

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For the years ended
31 December 2017 and 2016
With Independent Auditors' Audit Report

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The reader is advised that these consolidated financial statements have been prepared originally in Chinese. These consolidated financial statements do not include additional disclosure information that is required for Chinese-language reports under the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies. If there is any conflict between these consolidated financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language consolidated financial statements shall prevail.

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Independent Auditors' Report **English Translation of a Report Originally Issued in Chinese**

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 2017 and 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended 31 December 2017 and 2016, 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 2017 and 2016, and their consolidated financial performance and cash flows for the years ended 31 December 2017 and 2016, 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 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 2017 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. (17) 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. (9) for information about the Company and its subsidiaries' investment properties measured at fair value.

The provision of allowance for loans

In accordance with International Accounting Standard 39, the Company and its subsidiaries developed their own systems to perform both individual and collective assessments of impairment loss on loans and receivables. The systems assess the amount of an impairment loss based on parameters from historical experience or future cash flows on a case-by-case basis. The estimates of discount factors, including effective interest rate, incidence of impairment and recoverable rate, and the classification to assess whether there is any objective evidence that loan is impaired, require professional judgment and uses of estimates and assumptions. Therefore, we determined the provision of allowance for loans as a key audit matter.

Our audit procedures included (but not limited to) assessing and testing the effectiveness of internal controls relating to the underlying data and systems with respect to impairment calculation. 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 guarantee and estimates of recovery on default. For loan loss provisions calculated on a collective basis, we reviewed whether the models of impairment were approved by management and relied on our specialists to verify the effectiveness of those models. We also tested the appropriateness and accuracy of the inputs used in those models on a sampling basis, such as recovery rates and historical loss rates. We reviewed the classification of loans and the provision of allowance for loans comply to ensure that management of the Bank and its subsidiaries complied with the related regulations issued by the authorities of the Republic of China.

Please refer to Notes 4, 5. (2) and 6. (5) for information about the Company and its subsidiaries' the provision of allowance for loans.

Assessment of goodwill impairment

International Accounting Standards requires entities to perform an impairment test annually. However the calculation made by the management is complex and involves major subjective 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.

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 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 2017 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.



Ernst & Young
Taipei, Taiwan
The Republic of China
15 March 2018

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 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)**

	<u>Notes</u>	<u>2017.12.31</u>	<u>2016.12.31</u>
Assets			
Cash and cash equivalents	4, 6.(1)	\$245,354,768	\$195,913,525
Due from the Central Bank and call loans to banks		125,163,780	71,940,935
Financial assets at fair value through profit or loss	4, 6.(2)	365,808,158	244,529,264
Available-for-sale financial assets - net	4, 6.(3)	1,681,125,738	1,591,359,657
Derivative financial assets for hedging	4	246,444	232,269
Securities purchased under agreements to resell	4	99,703,578	50,160,342
Receivables - net	4, 6.(4)	169,202,260	154,212,060
Current income tax assets	4	4,362,608	4,215,323
Loans - net	4, 6.(5)	2,038,528,190	2,045,532,795
Reinsurance assets - net		7,237,144	8,767,841
Held-to-maturity financial assets - net	4, 6.(6)	98,759,110	81,826,739
Investments accounted for using the equity method - net	4, 6.(7)	37,355,653	35,209,790
Other financial assets - net	4, 6.(8)	3,347,907,301	3,036,381,213
Investment properties - net	4, 6.(9)	318,106,325	311,014,127
Property and equipment - net	4, 6.(10)	165,095,690	164,114,231
Intangible assets - net	4, 6.(11)	55,802,976	58,597,243
Deferred tax assets - net	4, 6.(25)	31,243,778	14,729,993
Other assets - net		50,506,788	66,400,120
Total assets		<u><u>\$8,841,510,289</u></u>	<u><u>\$8,135,137,467</u></u>

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 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)**

Liabilities & equity	<u>Notes</u>	<u>2017.12.31</u>	<u>2016.12.31</u>
Liabilities			
Due to the Central Bank and call loans from banks		\$90,417,859	\$77,493,795
Financial liabilities at fair value through profit or loss	4, 6.(12)	90,514,268	115,014,826
Securities sold under agreements to repurchase		112,643,582	59,139,059
Commercial paper payable-net	4, 6.(13)	51,468,158	41,578,838
Payables	4	57,943,815	55,295,781
Current income tax liabilities		8,879,563	3,512,350
Deposits	4	2,062,953,012	1,999,943,172
Bonds payable	4, 6.(14)	98,350,000	51,900,000
Other borrowings	4, 6.(15)	441,199	87,229
Provisions	4, 6.(17)	4,972,427,256	4,596,525,084
Other financial liabilities	4, 6.(16)	623,527,312	561,224,829
Deferred tax liabilities	4, 6.(25)	34,828,440	26,362,443
Other liabilities		28,645,282	17,236,040
Total liabilities		<u>8,233,039,746</u>	<u>7,605,313,446</u>
Equity attributable to owners of parent			
Capital stock	6.(19)		
Common stock		125,632,102	125,632,102
Preferred stock		8,333,000	8,333,000
Capital surplus	6.(20)	130,452,105	130,448,697
Retained earnings	6.(21)		
Legal reserve		35,339,841	30,577,724
Special reserve		149,106,971	149,108,336
Undistributed earnings		99,296,739	73,001,761
Other equity		50,906,313	6,222,952
Non-controlling interests	4, 6.(22)	9,403,472	6,499,449
Total equity		<u>608,470,543</u>	<u>529,824,021</u>
Total liabilities and equity		<u>\$8,841,510,289</u>	<u>\$8,135,137,467</u>

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 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

	Notes	2017.1.1~2017.12.31	2016.1.1~2016.12.31
Interest income	4	\$186,087,791	\$168,883,110
Less: Interest expenses		<u>(17,627,041)</u>	<u>(15,405,207)</u>
Net interest income	4	168,460,750	153,477,903
Net income other than interest			
Net commission and handling fee		1,069,774	(8,049,810)
Net premiums from insurance business		329,113,923	314,219,387
Gains on financial assets and liabilities at fair value through profit or loss		97,018,698	19,582,308
Gains from investment properties		9,393,781	12,964,367
Realized gains on available-for-sale financial assets		71,735,163	48,169,789
Realized gains on held-to-maturity financial assets		203,906	57,608
Losses on foreign exchange		(116,155,990)	(42,817,155)
Impairment losses on assets		(130,099)	(175,164)
Share of profit of associates and joint ventures accounted for using the equity method		1,297,864	1,202,103
Net other non-interest gains		<u>22,445,504</u>	<u>40,606,065</u>
Total income		<u>584,453,274</u>	<u>539,237,401</u>
Bad debt expenses and provision for premiums reserve		<u>(3,459,544)</u>	<u>(5,231,676)</u>
Changes in insurance liabilities and provisions		<u>(445,832,540)</u>	<u>(408,613,955)</u>
Operating expenses	6,(23)		
Employee benefits expenses		(44,810,610)	(45,895,849)
Depreciation and amortizations expenses		(5,424,248)	(5,189,148)
Other general and administration expenses		<u>(25,290,715)</u>	<u>(24,122,268)</u>
Subtotal		<u>(75,525,573)</u>	<u>(75,207,265)</u>
Profit before income tax from continuing operations		59,635,617	50,184,505
Income tax expense	4, 6,(25)	<u>(2,962,393)</u>	<u>(2,145,305)</u>
Net income		<u>56,673,224</u>	<u>48,039,200</u>
Other comprehensive income	4, 6,(24)		
Not to be reclassified to profit or loss in subsequent periods:			
Remeasurements of defined benefit plans		(798,222)	753,518
Revaluation gains on property		308,226	-
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		183,172	(9,343)
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk		(1,579,937)	44,408
Income tax relating to the components not to be reclassified to profit or loss in subsequent periods		339,698	(133,885)
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)	(8,920,171)
Unrealized gains from available-for-sale financial assets		53,167,715	985,063
Gains (losses) on cash flow hedges		14,595	(216,856)
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		(1,201,786)	(722,914)
Income tax relating to the components to be reclassified to profit or loss in subsequent periods		(3,122,032)	3,567,798
Other comprehensive income, net of tax		<u>44,354,346</u>	<u>(4,652,382)</u>
Total comprehensive income		<u>\$101,027,570</u>	<u>\$43,386,818</u>
Net income attributable to:			
Owners of parent		\$56,306,735	\$47,618,813
Non-controlling interests		366,489	420,387
Subtotal		<u>\$56,673,224</u>	<u>\$48,039,200</u>
Total comprehensive income attributable to:			
Owners of parent		\$100,990,096	\$43,393,475
Non-controlling interests		37,474	(6,657)
Subtotal		<u>\$101,027,570</u>	<u>\$43,386,818</u>
Earnings per share (expressed in dollars) :	6,(26)		
Basic earnings per share:			
Net income		<u>\$4.47</u>	<u>\$3.79</u>

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 2017 and 2016

(Expressed in thousands of New Taiwan Dollars)

