	59,675,205	0.17%	1,074,123	1049.14%
	Other(Note 6)	Secured	780,457	498,067,264	0.16%	5,946,347	761.91%	663,985	429,320,219	0.15%	5,862,668	882.95%
		Unsecured	110,551	23,068,954	0.48%	438,172	396.35%	91,108	21,659,346	0.42%	488,350	536.01%
Loan			\$2,563,307	\$1,557,420,568	0.16%	\$23,878,685	931.56%	\$2,981,528	\$1,421,730,658	0.21%	\$22,553,234	756.43%
			Overdue Receivables	Receivables Balance	Overdue Receivables Ratio	Allowance for Possible Losses	Coverage Ratio	Overdue Receivables	Receivables Balance	Overdue Receivables Ratio	Allowance for Possible Losses	Coverage Ratio
Credit card			\$107,314	\$71,887,117	0.15%	\$1,466,464	1366.52%	\$82,245	\$65,235,608	0.13%	\$1,451,276	1764.57%
Accounts receivable factored without recourse (Note 7)			-	2,607,455	-	47,734	-	-	2,248,622	-	27,946	-

Note 1: Nonperforming loans are reported to the authorities and disclosed to the public, as required by the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrued Loans.

"overdue accounts of credit card are reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Nonperforming loans ratio: Nonperforming loans / Outstanding loans balance.

Overdue accounts ratio of credit card: Overdue receivables / Outstanding receivables balance.

Note 3: Coverage ratio of loan loss provision: Loan loss provision / Nonperforming loans.

Coverage ratio of receivables: Allowance for doubtful accounts receivables / Overdue receivables.

Note 4: The mortgage loan shall refer to a loan that is fully secured by a real property, on which a financial institution creates lien, that is purchased (owned) by the borrower, his/her spouse or the minor children of the borrower, to fund the real property purchase or renovation of property.

Note 5: Pursuant on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans involve small amounts and exclude credit card loans and cash card loans.

Note 6: "Other retail loans" shall refer to secured or unsecured retail loans that exclude mortgages, cash card loans, small-scale credit loans and credit card loans.

Note 7: Pursuant to the Banking Bureau's letter dated July 19, 2005 (Ref. No. 0945000494), factoring without recourse shall be reported as nonperforming loans within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Supplemental disclosures

	December 31, 2018		December 31, 2017	
	Loans that may be exempted from reporting as a non performing loan	Receivables that may be exempted from reporting as overdue receivable	Loans that may be exempted from reporting as a non performing loan	Receivables that may be exempted from reporting as overdue receivable
Pursuant to a contract under a debt negotiation plan (Note 1)	\$2,721	\$102,330	\$4,346	\$139,395
pursuant to a contract under a debt liquidation plan and a debt relief plan (Note 2)	37,404	1,182,172	27,948	1,196,510
Total	\$40,125	\$1,284,502	\$32,294	\$1,335,905

Note 1: In accordance with Letter Jin-Kuan-Yin (1) Zi No. 09510001270 dated April 25, 2006, a bank is required to make supplemental disclosure of credit information which was approved under the "Consumer Banking Unsecured Loan Negotiation Mechanism by the Bankers Association of the R.O.C."

Note 2: In accordance with Letter Jin-Kuan-Yin (1) Zi No. 09700318940 dated September 15, 2008, and with Letter Jin-Kuan-Yin-Fa No. 10500134790 dated September 20, 2016, a bank is required to make supplemental disclosure of credit information once debtors apply for pre negotiation, pre-mediation relief and liquidation under the "Statute for Consumer Debt Clearance."

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

B. Concentration of credit extensions

December 31, 2018

Rank (Note 1)	Industry of Group Enterprise (Note 2)	Total amount of credit, endorsement or other transactions (Note 3)	Percentage of Cathay United Bank's Equity
1	Group A Real estate development	\$25,830,822	12.80%
2	Group B Packaging and Testing of Semi-conductors	13,815,191	6.85%
3	Group C Air transport industry	9,874,541	4.89%
4	Group D Others	9,386,625	4.65%
5	Group E Other Financial Intermediation Not Elsewhere Classified	8,282,950	4.11%
6	Group F Real estate development	6,600,000	3.27%
7	Group G Manufacture of Computers	5,006,283	2.48%
8	Group H Cable telecommunications	4,668,713	2.31%
9	Group I Other Financial Intermediation Not Elsewhere Classified	4,497,900	2.23%
10	Group J Others	3,963,056	1.96%

December 31, 2017

Rank (Note 1)	Industry of Group Enterprise (Note 2)	Total amount of credit, endorsement or other transactions (Note 3)	Percentage of Cathay United Bank's Equity
1	Group A Real estate development	\$30,417,640	17.04%
2	Group B Air transport industry	9,490,419	5.32%
3	Group C Other Financial Intermediation Not Elsewhere Classified	8,314,085	4.66%
4	Group D Real estate development	6,093,000	3.41%
5	Group E Casting of Iron and Steel	5,119,486	2.87%
6	Group F Cable telecommunications	4,979,960	2.79%
7	Group G Cable telecommunications	4,973,390	2.79%
8	Group E Manufacture of Liquid Crystal Panel and Components	3,812,025	2.14%
9	Group I Renting and Leasing of Other Transport Equipment	3,483,670	1.95%
10	Group J Foreign financial institutions	3,478,307	1.95%

Note 1: The list shows top 10 rankings by total amount of credit, endorsement or other transactions but excludes government-owned or state-run enterprises. If the borrower is a member of a group enterprise, the total amount of credit, endorsement or other transactions of the entire group enterprise must be listed and disclosed by code and line of industry. The group enterprise and line of industry. The group enterprise should disclose the highest risk exposure's line of industry. The lines of industry should be described in accordance with the Standard Industrial Classification System of the Republic of China published by the Directorate-General of Budget, Accounting and Statistics under the Executive Yuan.

Note 2: Group enterprise refers to a group of corporate entities as defined by Article 6 of "Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings."

Note 3: Total amount of credit, endorsement or other transactions is the sum of various loans (including import and export negotiations, discounts, overdrafts, unsecured and secured short-term loans, margin loans receivable, unsecured and secured medium-term loans, unsecured and secured long-term loans and overdue loans), exchange bills negotiated, account receivable factoring without recourse, acceptances and guarantees.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

C. Liquidity

Maturity Analysis of Assets and Liabilities for New Taiwan Dollars
December 31, 2018

	Total	Remaining Period to Maturity					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	\$2,718,291,477	\$539,138,622	\$289,490,379	\$304,254,308	\$240,773,167	\$326,519,393	\$1,018,115,608
Main capital outflow on maturity	3,200,692,054	175,442,094	257,319,919	516,766,947	538,442,232	536,045,170	1,176,675,692
Gap	(482,400,577)	363,696,528	32,170,460	(212,512,639)	(297,669,065)	(209,525,777)	(158,560,084)

Maturity Analysis of Assets and Liabilities for New Taiwan Dollars
December 31, 2017

	Total	Remaining Period to Maturity					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	\$2,589,231,757	\$571,345,781	\$342,462,709	\$244,197,744	\$194,500,034	\$308,077,739	\$928,647,750
Main capital outflow on maturity	3,074,600,518	158,003,446	239,980,667	565,373,056	502,884,364	534,136,417	1,074,222,568
Gap	(485,368,761)	413,342,335	102,482,042	(321,175,312)	(308,384,330)	(226,058,678)	(145,574,818)

Note: The above amounts included the New Taiwan dollar amounts held by Cathay United Bank.

Maturity Analysis of Assets and Liabilities for U.S. Dollars
December 31, 2018

	Total	Remaining Period to Maturity				
		0-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	\$63,719,960	\$19,395,558	\$12,804,626	\$10,573,356	\$11,043,349	\$9,903,071
Main capital outflow on maturity	70,142,653	18,987,216	15,884,692	12,103,998	14,955,130	8,211,617
Gap	(6,422,693)	408,342	(3,080,066)	(1,530,642)	(3,911,781)	1,691,454

Maturity Analysis of Assets and Liabilities for U.S. Dollars
December 31, 2017

	Total	Remaining Period to Maturity				
		0-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	\$59,388,634	\$19,073,242	\$14,258,839	\$7,370,772	\$5,721,818	\$12,963,963
Main capital outflow on maturity	62,557,833	23,545,604	14,926,875	7,646,530	8,449,489	7,989,335
Gap	(3,169,199)	(4,472,362)	(668,036)	(275,758)	(2,727,671)	4,974,628

Note 1: The above amounts included the U.S. dollar amounts held by Cathay United Bank.

Note 2: If overseas assets account for more than 10% of Cathay United Bank's total assets, supplemental disclosure information shall be provided.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

D. Market risk sensitivity

Interest Rate Sensitivity for New Taiwan Dollars
December 31, 2018

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$1,870,199,137	\$13,593,852	\$54,020,269	\$107,243,806	\$2,045,057,064
Interest rate-sensitive liabilities	201,956,305	1,214,221,810	254,655,405	94,382,693	1,765,216,213
Interest rate sensitivity gap	1,668,242,832	(1,200,627,958)	(200,635,136)	12,861,113	279,840,851
Net worth					201,765,546
Ratio of interest rate-sensitive assets to liabilities					115.85%
Ratio of interest rate sensitivity gap to net worth					138.70%

Interest Rate Sensitivity for New Taiwan Dollars
December 31, 2017

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$1,782,138,508	\$1,928,765	\$60,179,232	\$75,146,792	\$1,919,393,297
Interest rate-sensitive liabilities	211,762,896	1,140,355,166	250,884,447	95,334,341	1,698,336,850
Interest rate sensitivity gap	1,570,375,612	(1,138,426,401)	(190,705,215)	(20,187,549)	221,056,447
Net worth					178,463,478
Ratio of interest rate-sensitive assets to liabilities					113.02%
Ratio of interest rate sensitivity gap to net worth					123.87%

- Note: 1. The above amounts included the New Taiwan dollar amounts held by the head office and branches of Cathay United Bank, not including contingent assets or liabilities.
2. Interest rate-sensitive assets and liabilities refer to the revenues or costs of interest-earning assets and interest-bearing liabilities that were affected by changes in interest rates.
3. Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.
4. Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets / Interest rate-sensitive liabilities (in NTD).

Interest Rate Sensitivity for U.S. Dollars
December 31, 2018

Unit: In Thousands of U.S. Dollars

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$7,132,274	\$877,879	\$591,620	\$6,360,102	\$14,961,875
Interest rate-sensitive liabilities	10,756,895	2,777,985	2,711,257	3,756,461	20,002,598
Interest rate sensitivity gap	(3,624,621)	(1,900,106)	(2,119,637)	2,603,641	(5,040,723)
Net worth					6,565,111
Ratio of interest rate-sensitive assets to liabilities					74.80%
Ratio of interest rate sensitivity gap to net worth					(76.78)%

Interest Rate Sensitivity for U.S. Dollars
December 31, 2017

Unit: In Thousands of U.S. Dollars

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$6,375,401	\$709,181	\$862,448	\$8,768,606	\$16,715,636
Interest rate-sensitive liabilities	12,679,205	2,269,385	2,774,675	4,321,207	22,044,472
Interest rate sensitivity gap	(6,303,804)	(1,560,204)	(1,912,227)	4,447,399	(5,328,836)
Net worth					5,979,077
Ratio of interest rate-sensitive assets to liabilities					75.83%
Ratio of interest rate sensitivity gap to net worth					(89.12)%

- Note: 1. The above amounts included the U.S. dollar amounts held by the head office and branches of Cathay United Bank.
2. Interest rate-sensitive assets and liabilities refer to the revenues or costs of interest-earning assets and interest-bearing liabilities that were affected by changes in interest rates.
3. Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.
4. Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets / Interest rate-sensitive liabilities (in USD).

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

E. Sell-off of non-performing loans.

Cathay United Bank

December 31, 2018

None.

December 31, 2017

Date	Counter-party	component of claims	Carrying value (Note)	Price	Gains or losses on disposal of loans	supplemental term	Relationships
2017.3.29	Southern Debt Trading Joint Stock Company(SDTC)	Corporate financial loans	\$-	\$138,865	\$138,865	None	None
2017.4.14	Southern Debt Trading Joint Stock Company(SDTC)	Corporate financial loans	-	135,124	135,124	None	None
2017.5.2	Arkkan Opportunities Fund Ltd.	Corporate financial loans	208,645	191,812	(16,833)	None	None

Note: The carrying value is the balance of initial price less allowance of bad debt.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(4) Material intercompany transactions that shall be disclosed in accordance with Regulations Governing the Preparation of Financial Reports by Financial Holding Companies

A. Related parties' names and relationships please refer to Note 7.(1).

B. Loans

Cathay United Bank

December 31, 2018

Categories	Number/name of related parties	Maximum balance	Ending Balance	Settlement status		Collateral	Loans conditions	Bad debt expense in the period	Allowance for bad debt
				Normal loans	Overdue loans				
Consumer loan	11	\$18,875	\$3,107	V		None	None	\$157	\$31
Home loan mortgage	208	1,762,016	1,455,805	V		Properties	None	(1,046)	18,481
Other	Cathay Real Estate Development Co., Ltd.	400,000	210,000	V		Properties	None	4,000	4,000
	Taiwan Real-estate Management Corp	32,000	30,000	V		Properties	None	79	399
	Cathay Securities Co., Ltd.	423,000	-	V		Stocks	None	-	-
	PSS Co.,Ltd	5,000	-	V		Properties	None	-	-

December 31, 2017

Categories	Number/name of related parties	Maximum balance	Ending Balance	Settlement status		Collateral	Loans conditions	Bad debt expense in the period	Allowance for bad debt
				Normal loans	Overdue loans				
Consumer loan	9	\$27,045	\$2,258	V		None	None	\$-	\$23
Home loan mortgage	195	1,558,235	1,419,803	V		Properties	None	4,105	18,505
Other	Cathay Real Estate Development Co., Ltd.	130,000	-	V		Properties	None	-	-
	Taiwan Real-estate Management Corp	35,000	32,000	V		Properties	None	(30)	320
	Cathay Securities Co., Ltd.	125,000	-	V		Stocks	None	-	-
	Liang Ting Industrial Company	28,225	-	V		None	None	(423)	-

Cathay Life

December 31, 2018

Categories	Number/name of related parties	Maximum balance	Ending Balance	Settlement status		Collateral	Loans conditions	Bad debt expense in the period	Allowance for bad debt
				Normal loans	Overdue loans				
Other	Cathay Walbrook Holding 1 Limited	\$13,553,180	\$12,748,059	V		Properties	None	\$-	\$-
	Cathay Walbrook Holding 2 Limited	713,325	670,950	V		Properties	None	-	-

December 31, 2017

Categories	Number/name of related parties	Maximum balance	Ending Balance	Settlement status		Collateral	Loans conditions	Bad debt expense in the period	Allowance for bad debt
				Normal loans	Overdue loans				
Other	Cathay Walbrook Holding 1 Limited	\$13,311,991	\$13,176,782	V		Properties	None	\$-	\$-
	Cathay Walbrook Holding 2 Limited	700,626	693,515	V		Properties	None	-	-

Note 1: It could be a summary disclosure for the balance of consumer loan or self-use mortgage loan, and the rest of loans should be disclosed by related parties' names individually.

Note 2: The type of collateral should be classified and filled as real estate, short-term bills, government bonds, secured corporate bonds, unsecured corporate bonds, listed securities and over-the-counter (OTC) securities, nonlisted securities and non-OTC securities and other chattels, etc. Please provide the detail of the content if there were other chattels.

Note 3: The allowance for bad debt of loans extended by a related party and bad debt expense in the period should be disclose.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

C. Guarantees

Cathay United Bank

There is no guarantees for the years ended 2018 and 2017.

Note 1: The related parties' names should be disclosed individually.

Note 2: The type of collateral should be classified and filled as real estate, short-term bills, government bonds, secured corporate bonds, unsecured corporate bonds, listed securities and over-the-counter (OTC) securities, nonlisted securities and non-OTC securities and other chattels, etc. Please provide the detail of the content if there were other chattels.

D. Derivatives Financial instruments

Cathay United Bank

December 31, 2018

Related party	Derivative name	Duration of contract	Nominal amount	Gains (losses) on valuation in the period	Financial statement balance	
					Items	Ending balance
Cathay Life	SWAP(USD)	2018.01.18~2019.12.09	\$115,310,216	\$3,885,814	Valuation adjustment for financial assets at fair value through profit or loss	\$1,852,498
					Valuation adjustment for financial liabilities at fair value through profit or loss	(64,937)
Cathay Century	SWAP(USD)	2018.05.07~2019.05.28	2,726,017	85,529	Valuation adjustment for financial assets at fair value through profit or loss	21,757
					Valuation adjustment for financial liabilities at fair value through profit or loss	(3,143)
	SWAP(EUR)	2018.10.18~2019.01.22	26,402	(1,011)	Valuation adjustment for financial assets at fair value through profit or loss	-
					Valuation adjustment for financial liabilities at fair value through profit or loss	(302)

December 31, 2017

Related party	Derivative name	Duration of contract	Nominal amount	Gains (losses) on valuation in the period	Financial statement balance	
					Items	Ending balance
Cathay Life	SWAP(USD)	2017.02.08~2018.09.10	\$99,155,056	\$366,491	Valuation adjustment for financial assets at fair value through profit or loss	\$25,290
					Valuation adjustment for financial liabilities at fair value through profit or loss	(687,337)
Cathay Century	SWAP(USD)	2016.04.07~2018.08.24	2,647,518	(6,759)	Valuation adjustment for financial assets at fair value through profit or loss	71
					Valuation adjustment for financial liabilities at fair value through profit or loss	(37,071)
	SWAP(EUR)	2017.01.24~2018.05.21	173,020	1,774	Valuation adjustment for financial assets at fair value through profit or loss	3,167
					Valuation adjustment for financial liabilities at fair value through profit or loss	(154)

Note 1: The related parties' names should be disclosed individually.

Note 2: Gains (losses) on valuation is the profit or loss on valuation of derivatives financial instruments according to fair value in the end of the period.

Note 3: The financial statement balance should be filled with the ending balance of financial assets or liabilities at fair value through profit or loss and derivatives financial assets or liabilities.

English Translation of Financial Statements Originally Issued in Chinese

Schedule 1: Holding of securities at the end of the period

December 31, 2018

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2018				Note
				Shares/Units (in thousands)	Carrying Value	Percentage of Ownership (%)	Fair Value	
Cathay Venture	Cathay Taiwan Money Market Fund	No	Financial assets at fair value through profit or loss - current	4,013	\$49,876	-	\$49,876	
	Mega Diamond Money Market Fund	No	Financial assets at fair value through profit or loss - current	2,755	34,494	-	34,494	
	Taishin 1699 Money Market Fund	No	Financial assets at fair value through profit or loss - current	814	10,995	-	10,995	
	Tien-Tai Management Consulting Co., Ltd. / Stock	Investee under the equity method	Investments accounted for using the equity method	141	3,420	28.20	3,420	
	Dun-Yang Energy Corp. / Stock	Investee under the equity method	Investments accounted for using the equity method	4,026	45,551	32.20	45,551	
	Yong-Chang Energy Corp. / Stock	Investee under the equity method	Investments accounted for using the equity method	4,363	47,248	32.32	47,248	
	RI-Zhao Energy Corp. / Stock	Investee under the equity method	Investments accounted for using the equity method	4,040	46,051	32.32	46,051	
	Tien-Tai Optronics Corporation / Stock	Investee under the equity method	Investments accounted for using the equity method	10,646	136,778	33.64	136,778	
	Kwan's International Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	759	35,687	0.95	35,687	
	Good Friend International Holdings Inc.	No	Financial assets at fair value through profit or loss - non current	498	3,337	26.12	3,337	
	AVer Information Inc.	No	Financial assets at fair value through profit or loss - non current	310	5,084	0.32	5,084	
	F - Rotam Global AgroSciences Limited (Cayman)	No	Financial assets at fair value through profit or loss - non current	1,404	26,824	0.92	26,824	
	F- Yeong Guan Energy Technology Group Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	271	13,561	0.23	13,561	
	F- Fulgent Sun International (Holding) Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	745	35,425	0.52	35,425	
	F- Hiroca Holdings Ltd.	No	Financial assets at fair value through profit or loss - non current	439	32,976	0.52	32,976	
	TWi Pharmaceuticals, Inc.	No	Financial assets at fair value through profit or loss - non current	338	19,942	0.28	19,942	
	PILI International Multimedia Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	116	5,290	0.24	5,290	
	Min Aik Precision Industrial Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	338	8,366	0.44	8,366	
	Man Zai Industrial Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	349	6,439	0.61	6,439	
	Power Wind Health Industry Incorporated	No	Financial assets at fair value through profit or loss - non current	0	6	0.00	6	
	Taisun Int'l (Holding) Corp._KY	No	Financial assets at fair value through profit or loss - non current	139	17,520	0.39	17,520	
	Senhwa Biosciences, Inc.	No	Financial assets at fair value through profit or loss - non current	1,200	86,400	1.61	86,400	
	Tanvex BioPharma, Inc. (F-Tanvex)	No	Financial assets at fair value through profit or loss - non current	1,250	78,125	0.83	78,125	
	Kayee International Group Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	420	43,680	0.91	43,680	
	Global Tek Fabrication Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	1,350	58,860	2.25	58,860	
	Cryomax Cooling System Corp. / Stock	No	Financial assets at fair value through profit or loss - non current	1,299	23,904	1.92	23,904	
	Shane Global Holdings	No	Financial assets at fair value through profit or loss - non current	4,672	565,182	4.65	565,182	
	Ta Chen Stainless Pipe Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	6,201	208,354	1.01	208,354	
	REMOTEX Corp.	No	Financial assets at fair value through profit or loss - non current	480	7,395	2.21	7,395	
	Ching Chan Optical Technology Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	880	31,768	2.73	31,768	
	glac Biotech Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	662	17,047	1.06	17,047	
	TWi Biotechnology, Inc.	No	Financial assets at fair value through profit or loss - non current	491	10,291	0.87	10,291	
	Nan Pao Resins Chemical Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	323	36,372	0.30	36,372	
	Fusheng Precision Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	800	127,600	0.68	127,600	
	Compal Broadband Networks, Inc.	No	Financial assets at fair value through profit or loss - non current	78	3,580	-	3,580	
	Mars Semiconductor Limited / Stock	No	Financial assets at fair value through profit or loss - non current	528	6,411	2.57	6,411	
	Senhwa Biosciences, Inc. / Stock	No	Financial assets at fair value through profit or loss - non current	19	622	1.88	622	
	Proconn Technology Co., Ltd. / Stock	No	Financial assets at fair value through profit or loss - non current	2,055	801	3.30	801	

English Translation of Financial Statements Originally Issued in Chinese

Schedule 1: Holding of securities at the end of the period

December 31, 2018

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2018				Note
				Shares/Units (in thousands)	Carrying Value	Percentage of Ownership (%)	Fair Value	
Cathay Venture	EasyCard Investment Holdings Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	1,430	\$17,377	1.37	\$17,377	
	Lian-an Service Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	125	1,215	5.00	1,215	
	Koatech Technology Corp.	No	Financial assets at fair value through profit or loss - non current	201	1,142	0.40	1,142	
	Ares Green Technology Corporation / Stock	No	Financial assets at fair value through profit or loss - non current	425	12,323	1.25	12,323	
	Mega Union Technology Incorporated. / Stock	No	Financial assets at fair value through profit or loss - non current	2,369	57,533	9.37	57,533	
	Cathay Healthcare Management Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	8,250	180,180	15.00	180,180	
	Winking Entertainment (preferred stock)	No	Financial assets at fair value through profit or loss - non current	1,418	25,729	15.25	25,729	
	FashionGuide Digital Technology Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	714	14,531	4.26	14,531	
	F - Shiang-yang International Holdings Limited (Cayman)	No	Financial assets at fair value through profit or loss - non current	528	9,540	1.85	9,540	
	NARUKO Beauty Essentials Limited.	No	Financial assets at fair value through profit or loss - non current	43,252	97,748	4.39	97,748	
	SMS Holdings One I	No	Financial assets at fair value through profit or loss - non current	1	1,291	5.00	1,291	
	Shengzhuang Holdings	No	Financial assets at fair value through profit or loss - non current	122	2,508	1.09	2,508	
	Bioengine Capital Inc.	No	Financial assets at fair value through profit or loss - non current	4,500	83,070	1.58	83,070	
	WinWay Technology Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	1,008	73,534	3.54	73,534	
	Bravo ideas Digital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	1,600	8,382	3.58	8,382	
	Episonica Holding	No	Financial assets at fair value through profit or loss - non current	2,255	40,855	11.12	40,855	
	Andros Pharmaceuticals Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	1,050	38,126	4.24	38,126	
	F - Transound Electronics (Cayman) Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	1,200	9,852	3.40	9,252	
	Hyper Crystal Inc. (unlisted)	No	Financial assets at fair value through profit or loss - non current	2,000	25,360	13.80	25,360	
	F - Amaryllo International B.V. (unlisted)	No	Financial assets at fair value through profit or loss - non current	1,000	5,110	5.68	5,110	
	Noratech Pharmaceuticals, Inc.(unlisted)	No	Financial assets at fair value through profit or loss - non current	1,000	35,760	0.95	35,760	
	KuangMing Shipping Corp.	No	Financial assets at fair value through profit or loss - non current	157	493	0.05	493	
	Dongyuan (unlisted)	No	Financial assets at fair value through profit or loss - non current	1,500	26,775	1.79	26,775	
	Grandsys (unlisted)	No	Financial assets at fair value through profit or loss - non current	1,860	24,106	8.96	24,106	
	SinoGreenenergy	No	Financial assets at fair value through profit or loss - non current	-	1	10.00	1	
	DTCO (Samoa)	No	Financial assets at fair value through profit or loss - non current	325	1,756	2.87	1,756	
	Tennrich International Corp. / Stock	No	Financial assets at fair value through profit or loss - non current	1,938	2,926	3.19	2,926	
	Allianz Pharmascience Limited	No	Financial assets at fair value through profit or loss - non current	2,000	32,700	6.85	32,700	
	KKDAY	No	Financial assets at fair value through profit or loss - non current	5,668	17,118	2.90	17,118	
	SmartGames	No	Financial assets at fair value through profit or loss - non current	164	1,980	2.13	1,980	
	SSC Holdco Limited	No	Financial assets at fair value through profit or loss - non current	100	68,870	0.72	68,870	
	PSS Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	330	15,032	1.25	15,032	
	Altek Semiconductor	No	Financial assets at fair value through profit or loss - non current	800	60,288	1.80	60,288	
	World Known MFG (Cayman)	No	Financial assets at fair value through profit or loss - non current	1,500	61,170	5.00	61,170	
	Anywhere2Go	No	Financial assets at fair value through profit or loss - non current	2	10,688	4.88	10,688	
	Rani Therapeutics, LLC	No	Financial assets at fair value through profit or loss - non current	119	28,238	-	28,238	
	Yikon Genomics	No	Financial assets at fair value through profit or loss - non current	1,340	44,702	-	44,702	
	Pacific 8 Venture	No	Financial assets at fair value through profit or loss - non current	-	48,956	-	48,956	

English Translation of Financial Statements Originally Issued in Chinese

Schedule 1: Holding of securities at the end of the period

December 31, 2018

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2018				Note
				Shares/Units (in thousands)	Carrying Value	Percentage of Ownership (%)	Fair Value	
Cathay Venture	ThinkPower Information Corporation	No	Financial assets at fair value through profit or loss - non current	960	\$33,639	-	\$33,639	
	Mimetas B.V.	No	Financial assets at fair value through profit or loss - non current	8	6,694	-	6,694	
	Yonggu Group Inc.(Cayman)	No	Financial assets at fair value through profit or loss - non current	1,130	65,445	-	65,445	
	Smartdisplayer Technology Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	1,000	34,410	0.41	34,410	
	Dongyuan CB I	No	Financial assets at fair value through profit or loss - non current	-	4,832	-	4,832	
	Dongyuan CB II	No	Financial assets at fair value through profit or loss - non current	-	10,053	-	10,053	
	Dongyuan CB III	No	Financial assets at fair value through profit or loss - non current	-	8,685	-	8,685	
	SmartGames CB	No	Financial assets at fair value through profit or loss - non current	-	1,066	-	1,066	
	Guanghe CB I	No	Financial assets at fair value through profit or loss - non current	-	58,640	-	58,640	
	A2G CB	No	Financial assets at fair value through profit or loss - non current	-	7,291	-	7,291	
	PT Cemerlang Multimedia CB	No	Financial assets at fair value through profit or loss - non current	-	61,560	-	61,560	
	Xionghuang (Samoa)	No	Financial assets at fair value through profit or loss - non current	19	25,362	2.24	25,362	
	Fitech Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	255	18,000	-	18,000	
	91APP	No	Financial assets at fair value through profit or loss - non current	8,333	30,518	-	30,518	
	Acepodia Inc.	No	Financial assets at fair value through profit or loss - non current	1,848	30,640	-	30,640	
	BioGend Therapeutics Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	2,000	60,000	-	60,000	
	Green Van International Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	4,375	68,469	-	68,469	
	Taiwan Aerospace Corp.	No	Financial assets at fair value through profit or loss - non current	1	13	-	13	
	Hua Zhi Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	3	-	3	
	HWA VI Venture Capital Corp.	No	Financial assets at fair value through profit or loss - non current	-	2	-	2	
	CDIB BioScience Ventures I, Inc.	No	Financial assets at fair value through profit or loss - non current	-	1	-	1	
	WK Technology Fund	No	Financial assets at fair value through profit or loss - non current	-	2	-	2	
	WK Technology Fund IV	No	Financial assets at fair value through profit or loss - non current	-	2	-	2	
	WK 5 Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	1	-	1	
	WK 8 Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	1	-	1	
	WK 6 Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	1	-	1	
	WK 7 Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	1	-	1	
	Maxima Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	-	-	-	
	Harbinger Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	1	-	1	
	Harbinger 3 Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	-	-	-	
	IBT Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	-	-	-	
	Huawei Century Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	-	-	-	
	Mega 1 Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	1	-	1	
Cathay Futures Co., Ltd.	Taiwan Futures Exchange / Stock	No	Financial assets at fair value through profit or loss - non current	5,095	326,429	1.52	326,429	

English Translation of Financial Statements Originally Issued in Chinese

Schedule 2: Accounts receivable from related parties reaching NT\$300 million or 10 percent of paid-in capital or more

December 31, 2018

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Company Name	Related Party	Nature of Relationships	Ending Balance	Turnover	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts	Note
					Amount	Action Taken			
Cathay Life	Cathay Holding	Parent-subsiidiary	\$8,998,563	Note 1	\$-	-	\$-	\$-	None
Cathay United Bank	Cathay Holding	Parent-subsiidiary	485,773	Note 1	-	-	-	-	None

Note 1: No turnover ratio is available as the receivables were caused by consolidated income tax.