Items	Equity attributable to owners of parent															
	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) from available-for-sale financial assets	Gains (losses) on 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	Others	Total	Non-controlling interests	Total equity
Balance on 1 January 2016	\$125,632,102	\$-	\$88,781,174	\$24,820,095	\$140,185,120	\$65,190,213	\$1,865,366	\$(417,073)	\$371,524	\$83,462	\$(1,562,755)	\$10,108,783	\$(1,017)	\$455,056,994	\$6,005,208	\$461,062,202
Appropriations and distribution for 2015																
Legal reserve				5,757,629		(5,757,629)								-		-
Special reserve					8,923,216	(8,923,216)								-		-
Cash dividends						(25,126,420)								(25,126,420)		(25,126,420)
Other additional paid-in capital																
Share of changes in net assets of associates and joint ventures accounted for using the equity method			2,523											2,523		2,523
Net income for the year ended 31 December 2016 (Note 1)						47,618,813								47,618,813	420,387	48,039,200
Other comprehensive income for the year ended 31 December 2016							(9,140,278)	4,440,232	(179,990)	36,859	616,822		1,017	(4,225,338)	(427,044)	(4,652,382)
Comprehensive income for the year ended 31 December 2016	-	-	-	-	-	47,618,813	(9,140,278)	4,440,232	(179,990)	36,859	616,822	-	1,017	43,393,475	(6,657)	43,386,818
Issue of preferred stock		8,333,000	41,665,000											49,998,000		49,998,000
Increase in non-controlling interests															500,898	500,898
Balance on 31 December 2016	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)								-		-
Special reserve						(25,126,420)								(25,126,420)		(25,126,420)
Cash dividends						(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 year ended 31 December 2017 (Note 2)						56,306,735								56,306,735	366,489	56,673,224
Other comprehensive income for the year 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 year 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

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

Note1: For the year ended 2016, the remuneration to directors and supervisors in the amount of \$1,800 thousand and employees' compensation in the amount of \$4,920 thousand have been deducted from the Statement of Comprehensive Income.

Note2: 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.

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 2017 and 2016
(Expressed in thousands of New Taiwan Dollars)

Items	2017.1.1~2017.12.31	2016.1.1~2016.12.31	Items	2017.1.1~2017.12.31	2016.1.1~2016.12.31
Cash flows from operating activities			Cash generated from operations	<u>(60,343,267)</u>	<u>(202,458,229)</u>
Profit before income tax from continuing operations	\$59,635,617	\$50,184,505	Interest received	181,281,421	164,070,791
Adjustments :			Dividends received	25,553,382	24,352,712
Income and other adjustments with no cash flow effects			Interest paid	(16,301,176)	(15,297,256)
Depreciation expenses	2,455,658	2,295,745	Income taxes paid	(8,551,542)	(2,735,091)
Amortizations expenses	2,968,590	2,893,403	Net cash flows from (used in) operating activities	<u>121,638,818</u>	<u>(32,067,073)</u>
Bad debt expense	3,459,544	5,231,676	Cash flows from investing activities		
Net gains on financial assets and liabilities at fair value through profit or loss	(89,225,729)	(15,117,537)	Acquisition of financial assets at fair value through profit or loss	(55,986)	(1,523,051)
Interest expenses	17,627,041	15,405,207	Disposal of financial assets at fair value through profit or loss	103,091	3,019,067
Interest revenue	(186,087,791)	(168,883,110)	Acquisition of financial assets available for sale	(852,826)	(1,389,511)
Dividend income	(24,966,314)	(23,847,539)	Disposal of financial assets available for sale	739,288	843,738
Net changes in insurance liabilities and provisions	373,941,773	347,690,617	Acquisition of financial assets carried at cost	(8,241)	(5,745)
Net changes of other liabilities and provisions	1,717,660	(6,154,971)	Acquisition of investments accounted for using the equity method	(2,676,067)	(6,670,889)
Share of gain of associates and joint ventures accounted for using the equity method	(1,297,864)	(1,202,103)	Disposal of investments accounted for using the equity method	49,503	-
Losses (gains) on disposal or scrapping of property and equipment	24,546	(225,342)	Acquisition of subsidiaries	-	(4,708,708)
Gains on disposal of investment properties	(71,271)	(1,028,782)	Disposal of subsidiaries	-	(4,609,822)
Losses on disposal or intangible assets	42	391	Cash returned by capital deduction from investments accounted for using equity method	258,202	70,299
Gains on disposal of investments	(64,750,343)	(48,017,674)	Acquisition of property and equipment	(4,004,004)	(4,325,933)
Impairment losses on financial assets	104,174	117,002	Disposal of property and equipment	22,643	319,802
Impairment losses on non-financial assets	25,925	58,162	Increase in guarantee deposits paid	(15,600)	(1,126)
Unrealized foreign exchange gains	(104,460)	(71,422)	Decrease in guarantee deposits paid	837	23,030
Revaluation losses (gains) on investment properties	830,441	(1,847,034)	Acquisition of intangible assets	(409,008)	(415,279)
Others	6,471	(2,730,769)	Acquisition of investment properties	(7,078,139)	(3,254,915)
Subtotal	<u>36,658,093</u>	<u>104,565,920</u>	Disposal of investment properties	362,453	2,146,998
Changes in operating assets and liabilities			Increase in other assets	(66,980)	(138,634)
Changes in operating assets			Decrease in other assets	9,947,501	7,151,817
Increase in due from the Central Bank and call loans to banks	(1,745,444)	(2,636,468)	Dividends received	73,518	96,607
(Increase) decrease in financial assets at fair value through profit or loss	(28,862,398)	150,814,074	Net cash flows used in investing activities	<u>(3,609,815)</u>	<u>(13,372,255)</u>
Decrease (increase) in available-for-sale financial assets	8,729,797	(83,009,152)	Cash flows from financing activities		
Decrease (increase) in derivative financial assets for hedging	419	(1,798)	Increase in short-term borrowings	373,758	87,229
Increase in accounts receivable	(15,197,878)	(11,544,134)	Increase in commercial paper payable	9,890,000	5,900,000
Decrease (increase) in loans	1,076,679	(283,277,168)	Issue of corporate bonds	35,000,000	-
Decrease (increase) in reinsurance contract assets	1,509,584	(2,322,525)	Issue of financial debentures	11,450,000	-
(Increase) decrease in financial assets held to maturity	(17,319,381)	283,195	Decrease in bonds payable	-	(20,000,000)
Increase in other financial assets	(235,789,020)	(201,738,797)	Decrease in bills and bonds sold under agreements to repurchase	(46,444)	(14,660)
Decrease (increase) in other assets	5,838,196	(4,785,493)	Increase in other liabilities	934,650	1,108,978
Subtotal	<u>(281,759,446)</u>	<u>(438,218,266)</u>	Payment of cash dividend	(25,474,807)	(25,223,449)
Changes in operating liabilities			Increase in cash capital	-	49,998,000
Increase in due to the Central Bank and call loans from banks	14,125,626	36,402,468	Decrease in non-controlling interests	(70,187)	(55,385)
Decrease in financial liabilities at fair value through profit or loss	(28,321,989)	(107,752,312)	Net cash flows from financing activities	<u>32,056,970</u>	<u>11,800,713</u>
Increase in securities purchased under agreements to repurchase	53,550,968	3,629,737	Effects of exchange rate changes on cash and cash equivalents	<u>542,862</u>	<u>1,300,885</u>
Increase in payables	4,713,247	10,761,223	Increase (decrease) in cash and cash equivalents	<u>150,628,835</u>	<u>(32,337,730)</u>
Increase in deposits	65,913,584	146,256,116	Cash and cash equivalents at the beginning of periods	<u>264,597,958</u>	<u>296,935,688</u>
Decrease in provisions for the liabilities of employee benefits	(571,994)	(3,415,115)	Cash and cash equivalents at the end of periods	<u>\$415,226,793</u>	<u>\$264,597,958</u>
Increase (decrease) in reserves for the operations and liabilities	47,776	(136,830)			
Increase (decrease) in other financial liabilities	4,490,837	(5,660,297)	The components of cash and cash equivalents		
Increase in other liabilities	11,174,414	924,622	Cash and cash equivalents presented in balance sheet	\$245,354,768	\$195,913,525
Subtotal	<u>125,122,469</u>	<u>81,009,612</u>	Due from the Central Bank and call loans to banks satisfied the definition of cash and cash equivalents under IAS No.7	70,168,447	18,524,091
Subtotal of Changes in operating assets and liabilities	<u>(156,636,977)</u>	<u>(357,208,654)</u>	Bills sold under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7	99,703,578	50,160,342
Subtotal of Adjustment	<u>(119,978,884)</u>	<u>(252,642,734)</u>	Cash and cash equivalents at the end of periods	<u>\$415,226,793</u>	<u>\$264,597,958</u>

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

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Cathay Financial Holding Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

For the years ended 31 December 2017 and 2016

(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.

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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 2017 and 2016 were authorized for issue in accordance with a resolution of the board of directors on 15 March 2018.

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, International Accounting Standards, 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 2017. The nature and the impact of each new standard and amendment that has a material effect on the Group is described below:

IAS 36 “Impairment of Assets” (Amendment)

This amendments relate to the amendments issued in May 2011 and require entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendments also require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement.

- (2) Standards or interpretations issued, revised or amended, which are endorsed by FSC, but not yet adopted by the Group as at the end of the reporting period are listed below.

A. IFRS 15 “Revenue from Contracts with Customers”

The core principle of the new Standard is for companies to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

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- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The new Standard includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Standard is effective for annual periods beginning on or after 1 January 2018.