English Translation of Financial Statements Originally Issued in Chinese

Schedule 3: Related information of investees such as names and locations:

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Expressed in thousands of New Taiwan Dollars unless Otherwise Specified

Investee Company	Location	Main Businesses and Products	Ownership interest	Book value of investment	profits or losses on investment recognized for the period	Cooperation on joint shareholding (Note 3)				Note
						Existing shares	Phantom shares (Note 4)	Total		
								Number of shares	Ownerships interest	
Cathay Life	R.O.C	Life insurance	100.00%	\$322,145,990	\$28,828,678	5,726,527	-	5,726,527	100.00%	Note 1
Cathay United Bank	R.O.C	Commercial banking operations	100.00%	200,361,949	21,037,314	9,119,762	-	9,119,762	100.00%	Note 1
Cathay Century	R.O.C	Property and casualty insurance	100.00%	10,034,326	1,509,637	305,705	-	305,705	100.00%	Note 1
Cathay Securities	R.O.C	Securities	100.00%	7,725,989	461,351	570,009	-	570,009	100.00%	Note 1
Cathay Venture	R.O.C	Venture capital investment	100.00%	3,658,242	187,307	335,909	-	335,909	100.00%	Note 1
Cathay Securities Investment Trust	R.O.C	Securities investment trust	100.00%	4,149,966	641,777	150,000	-	150,000	100.00%	Note 1
Conning Asia Pacific Ltd.	Hong Kong	Wealth Management	17.15%	20,647	(14,047)	272,950	-	272,950	100.00%	Note 2

Note 1: The company recognized the profit or loss on investment based on the financial statement audited and certified by accountant.

Note 2: The company recognized the profit or loss on investment based on self-closing financial statement not audited and certified by accountant.

Note 3: The existing shares and phantom shares of the investees held by the Company, directors, supervisors, president, vice president and related parties meeting the requirement in Company Act shall be included.

Note 4: (1) "Phantom share" refers to converted share under the assumption that the company converts securities with equity characteristics or derivative contracts (have not been converted to owner) according to transaction terms and the company's intention to link investments with other companies' equity and meeting the reinvestment purposes as provided in Paragraph 2, Article 36 and Article 37 of Securities and Exchange Act.

(2) The above-mentioned "equity-type securities" shall refer to the securities stated in Paragraph 1, Article 11 of the Securities and Exchange Act Enforcement Rules, such as convertible corporate bonds and call warrants.

(3) The above-mentioned "derivative contracts" shall refer to those meeting the definition in IFRS No. 39, such as stock option.

English Translation of Financial Statements Originally Issued in Chinese

Schedule 4: Acquisition of real estate reaching NT\$300 million or 10 percent of paid-in capital or more

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Company Name	Property Name	Transaction Date	Transaction Amount (Note)	Payment Term	Counter-party	Nature of Relationships	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationships	Transfer Date	Amount			
Cahtay Life	Pemises in Ren-ai District, Keelund City	107.06.05	\$480,000	The price was paid each period according to contracts	Xinqiao Real Estate Development Enterprise Co., Ltd.	Non-related party	-	-	-	\$-	Evaluation report of appraisers	For self-use requirement	None
Cahtay Life	Land in Xitun District, Taichung City	107.12.04	7,663,596	The price was paid each period according to contracts	Huede Industries Co., Ltd. and two nature persons surnamed Ho.	Non-related party	-	-	-	-	Evaluation report of appraisers	Real estate investment in accordance with The Insurance Company Act.	None

Note: The transaction amount is the total contract price, not including the land registration fee, transcript expense, scrivener expense and stamp duty.

Disposal of real estate reaching NT\$300 million or 10 percent of paid-in capital or more

For the year ended December 31, 2018

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Property Name	Transaction Date	Acquisition date	Carrying Value	Transaction Amount (Note)	Price Term	Gain (loss) on disposal of real estate	Counter-party	Nature of Relationships	Purpose of Acquisition	Price Reference	Other Terms
Cathay Life	Zhongxiao building, Minsheng Commercial Building, Yinhsing building and Tainan Cathay Landmark partial decoration equipment	107.08.08	104.06.10	\$439,000	\$475,167	The price was collected each period according to contracts	\$13,540	Cathay Hospitality Management Co., Ltd.	Related party	To offer the tanant to operate and increase utilization of company's capital	Evaluation of report of appraisers and opinion of accountants	None

Note: The transaction amount is the total price (including tax) on contracts.

English Translation of Financial Statements Originally Issued in Chinese

Schedule 5: Information on investments in the Mainland China

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Investee company	Main Businesses and Product	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Percentage of Ownership	Share of Profits / Losses (Note 2)	Carrying Amount as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018
					Outflow	Inflow					
Cathay Lujiazui Life Insurance Company Limited.	Life insurance	\$13,497,155	Note 1.(1)	\$6,748,578	\$-	\$-	\$6,748,578	50%	\$9,842 Note 2.(2).2	\$4,891,349	\$-
Cathay Century (China)	Property and casualty insurance	7,714,226	Note 1.(1)	3,707,999	2,200,394 Note 6	-	5,908,393	49%	(94,520) Note 2.(2).3	2,346,424	-
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Office equipment leasing company	7,223,435	Note 1.(1)	7,223,435	-	-	7,223,435	100%	217,794 Note 2.(2).2	7,479,225	-
Cathay United Bank (Shanghai)	Wholesale banking	-	Note 1.(1)	9,523,542 Note 4	-	9,523,542	-	100%	(118,601) Note 2.(2).1	-	-
Cathay United Bank (Qingdao)	Wholesale banking	-	Note 1.(1)	2,967,515 Note 4	-	2,967,515	-	100%	72,752 Note 2.(2).1	-	-
Cathay United Bank (Shenzhen)	Wholesale banking	-	Note 1.(1)	1,886,505 Note 4	-	1,886,505	-	100%	30,109 Note 2.(2).1	-	-
Cathay United Bank (China) Corporation Limited	Wholesale banking	14,377,562 Note 4	Note 1.(1)	14,377,562	-	-	14,377,562	100%	160,546 Note 2.(2).1	15,995,169	-
CDBS Cathay Asset Management Co., Ltd.	Fund management services	1,701,823	Note 1.(1)	566,707	-	-	566,707	33.3%	(44,213) Note 2.(2).2	458,070	-
CDBS Cathay Asset Management Co., Ltd. (Beijing)	Wealth Management	468,290	Note 1.(3)	-	-	-	-	33.3% Note 5	7,044 Note 5	191,610 Note 5	-
Cathy Investment Consulting (Shanghai) Co., Ltd.	Investment Consulting	38,965	Note 1.(1)	38,965	-	-	38,965	100%	(1,498) Note 2.(2).3	9,293	-
Accumulated Investment in Mainland China as of December 31, 2018		Investment Amounts Authorized by Investment Commission, MOEA		Upper Limit on Investment							
\$34,863,640		\$34,863,640		\$349,626,347							

Note 1: The methods of investment are listed below, please mark the category on schedule:

- (1) Investment in Mainland China companies directly.
- (2) Investment in Mainland China companies through an existing company established in a third region.
- (3) Other methods of investing in Mainland China.

Note 2: The column of investment profit or loss for the period:

- (1) It should be noted if the entity was in preparation stage without profit or loss on investment.
- (2) It should be noted that the basis of recognizing the profit or loss on investment includes the following:
 1. The financial statement is audited and certified by international accounting firms which have partnership with R.O.C. accounting firms.
 2. The financial statement is audited and certified by the parent company's auditors in Taiwan.
 3. Other basis.

Note 3: The related figure in the schedule should be expressed in NewTaiwan dollars.

Note 4: Cathay United Bank (China) Corporation Limited's registered capital was CNY\$3 billion, whose working capital was transferred from Cathay United Bank (Shanghai), Cathay United Bank (Qingdao), Cathay United Bank (Shenzhen) upon obtaining approval from the competent authority.

Note 5: CDBS Cathay Asset Management Co., Ltd. invested in CDBC Cathay Asset Management Co., Ltd. (Beijing) in the amount of CNY\$100 million in Mainland China.

Note 6: The capital increase has been remitted and the capital increase is expected to be approved by the Bank of China Banking and Insurance Regulatory Commission in 2019. The amount was still recognized as other assets at the end of the period.

English Translation of Financial Statements Originally Issued in Chinese

Schedule 6: Intercompany relationships and significant intercompany transactions

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

No. (Note 1)	Company Name	Counter Party	Nature of Relationships (Note 2)	Intercompany Transactions (Note 4)			
				Financial Statement Item	Amount	Terms (Note 2)	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
0	Cathay Financial Holding	Cathay Life	1	Financial assets at fair value through profit or loss	\$35,000,000	There is no significantly differet to third parties	0.38%
0	Cathay Financial Holding	Cathay Life	1	Payables from related parties	8,998,563	There is no significantly differet to third parties	0.10%
0	Cathay Financial Holding	Cathay Life	1	Interest revenues	1,310,704	There is no significantly differet to third parties	0.28%
0	Cathay Financial Holding	Cathay United Bank	1	Cash and cash equivalents	139,920	There is no significantly differet to third parties	-
0	Cathay Financial Holding	Cathay United Bank	1	Payables from related parties	485,773	There is no significantly differet to third parties	-
1	Cathay Life	Cathay Financial Holding	2	Receivables from related parties	8,998,563	There is no significantly differet to third parties	0.10%
1	Cathay Life	Cathay Financial Holding	2	Bonds payables	35,000,000	There is no significantly differet to third parties	0.38%
1	Cathay Life	Cathay Financial Holding	2	Other interest expenses	1,310,704	There is no significantly differet to third parties	0.28%
1	Cathay Life	Cathay United Bank	3	Guarantee deposit received	189,738	There is no significantly differet to third parties	-
1	Cathay Life	Cathay United Bank	3	Cash and cash equivalents	30,741,095	There is no significantly differet to third parties	0.33%
1	Cathay Life	Cathay United Bank	3	Refundable deposit and operation bond	3,000	There is no significantly differet to third parties	-
1	Cathay Life	Cathay United Bank	3	Rental income	681,206	There is no significantly differet to third parties	0.14%
1	Cathay Life	Cathay United Bank	3	Operating expenses	5,840,889	There is no significantly differet to third parties	1.23%
1	Cathay Life	Cathay United Bank	3	Insurance handling charge	1,247,785	There is no significantly differet to third parties	0.26%
1	Cathay Life	Cathay United Bank	3	Financial liabilities at fair value through profit or loss	3,885,814	There is no significantly differet to third parties	0.04%
1	Cathay Life	Cathay United Bank	3	Other revenues	188,212	There is no significantly differet to third parties	0.04%
1	Cathay Life	Cathay United Bank	3	Losses on financial liabilities at fair value through profit or loss	1,787,561	There is no significantly differet to third parties	0.38%
1	Cathay Life	Cathay Century	3	Other revenues	629,342	There is no significantly differet to third parties	0.13%
1	Cathay Life	Cathay Century	3	Insurance expenses	107,023	There is no significantly differet to third parties	0.02%
1	Cathay Life	Cathay Century	3	Rental income	108,092	There is no significantly differet to third parties	0.02%
1	Cathay Life	Cathay Futures	3	Margin for futures trading-own funds	1,511,584	There is no significantly differet to third parties	0.02%
1	Cathay Life	Cathay Securities Investment Trust	3	Handling charge	402,183	There is no significantly differet to third parties	0.08%
1	Cathay Life	Cathay Walbrook Holding 1 Limited	3	Other loans	12,748,059	There is no significantly differet to third parties	0.14%
1	Cathay Life	Cathay Walbrook Holding 1 Limited	3	Interest revenues	472,536	There is no significantly differet to third parties	0.10%
1	Cathay Life	Cathay Walbrook Holding 2 Limited	3	Other loans	670,950	There is no significantly differet to third parties	-
1	Cathay Life	Conning Holdings Limited	3	Handling charge	606,177	There is no significantly differet to third parties	0.13%
1	Cathay Life	Conning Holdings Limited	3	Other payables	149,374	There is no significantly differet to third parties	-
2	Cathay United Bank	Cathay Financial Holding	2	Deposits	\$139,920	There is no significantly differet to third parties	-
2	Cathay United Bank	Cathay Financial Holding	2	Receivables from related parties	485,773	There is no significantly differet to third parties	-
2	Cathay United Bank	Cathay Life	3	Rental expenses	681,206	There is no significantly differet to third parties	0.14%
2	Cathay United Bank	Cathay Life	3	Refundable deposit	189,738	There is no significantly differet to third parties	-
2	Cathay United Bank	Cathay Life	3	Deposits	30,744,095	There is no significantly differet to third parties	0.33%
2	Cathay United Bank	Cathay Life	3	Commission revenue	7,088,674	There is no significantly differet to third parties	1.50%
2	Cathay United Bank	Cathay Life	3	Financial assets at fair value through profit or loss	3,885,814	There is no significantly differet to third parties	0.04%

English Translation of Financial Statements Originally Issued in Chinese

Schedule 6: Intercompany relationships and significant intercompany transactions

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

No. (Note 1)	Company Name	Counter Party	Nature of Relationships (Note 2)	Intercompany Transactions (Note 4)			
				Financial Statement Item	Amount	Terms (Note 2)	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
2	Cathay United Bank	Cathay Life	3	Gains on financial assets at fair value through profit or loss	3,338,332	There is no significantly differet to third parties	0.70%
2	Cathay United Bank	Cathay Life	3	Operating expenses	188,212	There is no significantly differet to third parties	0.04%
2	Cathay United Bank	Cathay Century	3	Deposits	2,724,193	There is no significantly differet to third parties	0.03%
2	Cathay United Bank	Cathay Century	3	Commission revenue	133,544	There is no significantly differet to third parties	0.03%
2	Cathay United Bank	Cathay Century	3	Insurance expenses	178,718	There is no significantly differet to third parties	0.04%
2	Cathay United Bank	Cathay Securities	3	Deposits	2,550,156	There is no significantly differet to third parties	0.03%
2	Cathay United Bank	Cathay Venture	3	Deposits	113,380	There is no significantly differet to third parties	-
2	Cathay United Bank	Cathay Securities Investment Trust	3	Deposits	149,076	There is no significantly differet to third parties	-
2	Cathay United Bank	Cathay Futures	3	Deposits	1,345,519	There is no significantly differet to third parties	0.01%
2	Cathay United Bank	Lin Yuan	3	Deposits	623,035	There is no significantly differet to third parties	-
2	Cathay United Bank	CUBCN Bank	3	Call loans to banks	9,850,339	There is no significantly differet to third parties	0.11%
2	Cathay United Bank	CUBCN Bank	3	Call loans to banks	9,209,337	There is no significantly differet to third parties	0.10%
2	Cathay United Bank	CUBCN Bank	3	Call loans to banks interest revenue	127,477	There is no significantly differet to third parties	0.03%
2	Cathay United Bank	CUBCN Bank	3	Interest receivable	100,114	There is no significantly differet to third parties	-
2	Cathay United Bank	Indovina Bank	3	Call loans to banks	3,964,557	There is no significantly differet to third parties	0.04%
2	Cathay United Bank	Indovina Bank	3	Call loans to banks	314,359	There is no significantly differet to third parties	-
2	Cathay United Bank	CUBC Bank	3	Due to commercial banks	245,864	There is no significantly differet to third parties	-
3	Cathay Century	Cathay Life	3	Other commission expenses	629,342	There is no significantly differet to third parties	0.13%
3	Cathay Century	Cathay Life	3	Rental expenses	108,092	There is no significantly differet to third parties	0.02%
3	Cathay Century	Cathay Life	3	Insurance income	107,023	There is no significantly differet to third parties	0.02%
3	Cathay Century	Cathay United Bank	3	Cash and cash equivalents	2,709,193	There is no significantly differet to third parties	0.03%
3	Cathay Century	Cathay United Bank	3	Refundable deposit and operation bond	15,000	There is no significantly differet to third parties	-
3	Cathay Century	Cathay United Bank	3	Operating expenses	133,544	There is no significantly differet to third parties	0.03%
3	Cathay Century	Cathay United Bank	3	Insurance income	178,718	There is no significantly differet to third parties	0.04%
4	Cathay Securities	Cathay United Bank	3	Cash and cash equivalents	1,159,792	There is no significantly differet to third parties	0.01%
4	Cathay Securities	Cathay United Bank	3	Settlement money	163,158	There is no significantly differet to third parties	-
4	Cathay Securities	Cathay United Bank	3	collected payment of shares underwritten	12,206	There is no significantly differet to third parties	-
4	Cathay Securities	Cathay United Bank	3	Refundable deposit	1,215,000	There is no significantly differet to third parties	0.01%
4	Cathay Securities	Cathay Futures	3	Financial assets at fair value through profit or loss - current	1,277,030	There is no significantly differet to third parties	0.01%
5	Cathay Venture	Cathay United Bank	3	Cash and cash equivalents	113,380	There is no significantly differet to third parties	-
6	Cathay Securities Investment Trust	Cathay Life	3	Other commission revenues	402,183	There is no significantly differet to third parties	0.08%
6	Cathay Securities Investment Trust	Cathay United Bank	3	Cash and cash equivalents	68,776	There is no significantly differet to third parties	-
6	Cathay Securities Investment Trust	Cathay United Bank	3	Refundable deposit and operation bond	80,300	There is no significantly differet to third parties	-
6	Cathay Securities Investment Trust	Conning Holdings Limited	3	Sales expenses	\$130,908	There is no significantly differet to third parties	0.03%