B. IFRS 9 “Financial Instruments”

The IASB has issued the final version of IFRS 9, which combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9 *Financial Instruments* (which include standards issued on classification and measurement of financial assets and liabilities and hedge accounting).

Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore there is requirement that 'own credit risk' adjustments are not recognized in profit or loss.

Impairment: Expected credit loss model is used to evaluate impairment. Entities are required to recognize either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

Hedge accounting: Hedge accounting is more closely aligned with risk management activities and hedge effectiveness is measured based on the hedge ratio.

The new standard is effective for annual periods beginning on or after 1 January 2018. Consequential amendments on the related disclosures also become effective for annual periods beginning on or after 1 January 2018.

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C. *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 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 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss 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 was also amended so that the gains or loss 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.

D. *IAS 12 “Income Taxes” — Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify how to account for deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after 1 January 2017.

E. *Disclosure Initiative — Amendment to IAS 7 “Statement of Cash Flows”:*

The amendments relate to changes in liabilities arising from financing activities and to require a reconciliation of the carrying amount of liabilities at the beginning and end of the period. The amendments are effective for annual periods beginning on or after 1 January 2017.

F. *IFRS 15 “Revenue from Contracts with Customers” — Clarifications to IFRS 15*

The amendments clarify how to identify a performance obligation in a contract, determine whether an entity is a principal or an agent, and determine whether the revenue from granting a licence should be recognized at a point in time or over time. The amendments are effective for annual periods beginning on or after 1 January 2018.

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G. *IFRS 2 “Shared-Based Payment” — Amendments to IFRS 2*

The amendments contain (1) clarifying that vesting conditions (service and non-market performance conditions), upon which satisfaction of a cash-settled share-based payment transaction is conditional, are not taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, these are taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction, (2) clarifying if tax laws or regulations require the employer to withhold a certain amount in order to meet the employee’s tax obligation associated with the share-based payment, such transactions will be classified in their entirety as equity-settled share-based payment transactions if they would have been so classified in the absence of the net share settlement feature, and (3) clarifying that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date and is recognized in equity, on the modification date, to the extent to which goods or services have been received. The liability for the cash-settled share-based payment transaction as at the modification date is derecognized on that date. Any difference between the carrying amount of the liability derecognized and the amount recognized in equity on the modification date is recognized immediately in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2018.

H. *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts — Amendments to IFRS 4*

The amendments help to resolve issues arising from the different effective dates for IFRS 9 “Financial Instruments” (1 January 2018) and the new insurance contracts standard about to be issued by the IASB (still to be decided, but not before 1 January 2021). The amendments allow entities issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 “Financial Instruments” before the IASB’s new insurance contracts standard becomes effective. The amendments introduce two approaches: an overlay approach and a temporary exemption. The overlay approach allows an entity applying IFRS 9 to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before the new insurance contracts standard is applied. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 until 2021 (these entities that defer the application of IFRS 9 will continue to apply IAS 39).

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I. *Transfers of Investment Property — Amendments to IAS 40*

The amendments relate to the transfers of investment property. The amendments clarify that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use, the entity should transfer property into and out of investment property accordingly. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are effective for annual periods beginning on or after 1 January 2018.

J. *Improvements to International Financial Reporting Standards (2014-2016 cycle):*

IFRS 1 “First-time Adoption of International Financial Reporting Standards”

The amendments revise and amend transition requirements relating to certain standards and delete short-term exemptions under Appendix E for first-time adopter. The amendments are effective for annual periods beginning on or after 1 January 2018.

IFRS 12 “Disclosure of Interests in Other Entities”

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interests that are classified as held for sale or discontinued operations. The amendments are effective for annual periods beginning on or after 1 January 2017.

IAS 28 “Investments in Associates and Joint Ventures”

The amendments clarify that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and other qualifying entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9 “Financial Instruments” on an investment-by-investment basis. Besides, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries on an investment-by-investment basis. The amendments are effective for annual periods beginning on or after 1 January 2018.

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K. IFRIC 22 “*Foreign Currency Transactions and Advance Consideration*”

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 “The Effects of Changes in Foreign Exchange Rates”, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation is effective for annual periods beginning on or after 1 January 2018.

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 2018. Apart from the potential impact of the standards and interpretations listed under (a) and (b) which is described below, all other standards and interpretations have no material impact on the Group:

A. 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:

In accordance with the requirements of IFRS 15, more extensive disclosure would have to be made.

B. The explanation related to the application of IFRS 9 “Financial Instruments” is as follows:

The Group elects not to restate prior periods in accordance with the requirements of IFRS 9 at the date of initial application (1 January 2018).

(A) Classification and measurement of financial assets

Financial assets at fair value through profit or loss

Financial instruments 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 are classified as financial assets at fair value through profit or loss under IFRS 9.

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Available-for-sale financial assets

Classified as available-for-sale financial assets according to IAS 39, 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. 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.

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, 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 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.

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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. No difference from carrying amount exists, and the aforementioned assets should be assessed for impairment in accordance with IFRS 9.

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. The reclassification doesn't result in any difference from 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 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 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.

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. 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.

Bond investments classified as loans and receivables (placed in debt instrument investments for which no active market exists) according to IAS 39 and whose cash flow characteristics are 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 choose to express profit or loss of the designated financial assets in overlay approach under IFRS 4 Insurance Contracts since its application of IFRS 9 and thus, the abovementioned reclassification results in an increase in other equity reclassified.

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(B) Impairment assessment of financial assets

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) Effects on the date of initial application

In accordance with classification and measurement of financial assets and impairment assessment in IFRS 9, the Group expect to increase assets by \$43,186,806 thousand, increase liabilities by \$7,343,059 thousand, decrease retained earnings by \$3,651,600 thousand, increase other equity by \$39,489,426 thousand and increase non-controlling interests \$5,921 thousand on the date of initial application (1 January 2018). The explanation is as follows:

a. Classification and measurement of financial assets

Parts of held-to-maturity financial assets, investments in debt securities with no active market and available-for-sale financial assets are reclassified as financial assets at fair value through profit or loss, or financial assets at fair value through other comprehensive income and thus reflect on adjustments to unrealized gains. The assets increased by \$44,272,212 thousand, the liabilities increased by \$7,221,178 thousand, retained earnings decreased by \$1,958,829 thousand, other equity increased by \$39,003,942 thousand and non-controlling interests increased by \$5,921 thousand.

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 \$121,881 thousand, decreased retained earnings by \$1,692,771 thousand and increased other equity by \$485,484 thousand.

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(D) Others

Consequential amendments on the related disclosures in IFRS 7 were also made as a result of the application of IFRS 9, which include the disclosure requirements related to the initial application of IFRS 9. Therefore more extensive disclosure would have to be made.

- (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.

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. The Standard is effective for annual periods beginning on or after 1 January 2019.

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. The Interpretation is effective for annual periods beginning on or after 1 January 2019.

C. *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.

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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:

- (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.

D. 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. The amendment is effective for annual reporting periods beginning on or after 1 January 2019.

E. Prepayment Features with Negative Compensation (Amendments to IFRS 9)

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 is effective for annual reporting periods 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 considered it necessary to apply the standard and therefore chose to early apply on 1 January 2018. The application of this standard has no significant impact on the Group.

F. Improvements to International Financial Reporting Standards (2015-2017 cycle):

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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. The amendments are effective for annual periods beginning on or after 1 January 2019.

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. The amendments are effective for annual periods beginning on or after 1 January 2019.

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. The amendments are effective for annual periods beginning on or after 1 January 2019.

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. The amendments are effective for annual periods beginning on or after 1 January 2019.

G. 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 amendments are effective for annual periods beginning on or after 1 January 2019.

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.

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4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Group for the years ended 31 December 2017 and 2016 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 “International Financial Reporting Standards”, “International Accounting Standards”, “Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee” 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

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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.

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	2017.12.31	2016.12.31	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.
The Company	Cathay United Bank Co., Ltd. ("Cathay United Bank")	Commercial banking operations	100.00	100.00	UWCCB was enfranchised 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.

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Investor	Subsidiary	Business nature	2017.12.31	2016.12.31	Notes
The Company	Cathay Century Insurance Co., Ltd. (“Cathay Century”)	Property and casualty insurance	100.00	100.00	Cathay Century was incorporated 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.
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 Tradezone 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.

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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.
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 Ltd.	Wealth Management	100.00	100.00	Conning Japan Ltd. was incorporated on 7 September 2015.
Conning Holdings Limited	Conning (Germany) GmbH	Risk management software	100.00	100.00	Conning (Germany) GmbH was incorporated on 1 October 2012.
The Company & Conning Holdings Limited	Conning Asia Pacific Ltd.	Wealth Management	100.00	100.00	Cathay Conning Asset Management Ltd. 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 25 March 2007.
Conning & Company	Goodwin Capital Advisors, Inc.	Wealth Management	100.00	100.00	Goodwin Capital Advisors, Inc. was incorporated on 28 August 2000.
Conning & Company	Conning Investments Products, Inc.	Securities	100.00	100.00	Conning Investments Products, Inc. was incorporated on 13 February 2012.
Conning & Company	Octagon Credit Investors, LLC	Wealth Management	82.05	82.05	Octagon Credit Investors, LLC was incorporated on 19 December 2011.
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 26 November 2014.

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Octagon Credit Investors, LLC	Octagon Funds GP LLC	Fund management services	100.00	100.00	Octagon Funds GP LLC was incorporated on 26 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 26 November 2014.
Octagon Credit Investors, LLC	Octagon Funds I, LLC	Fund management services	100.00	-	Octagon Funds I, LLC was incorporated on 17 January 2017.
Octagon Credit Investors, LLC	Octagon Funding II, LLC	Fund management services	100.00	-	Octagon Funding II, LLC was incorporated on 16 June 2017.
Octagon Credit Investors, LLC	Octagon Funding III, LLC	Fund management services	100.00	-	Octagon Funding III, LLC was incorporated on 19 December 2017.
Cathay 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 as CUBC Bank on 14 January 2014.
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. on 4 September 2015 after the acquisition.

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Investor	Subsidiary	Business nature	2017.12.31	2016.12.31	Notes
Cathay Securities Investment Trust	Cathay Private Equity Co., Ltd. (“Cathay Private Equity”)	Private equity	100.00	-	Cathay Private Equity was incorporated on 15 November 2017.

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	2017.12.31 Ownership interest	2016.12.31 Ownership interest	Notes
Cathay Life	Cathay Insurance (Bermuda) Co., Ltd. (“Cathay Insurance (Bermuda)”)	Class 3 general business insurers and Class C long-term insurer	100.00	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 United Bank	Seaward Card Co., Ltd. (Note) (“Seaward Card”)	Temporary employment	-	100.00	Seaward Card was incorporated on 9 April 1999.
Cathay Securities	Cathy Investment Consulting (Shanghai) Co., Ltd.	Investment consulting	100.00	100.00	Cathy Investment Consulting (Shanghai) Co., Ltd. was incorporated on 11 June 2014.

Note: Cathay United Bank sold the Seaward Card Co., Ltd. to related party, Symphox Information Co., Ltd, on 21 July 2017. Please refer to Note 6.(7) for details on disposal.

(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.

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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:

- 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.

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.

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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.

(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 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 transaction costs.

A. Financial assets

The Group accounts for regular way purchase or sales of financial assets on the trade date.

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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 upon initial recognition at fair value through profit or loss. 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 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.

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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.

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.

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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.

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.

Impairment of financial assets

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 is reduced through the use of an allowance account 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 obligor
- (B) a breach of contract, such as a default or delinquency in interest or principal payments
- (C) it becoming probable that the borrower will enter bankruptcy or other financial reorganization
- (D) the disappearance of an active market for that financial asset because of financial difficulties

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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. The interest income is recognized in profit or loss; loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. 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 other comprehensive income.

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.

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Derecognition of financial assets

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.

The reclassification of financial assets

According to IAS 39 *Financial Instruments: Recognition and Measurement*, the Group reclassified financial instruments based on the requirements listed below.

- (A) The disallowance of reclassification of derivatives instruments held or issued at fair value through profit and loss.
- (B) The disallowance of reclassification of any financial instrument which was originally designed as at fair value through profit and loss.
- (C) The disallowance of reclassification from any financial instrument to the category recorded at fair value through profit and loss.
- (D) If the change of intention or ability resulting in the impropriety that the investment is classified as held-to-maturity financial assets, such investment should be reclassified to available-for-sale financial assets remeasurement at fair value. The difference between book value and fair value should be recognized as the items of OCI.
- (E) If the investment is sold or reclassified as held-to-maturity financial assets before the date of maturity in the current period or previous two fiscal years, the amount of investment is not less than material, it is banned to classify any financial asset into held-to-maturity. If there is remaining held-to-maturity financial asset, it should be reclassified to available-for-sale financial assets.

B. 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.

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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 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.

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Financial liabilities

Financial liabilities within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial liabilities at fair value through profit or loss 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 upon initial recognition 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.
- (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 is recognized in profit or loss.

For financial liabilities designated as at FVTPL, 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.

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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.

Derivative financial liabilities for hedging

Derivative financial liabilities that have been designated in hedge accounting and are effective hedging instruments are measured at fair value.

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.

C. 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.

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(9) Derivative financial instrument

The Group uses derivative financial 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.

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.

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 measured at fair value with changes in fair value recognized in profit or loss.

(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.

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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.

(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.

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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 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.

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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.

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(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.

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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).

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(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:

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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.

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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.

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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.

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(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 2017, the amount set aside was \$11,589,138 thousand.

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(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”. 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.

(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.

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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.

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.

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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.

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.

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(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.

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.

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Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

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

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group 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:

Interest income

For all financial assets measured at amortized cost (including loans and receivables and held-to-maturity financial assets) and available-for-sale financial assets, interest income is recorded using the effective interest rate method and recognized in profit or loss.

Handling fee revenue

The Group charges customers by providing a variety of services.

Dividends

Revenue is recognized when the Group’s right to receive the payment is established.

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Rental income

Rental income arising from operating leases is accounted for on a straight line basis over the lease terms.

(21) Share-based payment transactions

The cost of equity-settled transactions between the Group and its subsidiaries 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 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.

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

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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 10% 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.

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

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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 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.

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 10% 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.

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(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 reevaluated through profit or loss, or other comprehensive income, according to 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.

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.

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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:

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.

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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.

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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 = $(\sum \text{PV amount to assumed re-insurer occur net loss} \times \text{the ratio of occurrence} / \text{PV of premium that assumed re-insurer expected}) \times 100\%$

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 Group reviews their loan 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 change in debtor payment status, or sovereign or the local economic situation related to debt payment in appears. 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.

B. Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the income approach (for example, the discounted cash flows model) or market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments.

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C. 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.

D. 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.

E. 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.

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F. Insurance contract liabilities (including investment contract liabilities with discretionary participation feature of financial instruments)

The liabilities for insurance contract and investment contracts with discretionary participation feature of financial instruments are 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 rate. 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.

G. Revenue recognition – Customer loyalty program

The Group estimates the fair value of points awarded under the customer loyalty program by applying statistical techniques. Inputs to the models include making assumptions about expected redemption rates, the mix of products that will be available for redemption in the future and customer preferences. As points issued under the program do not expire, such estimates are subject to significant uncertainty.

H. 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 countries 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.

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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

	2017.12.31	2016.12.31
Petty cash and cash on hand	\$18,322,143	\$20,171,989
Cash in banks	98,762,675	62,634,163
Time deposits	74,298,091	65,879,925
Cash equivalents	6,119,932	3,893,737
Checks for clearance	7,025,587	7,390,035
Due from commercial banks	40,826,340	35,943,676
Total	\$245,354,768	\$195,913,525

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

	2017.12.31	2016.12.31
Designated financial assets at fair value through profit or loss at initial recognition:		
Beneficiary certificates	\$155,197	\$80,102
Overseas stocks	84,171	-
Subtotal	239,368	80,102
Held for trading:		
Common stock	17,846,019	10,792,048
Funds and beneficiary certificates	17,703,649	25,759,121
Government bonds	39,912,927	48,746,656
Corporate bonds	32,125,221	9,686,090
Financial debentures	37,411,528	1,610,850
Overseas debentures	98,240	4
Structured time deposits	-	2,275,663
Short-term notes	170,563,632	93,126,341
Margin for futures trading-own funds	538,593	326,894
Derivative financial instruments	49,368,981	52,125,495
Subtotal	365,568,790	244,449,162
Total	\$365,808,158	\$244,529,264

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- A. As of 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 \$46,143,100 thousand. Such repurchase agreements amounting to \$43,634,657 thousand, which was posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheets. Repurchase agreement entered prior to 31 December 2017 were settled at \$43,732,175 prior to 28 February 2017.
- B. As of 31 December 2017 and 31 December 2016, Cathay Securities and its subsidiaries sold certain financial assets at fair value through profit or loss under repurchase agreements with notional amounts of \$2,700,000 thousand and \$2,350,000 thousand, respectively.
- C. 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 2017 and 31 December 2016.

(3) Available-for-sale financial assets

	2017.12.31	2016.12.31
Common stock	\$714,154,085	\$627,044,109
Beneficiary certificates	346,116,986	281,101,429
Funds and beneficiary Securities	6,250,341	9,175,690
Real Estate Investment Trust	12,136,777	19,079,885
Government bonds	163,947,314	183,098,221
Corporate bonds	43,300,630	51,295,049
Financial debentures	105,872,531	117,704,530
Asset-backed securities	581,533	831,442
Overseas debentures	289,856,391	303,060,779
Short-term notes	-	917,355
Less: Litigation deposits	(57,075)	(78,797)
Less: Securities serving as deposits paid-bonds	(1,033,775)	(1,870,035)
Total	<u>\$1,681,125,738</u>	<u>\$1,591,359,657</u>

- A. As of 31 December 2017 and 31 December 2016, Cathay United Bank and its subsidiaries sold certain available-for-sale financial assets under repurchase agreements with notional amounts of \$29,926,975 thousand and \$23,612,678 thousand, respectively. Such repurchase agreements amounting to \$29,338,529 thousand and \$22,468,724 thousand, were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements were settled at \$29,404,419 thousand and \$22,472,812 thousand, as of 30 June 2018 and 30 June 2017 respectively.

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B. Cathay Life and its subsidiaries recognized an impairment provision as some objective evidences were identified showing impairment indicators associated with domestics stocks and beneficiary certificates held by Cathay Life and its subsidiaries. As of 31 December 2017 and 31 December 2016 Cathay Life and its subsidiaries recognized impairment losses amounting to \$185,987 thousand and \$202,271 thousand, respectively.