English Translation of Financial Statements Originally Issued in Chinese

Schedule 6: Intercompany relationships and significant intercompany transactions

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

No. (Note 1)	Company Name	Counter Party	Nature of Relationships (Note 2)	Intercompany Transactions (Note 4)			
				Financial Statement Item	Amount	Terms (Note 2)	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
7	Cathay Futures	Cathay Life	3	Futures trader's equity	1,511,584	There is no significantly differet to third parties	0.02%
7	Cathay Futures	Cathay United Bank	3	Cash and cash equivalents	360,164	There is no significantly differet to third parties	-
7	Cathay Futures	Cathay United Bank	3	Customer's margin accounts	910,355	There is no significantly differet to third parties	-
7	Cathay Futures	Cathay United Bank	3	Refundable deposit and operation bond	75,000	There is no significantly differet to third parties	-
7	Cathay Futures	Cathay Securities	3	Futures trader's equity	1,277,030	There is no significantly differet to third parties	0.01%
8	Indovina Bank	Cathay United Bank	3	Due to commercial banks	3,964,557	There is no significantly differet to third parties	0.04%
8	Indovina Bank	Cathay United Bank	3	Due to commercial banks	314,359	There is no significantly differet to third parties	-
8	Indovina Bank	Cathay Century (Vietnam)	3	Deposits	147,705	There is no significantly differet to third parties	-
8	Indovina Bank	Cathay Life (Vietnam)	3	Deposits	1,809,689	There is no significantly differet to third parties	0.02%
9	Cathay Century (Vietnam)	Indovina Bank	3	Cash and cash equivalents	139,596	There is no significantly differet to third parties	-
9	Cathay Century (Vietnam)	Indovina Bank	3	Refundable deposit	8,108	There is no significantly differet to third parties	-
10	Cathay Life (Vietnam)	Indovina Bank	3	Cash and cash equivalents	1,809,689	There is no significantly differet to third parties	0.02%
11	CUBCN Bank	Cathay United Bank	3	Due to commercial banks	9,850,339	There is no significantly differet to third parties	0.11%
11	CUBCN Bank	Cathay United Bank	3	Due to commercial banks	9,209,337	There is no significantly differet to third parties	0.10%
11	CUBCN Bank	Cathay United Bank	3	Due to commercial banks interest exoenses	127,477	There is no significantly differet to third parties	0.03%
11	CUBCN Bank	Cathay United Bank	3	Interest payable	100,114	There is no significantly differet to third parties	-
12	Cathay Walbrook Holding 1 Limited	Cathay Life	3	Other liabilities	13,108,748	There is no significantly differet to third parties	0.14%
12	Cathay Walbrook Holding 1 Limited	Cathay Life	3	Interest expenses	231,897	There is no significantly differet to third parties	0.05%
13	Cathay Walbrook Holding 2 Limited	Cathay Life	3	Other liabilities	689,934	There is no significantly differet to third parties	-
14	Conning Holdings Limited	Cathay Life	3	Other operating revenues	296,131	There is no significantly differet to third parties	0.06%
14	Conning Holdings Limited	Cathay Life	3	Other receivable	147,391	There is no significantly differet to third parties	-
14	Conning Holdings Limited	Cathay Securities Investment Trust	3	Consultant fee income	130,908	There is no significantly differet to third parties	0.03%
15	CUBC Bank	Cathay United Bank	3	Call loans to banks	245,864	There is no significantly differet to third parties	-
16	Lin Yuan	Cathay United Bank	3	Cash and cash equivalents	623,035	There is no significantly differet to third parties	-

Note 1: Intercompany transactions should be indicated in the numbered columns individually. The number is filled in as follows:

(1) Parent company is numbered 0.

(2) Subsidiaries are numbered sequentially according to company name from Arabic numeral 1.

Note 2: There are three types of relationships with counterparties:

(1) Parent company to subsidiary

(2) Subsidiary to parent company

(3) Subsidiary to subsidiary

Note 3: The calculation of transaction amount as a percentage of consolidated net revenue or total assets:

in the case of financial statement accounts, ending balance is divided by consolidated total assets;

in the case of income statement accounts, cumulative amount in the period is divided by consolidated net revenue.

Note 4: Transactions of more than \$100 million.

English Translation of Financial Statements Originally Issued in Chinese

Schedule 6-1: Intercompany relationships and significant intercompany transactions

For the year ended December 31, 2017

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

No. (Note 1)	Company Name	Counter Party	Nature of Relationships (Note 2)	Intercompany Transactions (Note 4)			
				Financial Statement Item	Amount	Terms (Note 2)	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
0	Cathay Financial Holding	Cathay Life	1	Held-to-maturity financial assets	\$40,000,000	There is no significantly differet to third parties	0.45%
0	Cathay Financial Holding	Cathay Life	1	Interest receivable	158,589	There is no significantly differet to third parties	-
0	Cathay Financial Holding	Cathay Life	1	Payables from related parties	706,336	There is no significantly differet to third parties	-
0	Cathay Financial Holding	Cathay Life	1	Interest revenues	1,353,179	There is no significantly differet to third parties	0.02%
0	Cathay Financial Holding	Cathay United Bank	1	Cash and cash equivalents	137,400	There is no significantly differet to third parties	-
0	Cathay Financial Holding	Cathay United Bank	1	Payables from related parties	145,836	There is no significantly differet to third parties	-
0	Cathay Financial Holding	Cathay Century	1	Receivables from related parties	231,138	There is no significantly differet to third parties	-
0	Cathay Financial Holding	Cathay Century	1	Held-to-maturity financial assets	1,000,000	There is no significantly differet to third parties	0.01%
1	Cathay Life	Cathay Financial Holding	2	Preferred stock liabilities	5,000,000	There is no significantly differet to third parties	0.06%
1	Cathay Life	Cathay Financial Holding	2	Interest payable	158,589	There is no significantly differet to third parties	-
1	Cathay Life	Cathay Financial Holding	2	Receivables from related parties	706,336	There is no significantly differet to third parties	-
1	Cathay Life	Cathay Financial Holding	2	Bonds payable	35,000,000	There is no significantly differet to third parties	0.40%
1	Cathay Life	Cathay Financial Holding	2	Other interest expenses	1,353,179	There is no significantly differet to third parties	0.02%
1	Cathay Life	Cathay United Bank	3	Guarantee deposit received	164,798	There is no significantly differet to third parties	-
1	Cathay Life	Cathay United Bank	3	Cash and cash equivalents	28,469,961	There is no significantly differet to third parties	0.32%
1	Cathay Life	Cathay United Bank	3	Refundable deposit and operation bond	3,000	There is no significantly differet to third parties	-
1	Cathay Life	Cathay United Bank	3	Rental income	580,440	There is no significantly differet to third parties	0.10%
1	Cathay Life	Cathay United Bank	3	Operating expenses	6,743,403	There is no significantly differet to third parties	1.15%
1	Cathay Life	Cathay United Bank	3	Payables due to commission of insurance agency	163,342	There is no significantly differet to third parties	-
1	Cathay Life	Cathay United Bank	3	Financial assets at fair value through profit or loss	662,047	There is no significantly differet to third parties	-
1	Cathay Life	Cathay United Bank	3	Other revenues	174,073	There is no significantly differet to third parties	0.03%
1	Cathay Life	Cathay United Bank	3	Losses on financial liabilities at fair value through profit or loss	366,491	There is no significantly differet to third parties	0.06%
1	Cathay Life	Cathay Century	3	Other revenues	580,053	There is no significantly differet to third parties	0.10%
1	Cathay Life	Cathay Century	3	Insurance expenses	115,158	There is no significantly differet to third parties	0.02%
1	Cathay Life	Cathay Century	3	Rental income	105,435	There is no significantly differet to third parties	0.02%
1	Cathay Life	Cathay Futures	3	Margin for futures trading-own funds	1,628,717	There is no significantly differet to third parties	0.02%
1	Cathay Life	Cathay Securities Investment Trust	3	Handling charge	152,394	There is no significantly differet to third parties	0.03%
1	Cathay Life	Cathay Walbrook Holding 1 Limited	3	Other loans	13,176,782	There is no significantly differet to third parties	0.15%
1	Cathay Life	Cathay Walbrook Holding 1 Limited	3	Interest revenues	421,486	There is no significantly differet to third parties	0.07%
1	Cathay Life	Cathay Walbrook Holding 2 Limited	3	Other loans	693,515	There is no significantly differet to third parties	-
1	Cathay Life	Conning Holdings Limited	3	Handling charge	554,670	There is no significantly differet to third parties	0.09%
1	Cathay Life	Conning Holdings Limited	3	Other payables	130,915	There is no significantly differet to third parties	-

English Translation of Financial Statements Originally Issued in Chinese

Schedule 6-1: Intercompany relationships and significant intercompany transactions

For the year ended December 31, 2017

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

No. (Note 1)	Company Name	Counter Party	Nature of Relationships (Note 2)	Intercompany Transactions (Note 4)			
				Financial Statement Item	Amount	Terms (Note 2)	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
2	Cathay United Bank	Conning Holdings Limited	2	Deposits	\$137,400	There is no significantly differet to third parties	-
2	Cathay United Bank	Conning Holdings Limited	2	Receivables from related parties	145,836	There is no significantly differet to third parties	-
2	Cathay United Bank	Cathay Life	3	Rental expenses	580,440	There is no significantly differet to third parties	0.10%
2	Cathay United Bank	Cathay Life	3	Refundable deposit	164,798	There is no significantly differet to third parties	-
2	Cathay United Bank	Cathay Life	3	Deposits	28,472,961	There is no significantly differet to third parties	0.32%
2	Cathay United Bank	Cathay Life	3	Commission revenue	6,743,403	There is no significantly differet to third parties	1.15%
2	Cathay United Bank	Cathay Life	3	Receivables due to commission of insurance agency	163,342	There is no significantly differet to third parties	-
2	Cathay United Bank	Cathay Life	3	Financial liabilities at fair value through profit or loss	662,047	There is no significantly differet to third parties	-
2	Cathay United Bank	Cathay Life	3	Gains on financial assets at fair value through profit or loss	366,491	There is no significantly differet to third parties	0.06%
2	Cathay United Bank	Cathay Life	3	Operating expenses	174,073	There is no significantly differet to third parties	0.03%
2	Cathay United Bank	Cathay Century	3	Deposits	1,827,176	There is no significantly differet to third parties	0.02%
2	Cathay United Bank	Cathay Century	3	Insurance expenses	172,376	There is no significantly differet to third parties	0.03%
2	Cathay United Bank	Cathay Century	3	Commission revenue	154,446	There is no significantly differet to third parties	0.03%
2	Cathay United Bank	Cathay Securities	3	Deposits	3,414,826	There is no significantly differet to third parties	0.04%
2	Cathay United Bank	Cathay Securities Investment Trust	3	Deposits	179,814	There is no significantly differet to third parties	-
2	Cathay United Bank	Cathay Venture	3	Deposits	1,041,691	There is no significantly differet to third parties	0.01%
2	Cathay United Bank	Indovina Bank	3	Call loans to banks	143,259	There is no significantly differet to third parties	-
2	Cathay United Bank	Indovina Bank	3	Call loans to banks	3,223,584	There is no significantly differet to third parties	0.04%
2	Cathay United Bank	CUBC Bank	3	Due to commercial banks	656,656	There is no significantly differet to third parties	-
3	Cathay Century	Conning Holdings Limited	2	Preferred stock liabilities	1,000,000	There is no significantly differet to third parties	0.01%
3	Cathay Century	Conning Holdings Limited	2	Payables from related parties	231,138	There is no significantly differet to third parties	-
3	Cathay Century	Cathay Life	3	Insurance income	115,158	There is no significantly differet to third parties	-
3	Cathay Century	Cathay Life	3	Operating expenses	580,053	There is no significantly differet to third parties	-
3	Cathay Century	Cathay Life	3	Rental expenses	105,435	There is no significantly differet to third parties	0.02%
3	Cathay Century	Cathay United Bank	3	Insurance income	172,376	There is no significantly differet to third parties	-
3	Cathay Century	Cathay United Bank	3	Cash and cash equivalents	1,812,176	There is no significantly differet to third parties	0.02%
3	Cathay Century	Cathay United Bank	3	Refundable deposit and operation bond	15,000	There is no significantly differet to third parties	-
3	Cathay Century	Cathay United Bank	3	Operating expenses	154,446	There is no significantly differet to third parties	0.03%
4	Cathay Securities	Cathay United Bank	3	Cash and cash equivalents	1,777,143	There is no significantly differet to third parties	0.02%
4	Cathay Securities	Cathay United Bank	3	Settlement money	359,587	There is no significantly differet to third parties	-
4	Cathay Securities	Cathay United Bank	3	collected payment of shares underwritten	68,096	There is no significantly differet to third parties	-
4	Cathay Securities	Cathay United Bank	3	Refundable deposit	1,210,000	There is no significantly differet to third parties	0.01%

English Translation of Financial Statements Originally Issued in Chinese

Schedule 6-1: Intercompany relationships and significant intercompany transactions

For the year ended December 31, 2017

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

No. (Note 1)	Company Name	Counter Party	Nature of Relationships (Note 2)	Intercompany Transactions (Note 4)			
				Financial Statement Item	Amount	Terms (Note 2)	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
5	Cathay Securities Investment Trust	Cathay Life	3	Other commission revenues	152,394	There is no significantly differet to third parties	0.03%
5	Cathay Securities Investment Trust	Cathay United Bank	3	Cash and cash equivalents	93,514	There is no significantly differet to third parties	-
5	Cathay Securities Investment Trust	Cathay United Bank	3	Refundable deposit and operation bond	86,300	There is no significantly differet to third parties	-
6	Cathay Futures	Cathay Life	3	Futures trader's equity	1,628,717	There is no significantly differet to third parties	0.28%
6	Cathay Futures	Cathay United Bank	3	Cash and cash equivalents	250,407	There is no significantly differet to third parties	-
6	Cathay Futures	Cathay United Bank	3	Customer's margin accounts	716,284	There is no significantly differet to third parties	-
6	Cathay Futures	Cathay United Bank	3	Refundable deposit and operation bond	75,000	There is no significantly differet to third parties	-
7	Indovina Bank	Cathay United Bank	3	Due to commercial banks	\$143,259	There is no significantly differet to third parties	-
7	Indovina Bank	Cathay United Bank	3	Due to commercial banks	3,223,584	There is no significantly differet to third parties	0.04%
7	Indovina Bank	Cathay Century (Vietnam)	3	Deposits	145,661	There is no significantly differet to third parties	-
8	Cathay Century (Vietnam)	Indovina Bank	3	Cash and cash equivalents	137,620	There is no significantly differet to third parties	-
8	Cathay Century (Vietnam)	Indovina Bank	3	Refundable deposit	8,041	There is no significantly differet to third parties	-
9	Cathay Walbrook Holding 1 Limited	Cathay Life	3	Other liabilities	13,176,782	There is no significantly differet to third parties	0.15%
9	Cathay Walbrook Holding 1 Limited	Cathay Life	3	Interest expenses	421,486	There is no significantly differet to third parties	0.07%
10	Cathay Walbrook Holding 2 Limited	Cathay Life	3	Other liabilities	693,515	There is no significantly differet to third parties	-
11	Conning Holdings Limited	Cathay Life	3	Other operating revenues	554,670	There is no significantly differet to third parties	0.09%
11	Conning Holdings Limited	Cathay Life	3	Other receivable	130,915	There is no significantly differet to third parties	-
12	CUBC Bank	Cathay United Bank	3	Call loans to banks	656,656	There is no significantly differet to third parties	-

Note1: Intercompany transactions should be indicated in the numbered columns individually. The number is filled in as follows:

(1) Parent company is numbered 0 -

(2) Subsidiaries are numbered sequentially according to company name from Arabic numeral 1.