C. Cathay United Bank and its subsidiaries has recognized accumulated impairment loss for the available-for-sale financial assets in the amount of \$146,379 thousand and \$140,985 thousand as of 31 December 2017 and 31 December 2016 respectively, due to the existence of objective impairment evidence.

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 and 31 December 2016.

(4) Receivable - net

	2017.12.31	2016.12.31
Notes receivable	\$755,878	\$1,993,999
Accounts receivable	72,261,539	71,901,198
Interest receivable	49,248,421	44,287,317
Acceptances	785,112	1,045,109
Factoring receivable	2,248,622	4,073,377
Others	46,450,745	34,857,879
Subtotal	171,750,317	158,158,879
Adjustment for discounts and premiums	(10,301)	(14,395)
Less: Allowance for bad debts	(2,537,756)	(3,932,424)
Total	<u>\$169,202,260</u>	<u>\$154,212,060</u>

A. Information on bad and doubtful accounts is as follows:

	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Balance, beginning of the period	\$3,932,424	\$2,972,024
Provision of doubtful accounts	(41,000)	1,762,969
Write-offs	(1,657,010)	(1,216,817)
Debt counseling recoveries	110,658	119,404
Recoveries	459,889	456,119
Reclassification	(253,351)	(115,627)
Effect of exchange rates change	(13,854)	(25,850)
Loss of control of a subsidiary	-	(19,798)
Balance, end of the period	<u>\$2,537,756</u>	<u>\$3,932,424</u>

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B. Allowance for bad debt receivables are shown as follows:

Item		Accounts Receivable	
		2017.12.31	2016.12.31
Objective evidence of impairment exists individually	Individual assessment of impairment	\$662,880	\$756,613
	Collective assessment of impairment	191,529	232,745
Objective evidence of impairment does not exist individually	Collective assessment of impairment	170,895,908	157,169,521

Item		Allowance for doubtful account	
		2017.12.31	2016.12.31
Objective evidence of impairment exists individually	Individual assessment of impairment	\$50,607	\$47,629
	Collective assessment of impairment	137,996	176,955
Objective evidence of impairment does not exist individually	Collective assessment of impairment	2,349,153	3,707,840

Note: Total receivables equal the original amount before subtracting (adding) the allowance for bad debts and adjustment for discount (premium).

(5) Loans - net

	2017.12.31	2016.12.31
Inward-outward documentary bills	\$1,339,549	\$2,303,674
Loans	2,060,873,608	2,062,966,561
Overdrafts	2,191,344	3,239,367
Delinquent accounts	3,126,604	2,433,949
Subtotal	2,067,531,105	2,070,943,551
Adjustment for discounts and premiums	389,580	575,212
Less: Allowance for bad debts	(29,392,495)	(25,985,968)
Total	<u>\$2,038,528,190</u>	<u>\$2,045,532,795</u>

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A. Information on bad and doubtful accounts is as follows:

	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Balance, beginning of the period	\$25,985,968	\$22,804,891
Provision of doubtful accounts	3,606,056	3,825,304
Write-offs	(1,577,218)	(1,618,723)
Debt counseling recoveries	102,707	108,587
Recoveries	1,333,840	830,800
Reclassification	253,351	115,627
Effect of exchange rates change	(312,209)	(80,518)
Balance, end of the period	<u>\$29,392,495</u>	<u>\$25,985,968</u>

B. Assessment for loans are showed as followed:

		Total loans	
		2017.12.31	2016.12.31
Objective evidence of impairment exists individually	Individual assessment of impairment	\$13,525,881	\$9,444,290
	Collective assessment of impairment	11,050,334	10,675,829
Objective evidence of impairment does not exist individually	Collective assessment of impairment	2,042,954,890	2,050,823,432

Item		Allowance for bad debts	
		2017.12.31	2016.12.31
Objective evidence of impairment exists individually	Individual assessment of impairment	\$3,300,196	\$1,820,169
	Collective assessment of impairment	2,039,718	2,090,600
Objective evidence of impairment does not exist individually	Collective assessment of impairment	24,052,581	22,075,199

Note: Total loans equal the original amount before subtracting (adding) the allowance for bad debts and adjustment for discount (premium).

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(6) Held-to-maturity financial assets

	2017.12.31	2016.12.31
Government bonds	\$48,098,511	\$35,419,298
Corporate bonds	7,465,184	12,144,260
Financial debentures	12,588,995	18,517,820
Asset-backed securities	9,843,981	12,296,939
Overseas debentures	24,087,773	6,536,637
Short-term notes	5,221,668	5,422,099
Subtotal	107,306,112	90,337,053
Less: Court security deposit	(1,376,984)	(1,348,913)
Less: Securities serving as deposits paid-bonds	(7,170,018)	(7,161,401)
Total	\$98,759,110	\$81,826,739

A. As of 31 December 2017 and 31 December 2016, Cathay United Bank and its subsidiaries sold certain held-to-maturity financial assets under repurchase agreements with notional amounts of \$32,683,560 thousand and \$40,499,233 thousand, respectively. Such repurchase agreements amounting to \$23,242,069 thousand and \$31,066,277 thousand, were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements were settled at \$23,319,479 thousand and \$31,129,794 thousand as of 31 December 2017 and 31 December 2016, respectively.

B. 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 and 31 December 2016 Cathay Life and its subsidiaries recognized impairment losses amounting to \$15,932 thousand and \$29,740 thousand, respectively.

C. Please refer to Note 8 for related information on the above held-to-maturity financial assets as of 31 December 2017 and 31 December 2016, being pledged as collaterals.

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(7) Investments accounted for using the equity method - net

Investee	2017.12.31		2016.12.31	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Investments in subsidiaries exclude from consolidated:				
Cathay Securities Investment Consulting	\$257,159	100.00	\$249,902	100.00
Seaward Card	-	-	39,793	100.00
Cathay Insurance (Bermuda)	121,671	100.00	129,896	100.00
Cathy Investment Consulting (Shanghai) Co., Ltd.	11,020	100.00	16,027	100.00
Subtotal	389,850		435,618	
Investments in associates:				
WK Technology Fund VI Co., Ltd	81,873	21.43	148,679	21.43
Taiwan Real-estate Management Corp.	101,936	30.15	98,066	30.15
Taiwan Finance Corp.	1,642,111	24.57	1,570,490	24.57
IBT Venture Capital Corp.	-	-	3,916	24.96
Tien-Tai Energy Corp. (Note)	-	-	36,040	44.44
Tien-Tai One Energy Corp. (Note)	-	-	24,482	33.33
Tien-Tai Management Consulting Co., Ltd.	2,382	28.20	134	30.00
CDBS Cathay Asset Management Co., Ltd	513,502	33.30	263,243	33.30
Symphox Information Co., Ltd.	438,807	49.12	433,635	49.12
Da Sheng Venture Inc.	1,514,974	25.00	1,455,635	25.00
KHL IV Venture Capital Co., Ltd.	756,353	21.43	360,729	21.43
Chi-Chia Energy Corp. (Note)	-	-	34,442	29.08
Chao-Yang Energy Corp. (Note)	-	-	34,133	29.08
Dun-Yang Energy Corp.	44,668	32.20	47,095	32.20
Yong-Chang Energy Corp.	46,790	32.32	47,365	32.32
Ri-Zhao Energy Corp.	49,160	32.32	48,072	32.32
Tien-Tai Optronics Corporation (Note)	132,945	33.64	-	-
Nan-Gang International 1 Corp.	675,812	45.00	675,258	45.00
Nan-Gang International 2 Corp.	675,232	45.00	674,959	45.00
CM Engery Co., Ltd.	272,256	45.00	53,959	45.00
Rizal Commercial Banking Corporation	13,749,705	23.35	13,622,794	22.71
PT Bank Mayapada Internasional Tbk	12,447,700	40.00	11,740,568	40.00
Hsin Jih Tai Corporation	673,599	45.00	673,845	45.00
Cathay Century (China)	2,469,714	49.00	2,726,633	49.00
Cathay Sunrise Corporation	676,284	45.00	-	-
Subtotal	36,965,803		34,774,172	
Total	\$37,355,653		\$35,209,790	

Note: Tien-Tai Energy Corp., Tien-Tai One Energy Corp., Chi-Chia Energy Corp., and Chao-Yang Energy Corp. took shares of the newly incorporated Tien-Tai Optronics Corporation and exchanged equity on 3 January 2017.

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The Group's investments in the associates were not significant. As of 31 December 2017 and 31 December 2016, the carrying amount of investments in associates accounted for using the equity method amounted to \$36,965,803 thousand and \$34,774,172 thousand. The aggregate financial information of the Group's investments in the associates is as follows:

	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Profit or loss from continuing operations	\$1,188,349	\$1,096,416
Other comprehensive income (post-tax)	(1,008,317)	(727,920)
Total comprehensive income	\$180,032	\$368,496

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 \$1,205,510 thousand and \$1,246,472 thousand for the year ended 31 December 2017 and 2016, respectively. The share of the other comprehensive (losses) income of these associates accounted for using the equity method amounted to \$(1,028,025) thousand and \$(582,597) thousand for the year ended 31 December 2017 and 2016, respectively. The remaining balance of related investment amounted to \$31,717,860 thousand and \$27,911,446 thousand as of 31 December 2017 and 2016, respectively.

B. No investment in the associates was pledged.

C. 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.

(8) Other financial assets

	2017.12.31	2016.12.31
Financial assets carried at cost	\$13,986	\$5,745
Investments in debt securities with no active market	2,783,306,758	2,526,608,201
Separate account product assets	555,269,179	498,014,211
Structured time deposits	4,500,000	7,661,395
Other miscellaneous financial assets	4,817,378	4,091,661
Total	\$3,347,907,301	\$3,036,381,213

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Investments in debt securities with no active market

	2017.12.31	2016.12.31
Common stocks	\$1,898,721	\$2,667,893
Government bonds	82,687	53,717
Corporate bonds	19,727,333	21,237,777
Financial debentures	73,380,080	81,171,116
Structured debentures	2,984,800	3,873,480
Asset-backed securities	27,141,758	28,079,749
Overseas debentures	2,337,169,955	2,069,824,850
Time deposit	318,956,977	316,870,441
Beneficial right of real estate	-	300,000
Beneficiary Securities	1,964,447	2,529,178
Total	<u>\$2,783,306,758</u>	<u>\$2,526,608,201</u>

A. 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 and 31 December 2016, Cathay Life and its subsidiaries recognized impairment losses amounting to \$388,024 thousand and \$419,627 thousand, respectively.

B. Cathay United Bank has recognized accumulated impairment loss for the investments in debt securities with no active market in the amount of \$0 thousand and \$1,382,970 thousand as of 31 December 2017 and 31 December 2016, respectively, due to credit deterioration of securitization and financial debentures.

Cathay United Bank has recognized accumulated impairment loss for the investment in debt securities with no active market in the amount of \$0 thousand and \$95,586 thousand as of 31 December 2017 and 31 December 2016, respectively, due to the default on the convertible bonds.

C. As of 31 December 2017 and 31 December 2016, Cathay United Bank sold certain investments in debt securities with no active market classified as bonds under repurchase agreements with the notional amounts of \$22,555,953 thousand and \$5,543,771 thousand, respectively. Such repurchase agreements amounting to \$13,726,170 thousand and \$3,217,750 thousand, were recorded in the account “securities sold under agreements to repurchase” on the balance sheet. The repurchase agreements will be settled at \$13,763,664 thousand and \$3,222,577 thousand as of 31 January 2018 and 31 January 2017, respectively.

D. 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 and 31 December 2016.

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(9) Investment property

	Land	Buildings	Construction	Prepayments for buildings	Total
1 January 2017	\$219,938,108	\$87,382,963	\$3,309,152	\$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 from (to) 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	\$226,503,504	\$87,362,808	\$3,549,810	\$690,203	\$318,106,325

	Land	Buildings	Construction	Prepayments for buildings	Total
1 January 2016	\$273,362,206	\$101,716,259	\$3,313,056	\$2,758,288	\$381,149,809
Additions from acquisitions	-	-	3,315,438	2,292,955	5,608,393
Additions from subsequent expenditure	-	-	111,703	-	111,703
Transfers to property and equipment	(52,932,438)	(12,386,539)	-	-	(65,318,977)
Transfers from (to) investment property under construction and prepayments for buildings and land	2,191,115	3,445,894	(3,434,851)	(4,667,339)	(2,465,181)
Gains generated from fair value adjustments	1,568,946	278,088	-	-	1,847,034
Disposal	(1,117,116)	(1,100)	-	-	(1,118,216)
Exchange differences	(3,134,605)	(5,665,833)	-	-	(8,800,438)
31 December 2016	\$219,938,108	\$87,386,769	\$3,305,346	\$383,904	\$311,014,127

	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Rental income from investment properties	\$10,160,111	\$9,614,725
Less: Direct operating expense from investment properties generating rental income	(737,755)	(709,578)
Direct operating expense from investment properties not generating rental income	(160,703)	(191,384)
Total	\$9,261,653	\$8,713,763

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A. Cathay Life and its subsidiaries' valuation has been performed by appraisers from professional valuation agencies based on Regulations on Real Estate Appraisal, and valuation dates were 31 December 2017 and 31 December 2016. Please refer to the original financial report for detail information of the appraisers and agencies.

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 income approach – direct capitalization method. 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 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:

	2017.12.31	2016.12.31
Direct capitalization rate (net)	0.73%~4.39%	0.83%~5.73%
Discount rate	3.14%~4.23%	3.14%~4.10%

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.

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B. Cathay United Bank and its subsidiaries appointed appraisers from CCIS Valuation and Professional Services (Ching-Sheng Huang) to evaluate the fair value of investment property based on the “Regulations on Real Estate Appraisal” on 31 December 2017 and 31 December 2016.

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.

(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:

	<u>2017.12.31</u>	<u>2016.12.31</u>
Discounted rates	2.03%~5.83%	1.60%~2.75%
Capitalization rate	0.76%~2.89%	0.84%~2.23%

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(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.

	<u>2017.12.31</u>	<u>2016.12.31</u>
Rate of return	15%~20%	25%~30%
Overall capital interest rate	1.63%~2.11%	4.99%~16.98%

C. Cathay Futures 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 2017 and 31 December 2016, 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:

	<u>2017.12.31</u>	<u>2016.12.31</u>
Estimated future cash inflows	\$440,515	\$440,377
Estimated future cash outflows	(32,000)	(22,082)
Estimated future net cash flows	<u>\$408,515</u>	<u>\$418,295</u>

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 1.19% and 1.00% to extrapolate the total income of the underlying property, excluding losses as a result of idle and other reasons and related operation costs on 30 June 2017 and 31 December 2016, 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.

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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.

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 followed:

	2017.12.31	2016.12.31
Direct Capitalization rate (net)	2.60%	2.50%
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. As of 31 December 2017 and 31 December 2016, no investments in real estate were pledged as collateral.

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(10) Property and equipment

	Land	Building and construction	Computer equipment	Transport equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate	Total
Cost:									
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>
1 January 2016	\$67,171,611	\$45,559,141	\$7,124,334	\$133,979	\$11,606,206	\$618,476	\$423,730	\$650,163	\$133,287,640
Additions	-	-	504,132	3,090	421,115	157,241	-	751,133	1,836,711
Transfers	54,927,916	12,849,667	26,315	1,909	326,045	60,935	(142,234)	(602,283)	67,448,270
Disposal	(52,014)	(23,111)	(1,072,642)	(8,328)	(177,391)	(6,559)	-	-	(1,340,045)
Others	-	-	-	-	(166,923)	(91,663)	-	-	(258,586)
Exchange difference	(3,412)	(137,777)	(90,632)	(2,930)	10,197	(65,381)	(5,327)	(6,160)	(301,422)
31 December 2016	<u>\$122,044,101</u>	<u>\$58,247,920</u>	<u>\$6,491,507</u>	<u>\$127,720</u>	<u>\$12,019,249</u>	<u>\$673,049</u>	<u>\$276,169</u>	<u>\$792,853</u>	<u>\$200,672,568</u>
Depreciation and impairment:									
1 January 2017	\$105,610	\$20,480,174	\$5,311,076	\$86,447	\$9,931,553	\$367,695	\$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)	(13,491)	(5,476)	(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>
1 January 2016	\$105,610	\$19,502,834	\$5,950,235	\$90,631	\$9,497,298	\$336,677	\$315,619	\$-	\$35,798,904
Depreciation	-	1,028,919	497,216	11,102	592,056	92,369	74,083	-	2,295,745
Transfers	-	(31,606)	(7,740)	(6,434)	116,176	116,888	(190,238)	-	(2,954)
Disposal	-	(8,901)	(1,069,214)	(7,067)	(155,018)	(5,418)	-	-	(1,245,618)
Others	-	-	-	-	(130,788)	(76,323)	-	-	(207,111)
Exchange difference	-	(11,072)	(59,421)	(1,785)	11,829	(96,498)	76,318	-	(80,629)
31 December 2016	<u>\$105,610</u>	<u>\$20,480,174</u>	<u>\$5,311,076</u>	<u>\$86,447</u>	<u>\$9,931,553</u>	<u>\$367,695</u>	<u>\$275,782</u>	<u>\$-</u>	<u>\$36,558,337</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>
31 December 2016	<u>\$121,938,491</u>	<u>\$37,767,746</u>	<u>\$1,180,431</u>	<u>\$41,273</u>	<u>\$2,087,696</u>	<u>\$305,354</u>	<u>\$387</u>	<u>\$792,853</u>	<u>\$164,114,231</u>

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.