Note 2: There are three types of relationships with counterparties:

(1) Parent company to subsidiary

(2) Subsidiary to parent company

(3) Subsidiary to subsidiary

Note 3: The calculation of transaction amount as a percentage of consolidated net revenue or total assets:

in the case of financial statement accounts, ending balance is divided by consolidated total assets;

in the case of income statement accounts, cumulative amount in the period is divided by consolidated net revenue.

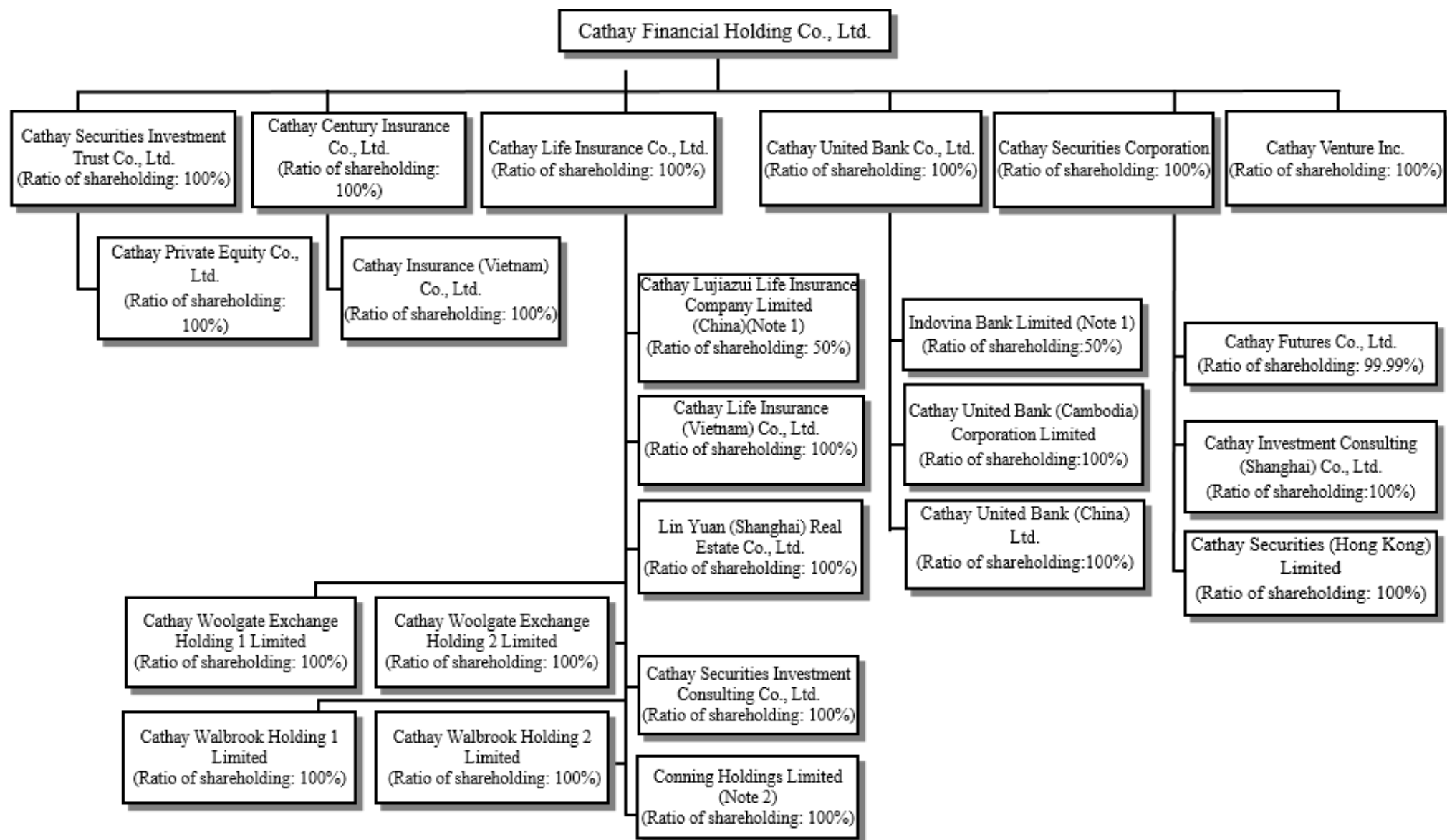
Note 4: Transactions of more than \$100 million.

Appendix 2

Cathay Financial Holding Co., Ltd.
Consolidated business reports of affiliated enterprises
2018

Address: No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)
Tel: (02)2708-7698

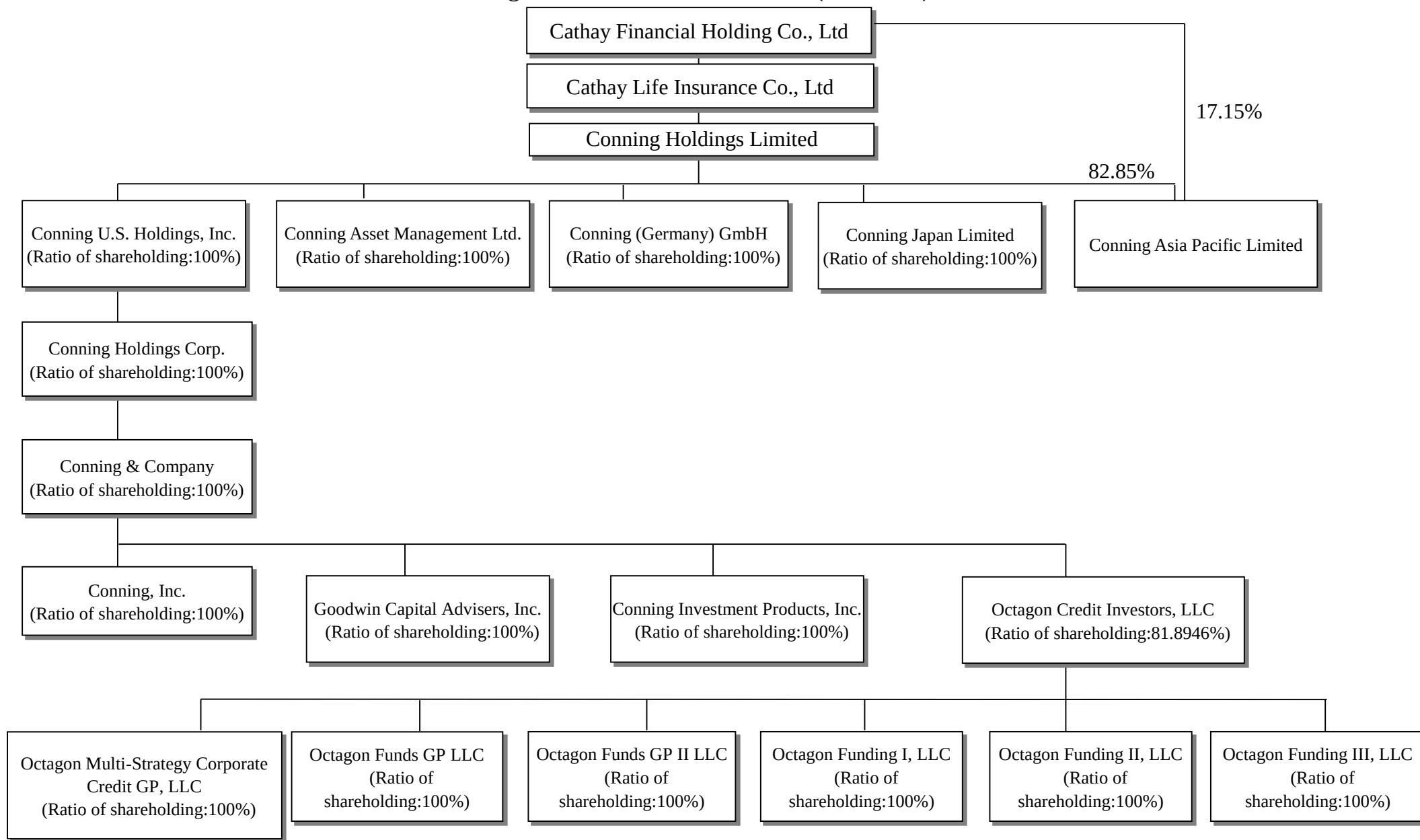
Organizational chart of affiliates



Note 1: A subsidiary other than those referred to in Article 4 of the Financial Holding Company Act.

Note 2: Expressed with the merger entity

Organizational chart of affiliates (continued)



Basic information on affiliates

Unit: NT\$ thousand

Corporate name	Date of Establishment	Address	Paid-in capital	Scope of business/production
Cathay Financial Holding Co., Ltd.	2001.12.31	No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	\$140,965,102	Financial Holdings
Cathay Life Insurance Co., Ltd.	1962.10.23	No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	57,265,274	Personal Insurance Representative
Cathay United Bank Co., Ltd.	1975.1.4	No.7, Songren Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)	91,197,623	Commercial Bank
Cathay Century Insurance Co., Ltd.	1993.7.19	No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	3,057,052	Property and Casualty Insurance
Cathay Securities Corporation	2004.5.12	19F. & 20F., No. 333 and 6F., 10F., 18F., 19F., 20F., & 21F., No. 335, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	5,700,086	Securities Business
Cathay Venture Inc.	2003.4.10	7F., No.68, Sec. 5, Zhongxiao E. Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)	3,359,087	Venture Capital Business
Cathay Securities Investment Trust Co., Ltd.	2000.2.11	6F., No. 39, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	1,500,000	Securities Investment Trust Business
Cathay Lujiazui Life Insurance Company Limited	2004.12.29	19F., Building B, Oriental Financial Plaza, No. 1168, Century Boulevard, Pudong New Area, Shanghai, P.R.C.	13,497,155	Personal Insurance Representative
Cathay Securities Investment Consulting Co., Ltd.	2002.11.25	6F., No.108, Sec. 5, Xinyi Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)	70,000	Securities Investment Consulting Services
Lin Yuan (Shanghai) Real Estate Co., Ltd.	2012.8.15	Room 306, 3F. Dining-2 Department, Hua Du Tower, No. 828-838 Zhangyang Road, Pilot Free Trade Zone, Shanghai	7,223,435	Leasing of Proprietary Office Space
Cathay Life Insurance (Vietnam) Co., Ltd.	2007.11.21	46-48-50 Pham Hong Thai Street, District 1, Ho Chi Minh City, Vietnam	9,090,730	Personal Insurance Representative
Cathay Woolgate Exchange Holding 1 Limited	2014.7.30	13 Castle Street, St Helier, Jersey, JE4 5UT	16,654,013	Management of Real Estate Investment
Cathay Woolgate Exchange Holding 2 Limited	2014.7.30	13 Castle Street, St Helier, Jersey, JE4 5UT	168,222	Management of Real Estate Investment

Corporate name	Date of Establishment	Address	Paid-in capital	Scope of business/production
Cathay Walbrook Holding 1 Limited	2015.3.31	13 Castle Street, St Helier, Jersey, JE4 5UT	\$10,189,090	Management of Real Estate Investment
Cathay Walbrook Holding 2 Limited	2015.3.31	13 Castle Street, St Helier, Jersey, JE4 5UT	536,268	Management of Real Estate Investment
Conning Holdings Limited	2015.6.10	24 Monument Street, London, EC3R 8AJ, United Kingdom	15,723,539	Holdings Company
Conning U.S. Holdings, Inc.	2015.6.10	One Financial Plaza, Hartford, CT, 06103, USA		Holdings Company
Conning Asset Management Ltd.	1998.10.16	24 Monument Street, London, EC3R 8AJ, United Kingdom	191,303	Asset Management
Conning (Germany) GmbH	2012.1.10	Augustinerstr. 10, 50667, Cologne, Germany	938	Risk Management Software Business
Conning Japan Limited	2015.9.3	10F KN-Ginza Building, 1-15-6, Ginza, Chuo-Ku, Tokyo, Japan		- Asset Management Business
Conning Asia Pacific Limited	2011.7.6	19/F LHT Tower, 31 Queen's Road Central, Hong Kong	577,686	Asset Management Business
Conning Holdings Corp.	2009.6.5	One Financial Plaza, Hartford, CT, 06103, USA		- Holdings Company
Conning & Company	1986.7.10	One Financial Plaza, Hartford, CT, 06103, USA	4,485	Holdings Company
Conning, Inc.	1982.9.13	One Financial Plaza, Hartford, CT, 06103, USA	329	Asset Management Business
Goodwin Capital Advisers, Inc.	1930.3.14	One Financial Plaza, Hartford, CT, 06103, USA	172	Asset Management Business
Conning Investment Products, Inc.	2002.2.13	One Financial Plaza, Hartford, CT, 06103, USA		- Securities Business
Octagon Credit Investors, LLC	1998.12.29	250 Park Avenue, 15th Floor, New York, NY 10167, U.S.A.		Asset Management Business
Octagon Multi-Strategy Corporate Credit GP, LLC	2014.6.13	250 Park Avenue, 15th Floor, New York, NY 10167, U.S.A.		Fund Management Business
Octagon Funds GP LLC	2014.11.13	250 Park Avenue, 15th Floor, New York, NY 10167, U.S.A.		Fund Management Business
Octagon Funds GP II LLC	2016.1.21	250 Park Avenue, 15th Floor, New York, NY 10167, U.S.A.		Fund Management Business

Corporate name	Date of Establishment	Address	Paid-in capital	Scope of business/production
Octagon Funding I, LLC	2017.1.17	250 Park Avenue, 15th Floor, New York, NY 10167, U.S.A.	\$-	Fund Management Business
Octagon Funding II, LLC	2017.6.16	250 Park Avenue, 15th Floor, New York, NY 10167, U.S.A.	-	Fund Management Business
Octagon Funding III, LLC	2017.12.19	250 Park Avenue, 15th Floor, New York, NY 10167, U.S.A.	-	Fund Management Business
Indovina Bank Limited	1992.10.29	97A Nguyen Van Troi Street Ward 12, Phu Nhuan Dist., HCMC, Vietnam	6,094,911	Banking
Cathay United Bank (Cambodia) Corporation Limited	1993.7.5	No.68, Samdech Pan Street (St.214),Sangkat Boeung Raing,Khan Daun Penh, Phnom Penh, Kingdom of Cambodia	3,020,769	Banking
Cathay United Bank (China)Ltd.	2018.9.3	25F , No. 1233 , Lujiazui Ring Road, Pudong New District, Shanghai	14,377,562	Banking
Cathay Insurance (Vietnam) Co., Ltd.	2010.11.2	6th floor, 46-48-50 Pham Hong Thai Street, District 1, Ho Chi Minh City, Vietnam	845,585	Property and Casualty Insurance
Cathay Futures Co., Ltd.	1993.12.29	19F., No. 333 and 10F., No. 335, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	667,000	Futures
Cathay Securities (Hong Kong) Limited	2007.3.22	Room 1001, 10F., China Building, No. 29 Queen's Road Central, Hong Kong	1,108,244	Securities Business
Cathay Investment Consulting (Shanghai) Co., Ltd.	2014.6.11	Room 1503-B, 15F., Building A, No. 1168, Century Boulevard, Pudong New Area, Shanghai	38,965	Investment Consulting
Cathay Private Equity Co., Ltd.	2017.11.15	6F., No. 39, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	50,000	Venture Capital Investment, Investment and Management Consultation Services

Information on common shareholders assumed to be in a controlling and subordinate relationship

Unit: NT\$ thousand; Share; %

Reason of assumption	Name (Note 1)	Number of shares held (Note 2)		Date of Establishment	Address	Paid-in capital	Core Business
		Number of shares	Ratio of shareholding				
None							

Note 1: If the subsidiaries share identical shareholders that are corporations, the preparer should fill in the name of the corporations. If the subsidiaries share identical individual shareholders, the preparer should fill in the name of the individuals. Individual shareholders only need to fill in the reason of assumption, the names, and the number of shares held.