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(11) Intangible assets

Cost:	Franchise	Trademark	Goodwill	Customer	Computer	Others	Total
				relationship	software		
1 January 2017	\$37,659,600	\$423,468	\$18,919,544	\$3,804,532	\$4,160,598	\$235,458	\$65,203,200
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	\$4,562,958	\$230,114	\$65,229,471
1 January 2016	\$37,659,600	\$218,864	\$16,894,345	\$2,095,194	\$4,064,624	\$234,128	\$61,166,755
Addition-individual acquisition	-	-	-	-	408,366	6,913	415,279
Reduction	-	-	-	-	(433,587)	-	(433,587)
Acquisition from business combination	-	218,855	2,461,974	1,835,015	-	-	4,515,844
Transfers	-	-	-	-	244,413	-	244,413
Others	-	-	(199,698)	-	(96,360)	-	(296,058)
Exchange difference	-	(14,251)	(237,077)	(125,677)	(26,858)	(5,583)	(409,446)
31 December 2016	\$37,659,600	\$423,468	\$18,919,544	\$3,804,532	\$4,160,598	\$235,458	\$65,203,200
Depreciation and impairment:							
1 January 2017	\$3,119,075	\$-	\$-	\$441,545	\$2,975,260	\$70,077	\$6,605,957
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	\$3,317,199	\$115,292	\$9,426,495
1 January 2016	\$1,039,692	\$-	\$-	\$45,634	\$3,121,813	\$15,848	\$4,222,987
Amortization	2,079,383	-	-	397,785	361,521	54,714	2,893,403
Reduction	-	-	-	-	(433,196)	-	(433,196)
Others	-	-	-	-	(56,089)	-	(56,089)
Exchange difference	-	-	-	(1,874)	(18,789)	(485)	(21,148)
31 December 2016	\$3,119,075	\$-	\$-	\$441,545	\$2,975,260	\$70,077	\$6,605,957
31 December 2017	\$32,461,142	\$391,576	\$18,867,219	\$2,722,458	\$1,245,759	\$114,822	\$55,802,976
31 December 2016	\$34,540,525	\$423,468	\$18,919,544	\$3,362,987	\$1,185,338	\$165,381	\$58,597,243

As of 31 December 2017 and 31 December 2016, the book value of goodwill was \$10,279,814 thousand and \$10,306,443 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 82.05% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of the Company on 1 February 2016.

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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 reasonable possible changes in key assumptions used to determine the recoverable amount segments will not result in an impairment of goodwill.

Cathay Securities's impairment testing of goodwill:

A. Key assumptions used in value in use calculations:

Discount rates reflect the current market assessment of the risks specific to the unit. Discount rates are calculated by the Weighted Average Cost of Capital (WACC).

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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 Weighted Average Cost of Capital (WACC).

(B) Projected growth rates, used to extrapolate cash flows beyond the budget period:

Assumptions are based on published industry research.

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.

(12) Financial liabilities at fair value through profit or loss

	2017.12.31	2016.12.31
Designated financial liabilities at fair value through profit or loss at initial recognition:		
Bond Investment	\$53,639,010	\$39,491,908
Held for trading:		
Bond Investment	49,945	-
Derivative financial instruments	35,000,877	73,777,749
Security lending payables hedging	202,671	284,643
Security lending payables non-hedging	1,621,765	1,460,526
Subtotal	36,875,258	75,522,918
Total	\$90,514,268	\$115,014,826

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.

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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%.

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%.

(13) Commercial paper payables

	2017.12.31	2016.12.31
Commercial paper payable	\$51,470,000	\$41,580,000
Less: Discount on commercial paper payable	(1,842)	(1,162)
Total	\$51,468,158	\$41,578,838
Average interest rates	0.39%~0.568%	0.38%~0.808%

(14) Deposits

	2017.12.31	2016.12.31
Check deposits	\$15,129,766	\$15,317,858
Demand deposits	453,949,795	417,609,518
Demand savings deposits	805,442,387	765,842,523
Time deposits	414,837,677	418,512,238
Negotiable Certificates of Deposit	3,310,000	3,554,400
fixed savings deposits	368,394,533	377,702,458
Remittances	1,888,854	1,404,177
Total	\$2,062,953,012	\$1,999,943,172

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(15) Bonds payable

	2017.12.31	2016.12.31
Cumulative perpetual subordinated debts	\$35,000,000	\$-
Subordinated financial debentures	63,350,000	51,900,000
Total	<u>\$98,350,000</u>	<u>\$51,900,000</u>

- 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.
- 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.
- 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.
- 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.

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- 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.
- 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. 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.
 - (G) Forms of bonds: Book-entry securities.

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Q. 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.

(16) Other financial liabilities

	2017.12.31	2016.12.31
Separate account insurance products-liabilities	\$555,269,179	\$498,014,211
Principle received from the sale of structured products	66,057,646	61,566,809
Other financial liabilities	2,200,487	1,643,809
Total	<u>\$623,527,312</u>	<u>\$561,224,829</u>

(17) Provisions

	2017.12.31	2016.12.31
Unearned premium reserve	\$27,480,991	\$26,143,298
Reserve for insurance liabilities	4,861,153,723	4,478,471,236
Special reserve	14,472,530	18,780,783
Reserve for claims	15,658,481	16,343,528
Premium deficiency reserve	26,244,942	29,771,614
Reserve for insurance contracts with feature of financial instruments	8,761,609	10,320,750
Foreign exchange volatility reserve	11,589,138	9,871,478
Reserve for Guarantees	72,897	73,181
Reserve for employee benefits liabilities	3,731,382	3,514,260
Contingent liabilities reserve	1,316,319	1,268,542
Other operating reserve	28,674	27,622
Other reserve	1,916,570	1,938,792
Total	<u>\$4,972,427,256</u>	<u>\$4,596,525,084</u>

A. Life insurance subsidiaries

As of 31 December 2017 and 31 December 2016 the details and changes of insurance contracts and financial instruments with discretionary participation feature are summarized below:

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(A) Reserve for life insurance liabilities:

	2017.12.31			2016.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance(Note)	\$4,231,739,400	\$954,240	\$4,232,693,640	\$3,908,139,238	\$2,015,303	\$3,910,154,541
Injury insurance	7,613,529	-	7,613,529	7,719,298	-	7,719,298
Health insurance	586,985,448	-	586,985,448	520,978,683	-	520,978,683
Annuity insurance	1,381,493	31,964,758	33,346,251	1,377,249	37,577,532	38,954,781
Investment-linked insurance	514,800	-	514,800	663,891	-	663,891
Subtotal	4,828,234,670	32,918,998	4,861,153,668	4,438,878,359	39,592,835	4,478,471,194
Less ceded reserve for life insurance liabilities :						
Life insurance	301,806	-	301,806	228,765	-	228,765
Total	\$4,827,932,864	\$32,918,998	\$4,860,851,862	\$4,438,649,594	\$39,592,835	\$4,478,242,429

Note: Allowance for doubtful account pertinent to 3% of business tax cut and recovery from major incident reserve are included.

Reserve for life insurance liabilities is summarized below:

	2017.1.1~2017.12.31			2016.1.1~2016.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$4,438,878,359	\$39,592,835	\$4,478,471,194	\$4,035,413,477	\$53,505,125	\$4,088,918,602
Reserve	684,926,503	75,528	685,002,031	657,657,435	140,118	657,797,553
Recover	(225,706,949)	(6,748,056)	(232,455,005)	(234,566,488)	(13,976,663)	(248,543,151)
Losses (gains) on foreign exchange	(69,863,243)	(1,309)	(69,864,552)	(19,626,065)	(75,745)	(19,701,810)
Ending balance	4,828,234,670	32,918,998	4,861,153,668	4,438,878,359	39,592,835	4,478,471,194
Less ceded reserve for life insurance liabilities:						
Beginning balance - net	228,765	-	228,765	162,951	-	162,951
Increase	72,802	-	72,802	84,222	-	84,222
Gains (losses) on foreign exchange	239	-	239	(18,408)	-	(18,408)
Ending balance - net	301,806	-	301,806	228,765	-	228,765
Total	\$4,827,932,864	\$32,918,998	\$4,860,851,862	\$4,438,649,594	\$39,592,835	\$4,478,242,429

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(B) Unearned premium reserve:

	2017.12.31			2016.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$665,528	\$-	\$665,528	\$577,903	\$-	\$577,903
Individual injury insurance	5,652,009	-	5,652,009	5,419,323	-	5,419,323
Individual health insurance	8,344,463	-	8,344,463	7,883,926	-	7,883,926
Group insurance	1,208,703	-	1,208,703	1,054,633	-	1,054,633
Investment-linked insurance	107,496	-	107,496	107,249	-	107,249
Total	15,978,199	-	15,978,199	15,043,034	-	15,043,034
Less ceded unearned premium reserve:						
Individual life insurance	242,609	-	242,609	191,241	-	191,241
Individual injury insurance	6,152	-	6,152	4,581	-	4,581
Individual health insurance	51,807	-	51,807	-	-	-
Group insurance	-	-	-	4,007	-	4,007
Total	300,568	-	300,568	199,829	-	199,829
Net	\$15,677,631	\$-	\$15,677,631	\$14,843,205	\$-	\$14,843,205

Unearned premium reserve is summarized below:

	2017.1.1~2017.12.31			2016.1.1~2016.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$15,043,034	\$-	\$15,043,034	\$14,363,914	\$-	\$14,363,914
Reserve	15,960,004	-	15,960,004	15,052,767	-	15,052,767
Recover	(15,027,631)	-	(15,027,631)	(14,347,747)	-	(14,347,747)
Losses (gains) on foreign exchange	(4,085)	-	(4,085)	(25,900)	-	(25,900)
Other (Note)	6,877	-	6,877	-	-	-
Ending balance	15,978,199	-	15,978,199	15,043,034	-	15,043,034
Less ceded unearned premium reserve:						
Beginning balance - Net	199,829	-	199,829	182,325	-	182,325
Increase	104,746	-	104,746	30,128	-	30,128
Decrease	(3,886)	-	(3,886)	(11,692)	-	(11,692)
Gains (losses) on foreign exchange	(121)	-	(121)	(932)	-	(932)
Total	300,568	-	300,568	199,829	-	199,829
Ending balance - Net	\$15,677,631	\$-	\$15,677,631	\$14,843,205	\$-	\$14,843,205

Note: The amount incurred as a result of the business transferred from Cathay Insurance (Bermuda) on 15 December 2017.