Note 2: The preparer fills in the information on stock ownership on the company that shareholders control in the section on the shares held.

Information on directors, supervisors, and presidents of affiliated corporations

Unit: Shares; %

Corporate name	Title	Name of individual or representative(s)	Shares held	
			Number of shares	Ratio of shareholding
Cathay Financial Holding Co., Ltd.	Chairman	Hong-Tu Tsai	78,841,875	0.56%
	Vice Chairman	Tsu-Pei, Chen (representative of Cathay General Hospital)	25,148,985	0.18%
	Director	Cheng-Ta, Tsai (representative of Cathay General Hospital)	25,148,985	0.18%
	Director	Cheng-Chiu, Tsai (representative of Zhen-Sheng Industrial)	27,915,093	0.20%
	Director	Chi-Wei, Joong (representative of Chia Yi Capital)	58,238,282	0.41%
	Director	Andrew Ming-Jian, Kuo (representative of Chia Yi Capital)	58,238,282	0.41%
	Director	Tiao-Kuei, Huang (representative of Cathay Life Employees' Welfare Committee)	34,590,372	0.25%
	Director	Ming-Ho, Hsiung (representative of Cathay Life Employees' Welfare Committee)	34,590,372	0.25%
	Director	Chang-Ken, Lee (representative of Cathay Life Employees' Welfare Committee)	34,590,372	0.25%
	Independent Director	Tsing-Yuan, Hwang	-	-
	Independent Director	Feng-Chiang, Miao	-	-
	Independent Director	Yung-Do, Way	-	-
	President	Chang-Ken, Lee	-	-
Cathay Life Insurance Co., Ltd.	Chairman	Tiao-Kuei, Huang (representative of Cathay Financial Holdings)	5,726,527,395	100%
	Vice Chairman	Ming-Ho, Hsiung (representative of Cathay Financial Holdings)	5,726,527,395	100%
	Director	Tzung-Han, Tsai (representative of Cathay Financial Holdings)	5,726,527,395	100%
	Director	Chung-Yan, Tsai (representative of Cathay Financial Holdings)	5,726,527,395	100%
	Director	Chung-Chiang, Chu (representative of Cathay Financial Holdings)	5,726,527,395	100%

Corporate name	Title	Name of individual or representative(s)	Shares held	
			Number of shares	Ratio of shareholding
	Director	Shang-Chi, Liu (representative of Cathay Financial Holdings)	5,726,527,395	100%
	Director	Yi-Tsung, Wang (representative of Cathay Financial Holdings)	5,726,527,395	100%
	Director	Chao-Ting, Lin (representative of Cathay Financial Holdings)	5,726,527,395	100%
	Independent Director	Tsing-Yuan, Hwang (representative of Cathay Financial Holdings)	5,726,527,395	100%
	Independent Director	Feng-Chiang, Miao (representative of Cathay Financial Holdings)	5,726,527,395	100%
	Managing Supervisor	Chih-Ying, Tsai (representative of Cathay Financial Holdings)	5,726,527,395	100%
	Supervisor	Tso-Hsing Hsu (representative of Cathay Financial Holdings)	5,726,527,395	100%
	Supervisor	Chih-Ming, Lin (representative of Cathay Financial Holdings)	5,726,527,395	100%
	President	Shang-Chi, Liu	-	-
Cathay United Bank Co., Ltd.	Chairman	Andrew Ming-Jian, Kuo (representative of Cathay Financial Holdings)	9,119,762,236	100%
	Vice Chairman	Tzung-Han, Tsai (representative of Cathay Financial Holdings)	9,119,762,236	100%
	Managing Director/Independent Director	Tsing-Yuan, Hwang (representative of Cathay Financial Holdings)	9,119,762,236	100%
	Managing Director	Alan Lee (representative of Cathay Financial Holdings)	9,119,762,236	100%
	Managing Director	Chun-Wei, Yang (representative of Cathay Financial Holdings)	9,119,762,236	100%

Corporate name	Title	Name of individual or representative(s)	Shares held	
			Number of shares	Ratio of shareholding
	Director	Chang-Ken Lee (representative of Cathay Financial Holdings)	9,119,762,236	100%
	Director	Han-Guo, Chen (representative of Cathay Financial Holdings)	9,119,762,236	100%
	Director	Chi-Wei, Joong (representative of Cathay Financial Holdings)	9,119,762,236	100%
	Director	Chung-Yi, Teng (representative of Cathay Financial Holdings)	9,119,762,236	100%
	Director	Po-Tsang, Hsieh (representative of Cathay Financial Holdings)	9,119,762,236	100%
	Director	Tsung-Hsien, Tsai (representative of Cathay Financial Holdings)	9,119,762,236	100%
	Director	Wei-Hua, Chou (representative of Cathay Financial Holdings)	9,119,762,236	100%
	Director	Chien-Hsing, Wu (representative of Cathay Financial Holdings)	9,119,762,236	100%
	Independent Director	Yung-Do, Way (representative of Cathay Financial Holdings)	9,119,762,236	100%
	Independent Director	Feng-Chiang, Miao (representative of Cathay Financial Holdings)	9,119,762,236	100%
	Managing Supervisor	Li-Hui, Wang (representative of Cathay Financial Holdings)	9,119,762,236	100%
	Supervisor	Liang-Lin, Jian (representative of Cathay Financial Holdings)	9,119,762,236	100%
	President	Alan Lee	-	-

Corporate name	Title	Name of individual or representative(s)	Shares held	
			Number of shares	Ratio of shareholding
Cathay Century Insurance Co., Ltd.	Chairman	Cheng-Chiu, Tsai (representative of Cathay Financial Holdings)	305,705,194	100%
	Vice Chairman	Jung-Hsien, Hsu (representative of Cathay Financial Holdings)	305,705,194	100%
	Director	Kuo-Tsai, Tsai (representative of Cathay Financial Holdings)	305,705,194	100%
	Director	Tsu-Yao, Lu (representative of Cathay Financial Holdings)	305,705,194	100%
	Director	Chih-Yi, Yu (representative of Cathay Financial Holdings)	305,705,194	100%
	Director	Tsung-Hsien, Tsai (representative of Cathay Financial Holdings)	305,705,194	100%
	Director	Wan-Hsiang, Chen (representative of Cathay Financial Holdings)	305,705,194	100%
	Independent Director	Tsing-Yuan, Hwang (representative of Cathay Financial Holdings)	305,705,194	100%
	Independent Director	Feng-Chiang, Miao (representative of Cathay Financial Holdings)	305,705,194	100%
	Managing Supervisor	Chin-Hsing, Liu (representative of Cathay Financial Holdings)	305,705,194	100%
	Supervisor	Tso-Hsing, Hsu (representative of Cathay Financial Holdings)	305,705,194	100%
	President	Wan-Hsiang, Chen	-	-
Cathay Securities Corporation	Chairman	Shun-Yu, Chuang (representative of Cathay Financial Holdings)	570,008,655	100%
	Director	Chang-Ken Lee (representative of Cathay Financial Holdings)	570,008,655	100%
	Director	Chin-Hsing, Liu (representative of Cathay Financial Holdings)	570,008,655	100%

Corporate name	Title	Name of individual or representative(s)	Shares held	
			Number of shares	Ratio of shareholding
	Director	Kuan-Cheng, Chou (representative of Cathay Financial Holdings)	570,008,655	100%
	Independent Director	Feng-Chiang, Miao (representative of Cathay Financial Holdings)	570,008,655	100%
	Independent Director	Wei-Kang, Pan (representative of Cathay Financial Holdings)	570,008,655	100%
	Supervisor	Wan-Chu, Ma (representative of Cathay Financial Holdings)	570,008,655	100%
	Supervisor	Bo-Sheng, Fu (representative of Cathay Financial Holdings)	570,008,655	100%
	President	Kuan-Cheng, Chou	-	-
Cathay Venture Inc.	Chairman	Jen-Ho, Chang (representative of Cathay Financial Holdings)	335,908,745	100%
	Director	Shu-Fen, Cheng (representative of Cathay Financial Holdings)	335,908,745	100%
	Director	Shih-Chiao, Lin (representative of Cathay Financial Holdings)	335,908,745	100%
	Director	Yi-Fang, Tsai (representative of Cathay Financial Holdings)	335,908,745	100%
	Director	Chuan-Yen, Hu (representative of Cathay Financial Holdings)	335,908,745	100%
	Supervisor	Shun-Yu, Chuang (representative of Cathay Financial Holdings)	335,908,745	100%
	President	Chuan-Yen, Hu	-	-

Corporate name	Title	Name of individual or representative(s)	Shares held	
			Number of shares	Ratio of shareholding
Cathay Securities Investment Trust Co., Ltd.	Chairman	Jeff Chang (representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Yung-Chuan, Chang (representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Kuo-Chung, Huang (representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Yi-Tsung, Wang (representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Hui-Chun, Wu (representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Woody Bradford (representative of Cathay Financial Holdings)	150,000,000	100%
	Director Supervisor	Bo Kratz (representative of Cathay Financial Holdings) Jui-Hung, Hong (representative of Cathay Financial Holdings)	150,000,000 150,000,000	100% 100%
	President	Yung-Chuan, Chang	-	-
Cathay Lujiazui Life Insurance Company Limited	Chairman	Tso-Chiang, Li (representative of Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd.)	-	50%
	Director	Xi, Hu (representative of Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd.)	-	50%
	Director	Chin-Shu, Lin (representative of Cathay Life Insurance)	-	50%
	Director	Chun-Hung, Wu (representative of Cathay Life Insurance)	-	50%
	Director	Ming-Hung, Liao (representative of Cathay Life Insurance)	-	50%
	President	Ming-Hung, Liao	-	-
Cathay Securities Investment Consulting Co., Ltd.	Chairman	David P. Sun (representative of Cathay Life Insurance)	7,000,000	100%
	Director	Bo Kratz (representative of Cathay Life Insurance)	7,000,000	100%
	Director	Su-Chu, Li (representative of Cathay Life Insurance)	7,000,000	100%
	Director	Chun-Hung, Wu (representative of Cathay Life Insurance)	7,000,000	100%
	Supervisor	Wei-Chi, Li (representative of Cathay Life Insurance)	7,000,000	100%
	President	Ruo-Lan, Huang	-	-

Corporate name	Title	Name of individual or representative(s)	Shares held	
			Number of shares	Ratio of shareholding
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Chairman	Wen-Kai, Kuo (representative of Cathay Life Insurance)	-	100%
	Director	Wei-Chi, Li (representative of Cathay Life Insurance)	-	100%
	Director	Min-Hung, Shih (representative of Cathay Life Insurance)	-	100%
	Supervisor	Xu-Feng, Zheng (representative of Cathay Life Insurance)	-	100%
	President	-	-	-
Cathay Life Insurance (Vietnam) Co., Ltd.	Chairman	Chin-Shu, Lin (representative of Cathay Life Insurance)	-	100%
	Director	Chong-You, Chen (representative of Cathay Life Insurance)	-	100%
	Director	Hsun-Yu, Li (representative of Cathay Life Insurance)	-	100%
	Supervisor	Chun-Hung, Wu (representative of Cathay Life Insurance)	-	100%
	President	Hsun-yu, Li	-	-
Cathay Woolgate Exchange Holding 1 Limited	Executive Director	Wen-Kai, Kuo (representative of Cathay Life Insurance)	326,700,000	100%
	Director	Ting-Lun, Li (representative of Cathay Life Insurance)	326,700,000	100%
	Director	Min-Hung, Shih (representative of Cathay Life Insurance)	326,700,000	100%
	President	-	-	-
Cathay Woolgate Exchange Holding 2 Limited	Executive Director	Wen-Kai, Kuo (representative of Cathay Life Insurance)	3,300,000	100%
	Director	Yi-Hui, Chien (representative of Cathay Life Insurance)	3,300,000	100%
	Director	Min-Hung, Shih (representative of Cathay Life Insurance)	3,300,000	100%
	President	-	-	-
Cathay Walbrook Holding 1 Limited	Executive Director	Wen-Kai, Kuo (representative of Cathay Life Insurance)	213,750,000	100%
	Director	Hsu-Feng, Cheng (representative of Cathay Life Insurance)	213,750,000	100%
	Director	Ting-Lun, Li (representative of Cathay Life Insurance)	213,750,000	100%
	President	-	-	-
Cathay Walbrook Holding 2 Limited	Executive Director	Wen-Kai, Kuo (representative of Cathay Life Insurance)	11,250,000	100%
	Director	Hsu-Feng, Cheng (representative of Cathay Life Insurance)	11,250,000	100%
	Director	Min-Hung, Shih (representative of Cathay Life Insurance)	11,250,000	100%
	President	-	-	-
Conning Holdings Limited	Chairman	Woody Bradford (representative of Cathay Life Insurance)	2,029,287	100%
	Director	David P. Sun (representative of Cathay Life Insurance)	2,029,287	100%

Corporate name	Title	Name of individual or representative(s)	Shares held	
			Number of shares	Ratio of shareholding
	Director	Tzung-Han, Tsai (representative of Cathay Life Insurance)	2,029,287	100%
	Independent Director	John Boneparth (representative of Cathay Life Insurance)	2,029,287	100%
	Independent Director	Meryl D. Hartzband (representative of Cathay Life Insurance)	2,029,287	100%
	Independent Director	Ronald P. Joelson (representative of Cathay Life Insurance)	2,029,287	100%
	Independent Director	David P. Marks (representative of Cathay Life Insurance)	2,029,287	100%
	Independent Director	Jason Rotman (representative of Cathay Life Insurance)	2,029,287	100%
	President	-	-	-
Conning U.S. Holdings, Inc.	Chairman	Linwood (Woody) E. Bradford (representative of Conning Holdings Limited)	218	100%
	Director President	Jung W. Lee (representative of Conning Holdings Limited) -	218 -	100% -
Conning Asset Management Ltd.	Chairman	Linwood (Woody) E. Bradford (representative of Conning Holdings Limited)	3,734,000	100%
	Director	Russell Busst (representative of Conning Holdings Limited)	3,734,000	100%
	Director	Simon Hawkins (representative of Conning Holdings Limited)	3,734,000	100%
	Director	Jung W. Lee (representative of Conning Holdings Limited)	3,734,000	100%
	Non-Executive Director	Michael Carpenter (representative of Conning Holdings Limited)	3,734,000	100%
	Non-Executive Director	David P. Marks (representative of Conning Holdings Limited)	3,734,000	100%
	President	-	-	-
Conning (Germany) GmbH	Chairman	Linwood (Woody) E. Bradford (representative of Conning Holdings Limited)	25,100	100%
	Director President	Jung W. Lee (representative of Conning Holdings Limited) -	25,100 -	100% -

Corporate name	Title	Name of individual or representative(s)	Shares held	
			Number of shares	Ratio of shareholding
Conning Japan Limited	Chairman	Bo Rolf Anders Kratz (representative of Conning Holdings Limited)	1	100%
	Director	Jung W. Lee (representative of Conning Holdings Limited)	1	100%
	President	-	-	-
Conning Asia Pacific Limited	Chairman	Linwood (Woody) E. Bradford (representative of Conning Holdings Limited)	272,950,417	100%
	Director	Jung W. Lee (representative of Conning Holdings Limited)	272,950,417	100%
	Director	Bo Rolf Anders Kratz (representative of Conning Holdings Limited)	272,950,417	100%
	Director	Siew Mee Yeo (representative of Conning Holdings Limited)	272,950,417	100%
	President	-	-	-
Conning Holdings Corp.	Chairman	Linwood (Woody) E. Bradford (representative of Conning U.S. Holdins, Inc.)	1,000	100%
	Director	Jung W. Lee (representative of Conning U.S. Holding, Inc.)	1,000	100%
	President	-	-	-
Conning & Company	Chairman	Linwood (Woody) E. Bradford (representative of Conning Holdings Crop.)	1,000	100%
	Director	Jung W. Lee (representative of Conning Holdings Crop.)	1,000	100%
	Director	Michael E. Haylon (representative of Conning Holdings Crop.)	1,000	100%
	President	-	-	-
Conning, Inc.	Chairman	Linwood (Woody) E. Bradford (representative of Conning & Company)	100	100%
	Director	Jung W. Lee (representative of Conning & Company)	100	100%
	Director	Michael E. Haylon (representative of Conning & Company)	100	100%
	President	-	-	-

Corporate name	Title	Name of individual or representative(s)	Shares held	
			Number of shares	Ratio of shareholding
Goodwin Capital Advisers, Inc.	Chairman	Linwood (Woody) E. Bradford (representative of Conning & Company)	628,000	100%
	Director	Jung W. Lee (representative of Conning & Company)	628,000	100%
	Director	Richard Sega (representative of Conning & Company)	628,000	100%
	Director	Michael E. Haylon (representative of Conning & Company)	628,000	100%
	President	-	-	-
Conning Investment Products, Inc.	Chairman	Linwood (Woody) E. Bradford (representative of Conning & Company)	1,000	100%
	Director	Jung W. Lee (representative of Conning & Company)	1,000	100%
	Director	Michael E. Haylon (representative of Conning & Company)	1,000	100%
	President	-	-	-
Octagon Credit Investors, LLC	Chairman	Linwood (Woody) E. Bradford (representative of Conning & Company)	-	81.8946%
	Director	Jung W. Lee (representative of Conning & Company)	-	81.8946%
	Director	Richard Sega (representative of Conning & Company)	-	81.8946%
	Director	Andrew D. Gordon (representative of Conning & Company)	-	81.8946%
	Director	Michael Nechamkin (representative of Conning & Company)	-	81.8946%
	President	-	-	-
Octagon Multi-Strategy Corporate Credit GP, LLC	N/A	Octagon Credit Investors, LLC	-	100%
Octagon Funds GP LLC	N/A	Octagon Credit Investors, LLC	-	100%
Octagon Funds GP II LLC	N/A	Octagon Credit Investors, LLC	-	100%

Corporate name	Title	Name of individual or representative(s)	Shares held	
			Number of shares	Ratio of shareholding
Octagon Funding I, LLC	N/A	Octagon Credit Investors, LLC	-	100%
Octagon Funding II, LLC	N/A	Octagon Credit Investors, LLC	-	100%
Octagon Funding III, LLC	N/A	Octagon Credit Investors, LLC	-	100%
Indovina Bank Limited	Chairman	Nguyen Anh Tuan (representative of Vietinbank)	-	50%
	Vice Chairman	Ming-Hsien, Li (representative of Cathay United Bank)	-	50%
	Director	Jun-Hao, Liu (representative of Cathay United Bank)	-	50%
	Director	Yi-Fang, Chan (representative of Cathay United Bank)	-	50%
	Director	Le Van Phu (representative of Vietinbank)	-	50%
	Director	Nguyen Thu Hang (representative of Vietinbank)	-	50%
	President	Jun-Hao, Liu	-	-
Cathay United Bank (Cambodia) Corporation Limited	Chairman	Chung-Yi, Teng (representative of Cathay United Bank)	100,000,000	100%
	Director	David P. Sun (representative of Cathay United Bank)	100,000,000	100%
	Director	Yi-Fang, Chan (representative of Cathay United Bank)	100,000,000	100%
	Director	Ke-Han, Guo (representative of Cathay United Bank)	100,000,000	100%
	Director	Wei-Chih, Chen (representative of Cathay United Bank)	100,000,000	100%
	Independent Director	Wu-Shui, Cheng (representative of Cathay United Bank)	100,000,000	100%
	Independent Director	Chang-Chuan, Hsia (representative of Cathay United Bank)	100,000,000	100%
	President	Wei-chih, Chen	-	-

Corporate name	Title	Name of individual or representative(s)	Shares held	
			Number of shares	Ratio of shareholding
Cathay United Bank (China)Ltd.	Chairman	Andrew Ming-Jian, Kuo(representative of Cathay United Bank)	-	100%
	Director	Alan Lee (representative of Cathay United Bank)	-	100%
	Director	Chung-Yi, Teng (representative of Cathay United Bank)	-	100%
	Director	Chi-Yuan, Chien (representative of Cathay United Bank)	-	100%
	Director	Shang-Min, Lin (representative of Cathay United Bank)	-	100%
	Independent Director	Wu-Shui, Cheng (representative of Cathay United Bank)	-	100%
	Independent Director	Ching-Cheng, Hua (representative of Cathay United Bank)	-	100%
	Supervisor	Wei-Hua, Chou (representative of Cathay United Bank)	-	100%
	President	Shang-Min, Lin	-	-
Cathay Insurance (Vietnam) Co., Ltd.	Chairman	Yi-Min, Hu (representative of Cathay Century Insurance)	-	100%
	Director	Yu-Tang, Lin (representative of Cathay Century Insurance)	-	100%
	Director	Fu-Chi Huang (representative of Cathay Century Insurance)	-	100%
	President	Yu-tang, Lin	-	-
Cathay Futures Co., Ltd.	Chairman	Chun-Sheng, Chen (representative of Cathay Securities)	66,693,748	99.99%
	Director	Ju-Ping, Chiu (representative of Cathay Securities)	66,693,748	99.99%
	Director	Dao-Ping, Wang (representative of Cathay Securities)	66,693,748	99.99%
	Director	Chao-Kuei, Kuo (representative of Cathay Securities)	66,693,748	99.99%
	Supervisor	Yu-Mei Lee (representative of Cathay Securities)	66,693,748	99.99%
	President	Jheng- Sian, Song	-	-
Cathay Securities (Hong Kong) Limited	Managing Director	Yuan-Chung, Lu (representative of Cathay Securities)	-	100%
	Director	Wan-Jin, Chen (representative of Cathay Securities)	-	100%
	Director	Hsiu-Ling Hsu (representative of Cathay Securities)	-	100%
	President	-	-	-
Cathay Investment Consulting (Shanghai) Co., Ltd.	Chairman	Chun-Wei, Yang (representative of Cathay Securities)	-	100%
	Director	Chien-Chih Lin (representative of Cathay Securities)	-	100%
	Supervisor	Jui-ming, Huang (representative of Cathay Securities)	-	100%
	President	-	-	-

Corporate name	Title	Name of individual or representative(s)	Shares held	
			Number of shares	Ratio of shareholding
Cathay Private Equity Co., Ltd.	Chairman	Jeff Chang (representative of Cathay Securities Investment Trust)	5,000,000	100%
	Director	Yu-Si, Yue (representative of Cathay Securities Investment Trust)	5,000,000	100%
	Director	Yung-Chuan, Chang (representative of Cathay Securities Investment Trust)	5,000,000	100%
	Director	Kuo-Chung, Huang (representative of Cathay Securities Investment Trust)	5,000,000	100%
	Director	Hui-Chun, Wu (representative of Cathay Securities Investment Trust)	5,000,000	100%
	Supervisor	Yung-Hui, Chang (representative of Cathay Securities Investment Trust)	5,000,000	100%
	President	Jeff Chang	-	-

Operating overview of affiliated corporations

Unit: NT\$ thousand

Corporate name	Location	Capital	Total assets	Total liabilities	Net worth	Operating revenues	Operating Profit /Net income	Current pre-tax profit	Income tax (expense) credit	Current net income	Earnings per share (NT\$)
Cathay Financial Holding Co., Ltd.	Taiwan	140,965,102	591,775,258	72,043,928	519,731,330	Note 1	54,167,735	53,061,321	(1,594,078)	51,467,243	3.95
Cathay Life Insurance Co., Ltd.	Taiwan	57,265,274	6,351,416,795	5,994,824,086	356,592,709	799,466,715	26,284,828	27,595,330	2,593,990	30,189,320	5.47
Cathay United Bank Co., Ltd.	Taiwan	91,197,623	2,770,821,517	2,569,055,971	201,765,546	Note 1	58,486,045	24,026,032	(3,005,700)	21,020,332	2.30
Cathay Century Insurance Co., Ltd.	Taiwan	3,057,052	37,527,238	27,502,162	10,025,076	18,370,972	1,884,623	1,858,821	(348,985)	1,509,836	4.94
Cathay Securities Corporation	Taiwan	5,700,086	23,295,450	15,569,461	7,725,989	3,170,391	548,535	562,563	(101,212)	461,351	0.81
Cathay Venture Inc.	Taiwan	3,359,087	3,804,511	68,980	3,735,531	230,565	184,300	173,978	13,329	187,307	0.56
Cathay Securities Investment Trust Co., Ltd.	Taiwan	1,500,000	3,168,709	608,930	2,559,779	2,411,578	861,585	812,929	(171,152)	641,777	4.28
Cathay Lujiazui Life Insurance Company Limited	China	13,497,155	35,837,137	26,054,440	9,782,697	12,027,156	527,569	525,593	(505,910)	19,683	-
Cathay Securities Investment Consulting Co., Ltd.	Taiwan	70,000	357,261	78,481	278,780	372,137	147,086	150,470	(30,084)	120,386	17.20
Lin Yuan (Shanghai) Real Estate Co., Ltd.	China	7,223,435	8,240,637	503,291	7,737,346	393,131	348,785	348,721	(73,040)	275,681	-
Cathay Life Insurance (Vietnam) Co., Ltd.	Vietnam	9,090,730	12,907,553	3,342,303	9,565,250	1,622,136	(356,831)	(352,932)	(1,016)	(353,948)	-
Cathay Woolgate Exchange Holding 1 Limited	Jersey Island	16,654,013	13,090,127	104,856	12,985,271	(285,888)	(286,616)	(286,616)	(118,505)	(405,121)	-
Cathay Woolgate Exchange Holding 2 Limited	Jersey Island	168,222	132,111	973	131,138	(2,890)	(3,619)	(3,619)	(1,010)	(4,629)	-
Cathay Walbrook Holding 1 Limited	Jersey Island	10,189,090	21,575,250	12,845,829	8,729,421	156,638	(319,345)	(319,345)	(27,985)	(347,330)	-
Cathay Walbrook Holding 2 Limited	Jersey Island	536,268	1,132,738	675,930	456,808	8,244	(17,658)	(17,658)	(1,303)	(18,961)	-
Conning Holdings Limited (Note 2)	UK	15,723,539	20,037,847	4,565,300	15,472,547	6,314,239	230,044	230,044	(101,187)	128,857	-
Conning U.S. Holdings, Inc.	USA	-	16,358,171	5,473,449	10,884,722	5,909,855	346,013	346,013	(43,523)	302,490	-
Conning Asset Management Ltd.	UK	191,303	303,551	112,516	191,035	250,052	14,929	14,929	(2,464)	12,465	-
Conning (Germany) GmbH	Germany	938	49,333	29,003	20,330	16,632	3,178	3,178	(983)	2,195	-
Conning Japan Limited	Japan	-	13	-	13	-	-	-	-	-	-
Conning Asia Pacific Limited	Hong Kong	379,221	325,287	132,300	192,987	392,848	(43,632)	(43,632)	-	(43,632)	-
Conning Holdings Corp.	USA	-	10,657,084	2,533,818	8,123,266	5,909,855	470,817	470,817	(76,516)	394,301	-
Conning & Company	USA	4,485	9,875,243	2,567,631	7,307,612	5,905,344	469,178	469,178	(70,182)	398,996	-
Conning, Inc.	USA	329	2,581,457	1,543,782	1,037,675	2,984,556	(205,794)	(205,794)	31,461	(174,333)	-
Goodwin Capital Advisers, Inc.	USA	172	57,996	8,828	49,168	49,459	15,044	15,044	(1,470)	13,574	-
Conning Investment Products, Inc.	USA	-	25,425	1,910	23,515	8,876	(5,654)	(5,654)	1,312	(4,342)	-

Corporate name	Location	Capital	Total assets	Total liabilities	Net worth	Operating revenues	Operating Profit /Net income	Current pre-tax profit	Income tax (expense) credit	Current net income	Earnings per share (NT\$)
Octagon Credit Investors, LLC	USA	-	3,349,611	1,019,049	2,330,562	2,862,321	913,068	913,068	(64,600)	848,468	-
Octagon Multi-Strategy Corporate Credit GP, LLC	USA	-	-	-	-	-	-	-	-	-	-
Octagon Funds GP LLC	USA	-	-	-	-	-	-	-	-	-	-
Octagon Funds GP II LLC	USA	-	-	-	-	-	-	-	-	-	-
Octagon Funding I, LLC	USA	-	-	-	-	-	-	-	-	-	-
Octagon Funding II, LLC	USA	-	-	-	-	-	-	-	-	-	-
Octagon Funding III, LLC	USA	-	-	-	-	-	-	-	-	-	-
Indovina Bank Limited	Vietnam	6,094,911	65,006,709	56,923,747	8,082,962	-6Note 1	1,864,750	564,957	(98,920)	466,037	-
Cathay United Bank (Cambodia) Corporation Limited	Cambodia	3,020,769	12,449,857	9,164,801	3,285,056	Note 1	579,307	212,588	(50,564)	162,024	1.61
Cathay United Bank (China)Ltd.	China	14,377,562	42,793,093	26,797,924	15,995,169	Note 1	480,531	235,367	(74,821)	160,546	-
Cathay Insurance (Vietnam) Co., Ltd.	Vietnam	845,585	1,047,006	433,182	613,824	236,756	17,218	19,240	(26)	19,214	-
Cathay Futures Co., Ltd.	Taiwan	667,000	8,375,558	7,167,639	1,207,919	317,407	(14,524)	68,113	(7,494)	60,619	0.91
Cathay Securities (Hong Kong) Limited	Hong Kong	1,108,244	1,388,994	691,159	697,835	71,274	(72,369)	(68,764)	-	(68,764)	-
Cathay Investment Consulting (Shanghai) Co., Ltd.	China	38,965	9,360	67	9,293	(9)	(1,151)	(1,498)	-	(1,498)	-
Cathay Private Equity Co., Ltd.	Taiwan	50,000	48,771	611	48,160	-	(2,212)	(2,173)	435	(1,738)	(0.35)

Note 1: Due to revisions in Regulations Governing the Preparation of Financial Reports by Financial Holding Companies and Regulations Governing the Preparation of Financial Reports by Public Banks, the financial statements of such companies do not include items such as operating revenue and operating income. Therefore, the company only discloses total income.

Note 2: Conning Holdings Limited is presented in consolidated entity.

Brief descriptions of the operations of affiliated corporations

I. Businesses activities covered by affiliated companies:

- (I) Cathay Financial Holding Co., Ltd.: Financial holdings.
- (II) Cathay Life Insurance Co., Ltd.: Personal insurance representative.
- (III) Cathay United Bank Co., Ltd.: Commercial bank.
- (IV) Cathay Century Insurance Co., Ltd.: Property and casualty insurance.
- (V) Cathay Securities Corporation: Securities business.
- (VI) Cathay Venture Inc.: Venture capital investment.
- (VII) Cathay Securities Investment Trust Co., Ltd.: Securities investment trust.
- (VIII) Cathay Lujiazui Life Insurance Company Limited: Personal insurance representative.
- (IX) Cathay Securities Investment Consulting Co., Ltd.: Securities investment consultant business.
- (X) Lin Yuan (Shanghai) Real Estate Co., Ltd.: Leasing of proprietary office space.
- (XI) Cathay Life Insurance (Vietnam) Co., Ltd.: Personal insurance representative.
- (XII) Cathay Woolgate Exchange Holding 1 Limited: Management of real estate investment.
- (XIII) Cathay Woolgate Exchange Holding 2 Limited: Management of real estate investment.
- (XIV) Cathay Walbrook Holding 1 Limited: Management of real estate investment.
- (XV) Cathay Walbrook Holding 2 Limited: Management of real estate investment.
- (XVI) Conning Holdings Limited: Holdings Company.
- (XVII) Conning U.S. Holdings, Inc.: Holdings Company
- (XVIII) Conning Asset Management Ltd.: Asset Management
- (XIX) Conning (Germany) GmbH : Risk Management Software Business
- (XX) Conning Japan Limited : Asset Management Business
- (XXI) Conning Asia Pacific Limited : Asset Management Business
- (XXII) Conning Holdings Corp. : Holdings Company
- (XXIII) Conning & Company : Holdings Company
- (XXIV) Conning, Inc. : Asset Management Business
- (XXV) Goodwin Capital Advisers, Inc. : Asset Management Business
- (XXVI) Conning Investment Products, Inc. : Securities Business
- (XXVII) Octagon Credit Investors, LLC : Asset Management Business
- (XXVIII) Octagon Multi-Strategy Corporate Credit GP, LLC: Fund Management Business
- (XXIX) Octagon Funds GP LLC : Fund Management Business
- (XXX) Octagon Funds GP II LLC : Fund Management Business

- (XXXI) Octagon Funding I, LLC : Fund Management Business
- (XXXII) Octagon Funding II, LLC : Fund Management Business
- (XXXIII) Octagon Funding III, LLC : Fund Management Business
- (XXXIV) Indovina Bank Limited: Banking.
- (XXXV) Cathay United Bank (Cambodia) Co., Ltd.: Banking.
- (XXXVI) Cathay United Bank (China)Ltd.:Banking
- (XXXVII) Cathay Insurance (Vietnam) Co., Ltd.: Property and casualty insurance.
- (XXXVIII) Cathay Futures Co., Ltd.: Futures.
- (XXXIX) Cathay Securities (Hong Kong) Limited: Securities business.
- (XL) Cathay Investment Consulting (Shanghai) Co., Ltd.: Investment consulting.
- (XLI) Cathay Private Equity Co., Ltd.: Venture capital investment, investment and management consultation services.

II. Cooperation among all affiliated companies:

(I) Joint business promotion

To improve competitiveness and operational synergy, our Company consolidated diverse financial institutions, including the bank, the insurance Company, and the securities firm, to create an operation platform with comprehensive product lines. By 675 business locations throughout Taiwan and nearly 30,000 well-trained sales staff, the Company develops comprehensive financial management and provides one-stop shopping service for customers.

(II) Interoperability of information

To provide comprehensive financial products and services to customers, our Company has stipulated “Regulations Governing Management of Joint Marketing Among Subsidiaries of Cathay Financial Holdings,” “Joint Marketing Agreement Among Subsidiaries of Cathay Financial Holdings,” “Business and Customer Information Confidentiality Agreement Among Subsidiaries of Cathay Financial Holdings,” “Joint Statement of Confidentiality Measures Among Subsidiaries of Cathay Financial Holdings,” “Regulations Governing Surveillance on Marketing of Subsidiaries by Marketing and Planning Department of Cathay Financial Holdings,” and “Regulations Governing Data Storage Management of Cathay Financial Holdings” pursuant to “Financial Holding Company Act,” “Personal Information Protection Act,” “Regulations Governing Management of Joint Marketing Among Subsidiaries of a Financial Holding Company,” “Rules on Self-regulation for Financial Holding Companies and Their Subsidiaries,” and other applicable letters and orders by FSC. Our Company also provides exist mechanism for customers, striving for using customer information from one another and providing comprehensive financial products and services in an environment that is as lawful, secure, and confidential as possible.

(III) Shared business facilities or locations

To implement “one-stop shopping” financial services and continue to expand joint marketing business within the scope provided by laws and orders:

- (1) Cathay United Bank has 164 branches involved in the joint marketing of securities. Following deregulation a few years back, Cathay United Bank began providing insurance agency services on April 29, 2016, and has since been coordinating its 164 branches nationwide for the sale of life insurance and non-life insurance products.
- (2) Similarly, Cathay Life began joint marketing of banking and non-life insurance services through its 122 service centers.
- (3) Meanwhile, Cathay Securities has set up joint marketing offices at 32 branches of Cathay Life including Zhong Xiao Branch. By sharing business premise and equipment among subsidiaries, the group has made it convenient for customers to open up securities accounts.

(IV) Amortization and amount of revenue, cost, expense and income

Our Company uses the direct attribution method to allocate the revenue, costs, expenses, and income to each relative transaction Company for the joint selling and promotion among subsidiaries based on the nature of operation.

Appendix 3

Cathay Financial Holding Co., Ltd.

Affiliation report

2018

Declaration

It is hereby declared that the Affiliation Report for 2018 (from January 1, 2018 to December 31, 2018) was prepared pursuant to the *Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises*, and there are no significant inconsistencies between the information given above and the supplementary information disclosed in the financial statements for the above period.

Hereby certify

Company Name: Cathay Financial Holding Co., Ltd.

Chairman: Hong-Tu Tsai

Dated: March 21, 2019

Letter

To: Cathay Financial Holding Co., Ltd.

Subject: Expression of opinion on whether the declaration provided by management of your company in the 2018 Affiliation Report is reasonable in all material aspects

Explanation: The 2018 Affiliation Report has been prepared by the management of your company, and your company has provided a declaration to indicate that said report was prepared in compliance with “*Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises.*” In addition, no material discrepancy exists between the information disclosed therein and the information disclosed in the footnotes of financial statements in aforementioned duration.

In this opinion of this CPA, the statement provided by the management of your company on the 2018 Affiliation Report is reasonable in all material aspects.

Ernst & Young

Bob Chang, CPA

James Huang, CPA

Dated: March 21, 2019

Summary on the relationship between the affiliated company and the controlling company

Unit: shares; %

Name of the controlling company	Reason of control	Share ownership and pledges of the controlling company			Appointment of members of the controlling company as the directors, supervisors, or managers	
		Number of shares held	Ratio of shareholding	Number of shares pledged	Title	Name
None						

Note: When the controlling company of the subordinate company is the subordinate company of another company, the preparer of this information should also fill in the information of that company. The same rule applies when that company is again the subordinate company of another company. The same rule applies hereafter.

Purchase and sales

Unit: NT\$ thousand; %

Transactions with the controlling company				Terms of transactions with the controlling company		Arms length terms of transaction		Reason of the difference	Accounts and notes receivable (payable)		NPL			Remarks
Purchase (sales)	Amount	Percentage of total purchase (sales)	Gross profit from sales	Price (NT\$)	Duration of credit	Price (NT\$)	Duration of credit		Balance	Percentage of total accounts and notes receivable (payable)	Amount	Method of processing	Amount of allowance for bad debt	
None														

Note 1: If the company has advanced receipts (payments), the company should describe the reason, articles of the contract, the amounts, and the differences between these transactions and arms length transactions in the remarks section.

Note 2: If none of the stated titles are applicable, the preparers may adjust the titles by themselves. If preparers cannot find titles in the table due to the nature of the industry, preparers do not need to fill in the information.

Property transactions

Unit: NT\$ thousand

Transaction type (acquisition or disposal)	Name of property	Transaction date or the date when the event occurred	Transaction amount	Delivery or payment terms	Payment and receipt of consideration	Disposal gains (Note 1)	The reasons why transaction counterparties are controlling companies	Previous data transfer (Note 2)				The methods for determining the transactions (Note 3)	The basis for determining the prices	The purpose of acquisition or disposal and the condition of use	Other stipulations
								Holder	Relationship with the company	Transfer date	Amount				
None															

Note 1: The preparer does not need to fill in the information on the acquisition of property.

Note 2: (1) The preparer should provide the information on the original acquisition by the controlling company in the acquisition of property. The preparer should provide the information on the original disposal by the subordinate company in the disposal of property.

(2) Preparer should explain the relationship between the property owner and the subordinate company or controlling company in the “Relationship with the company” section.

(3) If the counterparty in the previous transfer transaction was a related party, the preparer should add the information on the previous transfer from that related party in the same space.

Note 3: The preparer should explain the decision making level of the transaction.

Financing

Unit: NT\$ thousand; %

Transaction type (Borrowing or lending)	Highest balance	Balance at the end of the period	Interest rate range	Total interest in this period	Duration of financing	Reason of financing	Acquiring (providing) collaterals		The methods for determining the transactions (Note 1)	Provision of the allowance for bad debt (Note2)
							Name	Amount		
None										

Note 1: The preparer should explain the decision making level of the transaction.

Note 2: There is no need to provide the information on borrowing funds.

Lease of assets

Unit: NT\$ thousand

Transaction type (rent or lease)	Property		Lease duration	Nature of the lease (Note 1)	Basis of determining the rent	Method of collection (payment)	Comparison with regular rent levels	Total rent in this period	Payment and receipt in this period	Other stipulations (Note 2)
	Name	Location								
None										

Note 1: The preparer should explain whether the nature of this transaction is capital lease or operating lease.

Note 2: If there are other encumbrances on the ownership, such as superficies, pledges, and servitude of real property, the preparer should disclose such conditions.

Endorsements

Unit: NT\$ thousand; %

Highest balance	Balance at the end of the period		Reason for the endorsement	Providing collateral as guarantee			Conditions or dates for releasing the guarantee or recovering the collateral	The amount of contingent loss already recognized in financial statements	Violations of operation regulations codified by the company
	Amount	Percentage of net assets in the financial statement		Name	Quantity	Value			
None									

Appendix 4

Cathay Financial Holding Co., Ltd. Internal Control System Statement

On behalf of Cathay Financial Holding Co., Ltd., we hereby declare that, between the period January 1 and December 31, 2018, the Company had duly implemented internal control system and exercised risk management in accordance with “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries.” These policies and practices were also inspected by an independent audit department that reported regularly to the Board of Directors and the Audit Committee. These policies and practices were also inspected by an independent audit department that reported regularly to the Board of Directors and the Audit Committee. Following our diligent assessment, we found all units within the Company able to execute internal controls and compliance-related tasks during the year, except for the matters explained in the attachment. This statement forms an integral part of the Company's annual report and prospectus, and shall be duly disclosed to the public. Any illegal misrepresentation or non-disclosure in the public statement above is subject to the legal consequences described in Articles 20, 32, 171, and 174 of the Securities and Exchange Act.

For
Financial Supervisory Commission

Declarers

Chairman: Hong-Tu Tsai (Signature and seal)

President: Chang-Ken Lee (Signature and seal)

Chief Auditor: Chih-Jung Kung (Signature and seal)

Chief Compliance Officer: Judie Hsu (Signature and seal)

March 21, 2019

Cathay Financial Holding Co., Ltd.

Areas of Improvement and Rectification of the Internal Control System (Date: December 31, 2018)

Deficiencies to be Corrected	Corrective Action	Scheduled Completion Time
【Cathay Life Insurance Subsidiary】 1.Failure to build follow-up and feedback mechanisms which require customers to continue providing supporting documents when reporting on suspected money laundering and terrorism financing transactions in a timely manner. Failure to review customers who are reported to have engaged in suspected transactions and adjust the customer risk level in a timely manner in order to monitor and control risk when trading with customers.	Customers must be contacted to continue providing related supporting documents. The Company's trading control regulations have been amended, and the system has been equipped with additional functions to retain attachments. Customers reported to have engaged in suspected transactions have been added to the system to enable the Company to adjust his/her risk level.	Already completed.
2.Collection, processing, and use of personal information beyond the specific purpose, including the scope of the concerned party's written consent when processing the party's claim. Failure to advise the concerned party of the source of personal information upon its use when provided by any source other than the concerned party.	Staff awareness of personal information must be strengthened. The Company has strengthened relevant educational training and advice on operating procedures for the collection, processing, and use of personal information provided by any sources other than the concerned party. The Company has also completed a compliance test.	Already completed.
3.Misidentification in the anti-money laundering risk	Cathay Financial Holdings has helped its subsidiaries establish	Already completed.

management system during name screening. This resulted in a failure to reflect existing customers' risk attributes in a timely manner. Defective know your customer (KYC) investigations, including the reasonableness of the customer's capital sources. Failure to provide relevant explanations or to require supporting documents about operating revenue when engaged in insurance underwriting. Failure to effectively inspect the operating design of the information system. This resulted in a failure to strictly implement enhanced customer due diligence (CDD) measures when engaging in enhanced CDD for high-risk customers. Failure to assess the risk of money laundering and terrorism financing before launching new payment mechanisms.	a blacklist of negative news coverage makers. These individuals were subsequently marked as high-risk persons. In the case of any suspected transactions, the Company shall investigate and report on suspected money laundering transactions pursuant to the relevant requirements. A check on the OIU financial underwriting rules has been added to the system.	Already completed.
Failure to effectively inspect the operating design of the information system. This resulted in a failure to strictly implement enhanced customer due diligence (CDD) measures when engaging in enhanced CDD for high-risk customers.	Complete and launch the optimization of high-risk nationality and occupation system checks for new contracts.	Already completed.
Failure to assess the risk of money laundering and terrorism financing before launching new payment mechanisms.	The Company failed to conduct risk assessment for money laundering before the apply pay went live. Notwithstanding this, the Company will conduct risk assessment before any subsequent new services go live.	Already completed.
4. Defective reporting on real property investments submitted to the Board of Directors. The Board consequently struggled to verify the physical operation	Submit a complete internal assessment report to the Board of Directors. The "Articles of Association for Real Property Trading Team" have already been amended to require	Already completed.

plans and potential investment risks, as well as defective assessments, analysis, and appraisal on real property before investing. Defective contract awarding system when engaging in new construction projects.	assessment of local industrial and economic development, important political and economic policies, country risk, and foreign exchange rate risk before investing. The internal controls for appraisers' processing hours and appraisal methods have also been amended, requiring that they should spend at least three days in processing and adopt at least two appraisal methods. The "Regulations Governing Contract Awards for Building Construction Projects" have already been established to enhance control over contract awards.	Already completed.
【Cathay United Bank Subsidiary】 1. Defective disclosure of involved risks and KYC data when managing structured notes. 2. Lack of prior agreement from some customers when processing single-case applications for additional credit cards. 3. Control over wealth management specialists' handling of customer business.	Already enhanced the control mechanisms and risk disclosure requirements for structured notes. Already produced digital propagation and teaching materials, and ordered branch managers to require all clerks read the same, in order to strengthen staff awareness of compliance. Restated the requirements for over-the-counter services, strengthened workplace management, practiced self-auditing, and strengthened educational training to enhance clerks' routine management and	Already completed. Already completed. Already completed.

	compliance awareness.	
【Cathay Century Insurance Subsidiary】 1. Endorsement of third-party vehicle liability insurance in violation of the Insurance Act.	Computer check mechanisms have already been used to control endorsement applications. Relevant sale representatives have been suspended from soliciting business for three months in accordance with the “Cathay Century Insurance Regulations Governing Reward & Punishment of Sale Representatives”.	Already completed.
2. Enhanced CDD for high-risk customers, customer identity verification by region or product, and clauses defining which customers to decline are likely to harm risk assessment or make it impossible to identify high-risk customers.	Systems have already been updated to strengthen CDD, and the “Cathay Century Insurance Regulations Governing Assessment and Review of Customer Money Laundering and Terrorism Financing Risk” have been amended to satisfy the relevant requirements.	Already completed.
3. Failure to strictly carry out CDD rechecks which impacted effective management of money laundering and risk prevention for terrorism financing.	Defects in CDD statements and the signature of the person in charge have been remedied. The responsible unit will continue to follow up on cases based on the “List of Monthly Corrective Action Follow-ups”.	Already completed.