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(C) Reserve for claims:

	2017.12.31			2016.12.31		
	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	\$988,671	\$2,678	\$991,349	\$785,456	\$1,056	\$786,512
— Unreported claim	72,113	-	72,113	65,767	-	65,767
Individual injury insurance						
— Reported but not paid claim	93,382	-	93,382	80,286	-	80,286
— Unreported claim	1,578,252	-	1,578,252	1,424,157	-	1,424,157
Individual health insurance						
— Reported but not paid claim	913,492	-	913,492	601,712	-	601,712
— Unreported claim	2,521,553	-	2,521,553	2,296,062	-	2,296,062
Group insurance						
— Reported but not paid claim	71,934	-	71,934	55,870	-	55,870
— Unreported claim	1,200,534	-	1,200,534	1,124,078	-	1,124,078
Investment-linked insurance						
— Reported but not paid claim	129,722	-	129,722	63,850	-	63,850
— Unreported claim	3,566	-	3,566	1,570	-	1,570
Total	7,573,219	2,678	7,575,897	6,498,808	1,056	6,499,864
Less ceded reserve for claims:						
Individual life insurance	34	-	34	34,765	-	34,765
Individual health insurance	8,712	-	8,712	2,741	-	2,741
Group insurance	938	-	938	4,177	-	4,177
Total	9,684	-	9,684	41,683	-	41,683
Net	\$7,563,535	\$2,678	\$7,566,213	\$6,457,125	\$1,056	\$6,458,181

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Reserve for claims is summarized below:

	2017.1.1~2017.12.31			2016.1.1~2016.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$6,498,808	\$1,056	\$6,499,864	\$5,176,041	\$1,056	\$5,177,097
Reserve	7,474,026	2,678	7,476,704	6,456,453	1,056	6,457,509
Recover	(6,411,017)	(1,056)	(6,412,073)	(5,101,313)	(1,056)	(5,102,369)
Losses (gains) on foreign exchange	(6,251)	-	(6,251)	(32,373)	-	(32,373)
Other (Note)	17,653	-	17,653	-	-	-
Ending balance	7,573,219	2,678	7,575,897	6,498,808	1,056	6,499,864
Less ceded reserve for claims:						
Beginning balance-Net	41,683	-	41,683	38,633	-	38,633
Increase	6,033	-	6,033	5,125	-	5,125
Decrease	(38,117)	-	(38,117)	(1,834)	-	(1,834)
Gains (losses) on foreign exchange	85	-	85	(241)	-	(241)
Total	9,684	-	9,684	41,683	-	41,683
Net	\$7,563,535	\$2,678	\$7,566,213	\$6,457,125	\$1,056	\$6,458,181

Note: The amount incurred as a result of the business transferred from Cathay Insurance (Bermuda) on 15 December 2017.

(D) Special reserve:

	2017.12.31				2016.12.31			
	Financial instruments with discretionary				Financial instruments with discretionary			
	Insurance contract	participation feature	Other	Total	Insurance contract	participation feature	Other	Total
Participating policies dividends reserve	\$(59,358)	\$-	\$-	\$(59,358)	\$(67,018)	\$-	\$-	\$(67,018)
Dividends reserve	60,247	-	-	60,247	68,657	-	-	68,657
Special reserve for revaluation increments of property	-	-	11,083,324	11,083,324	-	-	15,416,619	15,416,619
Total	\$889	\$-	\$11,083,324	\$11,084,213	\$1,639	\$-	\$15,416,619	\$15,418,258

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Special reserve is summarized below:

	2017.1.1~2017.12.31				2016.1.1~2016.12.31			
	Financial instruments with discretionary participation				Financial instruments with discretionary participation			
	Insurance contract	feature	Other	Total	Insurance contract	feature	Other	Total
Beginning balance	\$1,639	\$-	\$15,416,619	\$15,418,258	\$1,354	\$-	\$25,416,619	\$25,417,973
Reserves for participating policies dividends reserve	15,837	-	-	15,837	(7,471)	-	-	(7,471)
Participating policies dividends recover	(8,177)	-	-	(8,177)	(23,160)	-	-	(23,160)
Dividends reserve	-	-	-	-	30,916	-	-	30,916
Dividends recovery	(8,410)	-	-	(8,410)	-	-	-	-
Special reserve for revaluation increments of property (Note)	-	-	(4,333,295)	(4,333,295)	-	-	(10,000,000)	(10,000,000)
Ending balance	\$889	\$-	\$11,083,324	\$11,084,213	\$1,639	\$-	\$15,416,619	\$15,418,258

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. Pursuant to Letter Jin-Guan-Bao-Shou-Zi No.10500400250 issued on 30 January 2016 by the FSC, Cathay Life may recover special reserve for revaluation increments of real property monthly, and the total recovered amount in 2016 was \$10 billion.

(E) Premium deficiency reserve:

	2017.12.31			2016.12.31		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance	\$24,537,677	\$-	\$24,537,677	\$27,998,318	\$-	\$27,998,318
Individual health insurance	1,639,247	-	1,639,247	1,762,497	-	1,762,497
Group insurance	55,393	-	55,393	266	-	266
Total	\$26,232,317	\$-	\$26,232,317	\$29,761,081	\$-	\$29,761,081

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Premium deficiency reserve is summarized below:

	2017.1.1~2017.12.31			2016.1.1~2016.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$29,761,081	\$-	\$29,761,081	\$22,242,577	\$-	\$22,242,577
Reserve	1,124,133	-	1,124,133	8,147,744	-	8,147,744
Recover	(4,013,922)	-	(4,013,922)	(466,838)	-	(466,838)
Losses (gains) on foreign exchange	(638,975)	-	(638,975)	(162,402)	-	(162,402)
Ending balance	\$26,232,317	\$-	\$26,232,317	\$29,761,081	\$-	\$29,761,081

(F) Other reserve:

	2017.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Others	\$1,916,570	\$-	\$1,916,570

	2016.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Others	\$1,938,792	\$-	\$1,938,792

Other reserve is summarized below:

	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

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	2016.1.1~2016.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$1,967,824	\$-	\$1,967,824
Recover	(29,032)	-	(29,032)
Ending balance	\$1,938,792	\$-	\$1,938,792

(G) Liability adequacy reserve:

	Insurance contract and financial instruments with discretionary participation feature	
	2017.12.31	2016.12.31
Reserve for life insurance liabilities	\$4,861,153,668	\$4,478,471,194
Unearned premium reserve	15,978,199	15,043,034
Premium deficiency reserve	26,232,317	29,761,081
Other reserve	1,916,570	1,938,792
Total	\$4,905,280,754	\$4,525,214,101
Book value of insurance liabilities	\$4,905,280,754	\$4,525,214,101
Estimated present value of cash flows	\$4,158,559,601	\$3,548,719,473
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: The expense assumption of Cathay life (Vietnam) under estimated present value of cash flows was changed to adopted actual expense basis in the calculation of estimated present value of cash flows starting from 30 June 2017.

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Cathay Life's liability adequacy testing methodologies are listed as follows:

	2017.12.31	2016.12.31
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2017. (2) Discount rate: 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.	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2016. (2) Discount rate: Under assets allocation plan on 30 September 2016, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2015, with neutral assumption for discount rates after 30 years.

Cathay Lujiazui Life's liability adequacy testing methodology is listed as follows:

	2017.12.31	2016.12.31
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2017. (2) Discount rate: 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.	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 December 2016. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2015, with neutral assumption for discount rates after 30 years.

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(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 2017 and 31 December 2016, reserve for insurance contracts with feature of financial instruments is summarized below:

	2017.12.31	2016.12.31
Life insurance	\$8,421,434	\$10,267,914
Investment-linked insurance	340,175	52,836
Total	<u>\$8,761,609</u>	<u>\$10,320,750</u>
	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Beginning balance	\$10,320,750	\$54,002,965
Premiums received	3,550,568	1,993,303
Insurance claim payments	(4,615,860)	(45,392,723)
Net provision of statutory reserve	(456,520)	216,001
Losses (gains) on foreign exchange	(37,329)	(498,796)
Ending balance	<u>\$8,761,609</u>	<u>\$10,320,750</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:

	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Beginning balance	\$9,871,478	\$16,026,449
Reserve:		
Compulsory reserve	4,434,707	4,067,313
Extra reserve	3,558,983	977,335
Subtotal	7,993,690	5,044,648
Recover	(6,276,030)	(11,199,619)
Ending balance:	<u>\$11,589,138</u>	<u>\$9,871,478</u>

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c. Effects due to foreign exchange volatility reserve:

2017.1.1~2017.12.31			
Item	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)

2016.1.1~2016.12.31			
Item	Inapplicable amount (1)	Applicable amount (2)	Effects (3)=(2)-(1)
Consolidated income	\$42,930,574	\$48,039,200	\$5,108,626
Earnings per share	3.38	3.79	0.41
Foreign exchange volatility reserve	-	9,871,478	9,871,478
Equity	534,066,776	529,824,021	(4,242,755)

B. Century Insurance subsidiaries

(A) Unearned premiums reserve

a. Unearned premium reserve and ceded unearned premium reserve are summarized as follows:

Item	2017.12.31			
	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	\$1,899,499	\$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

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2016.12.31				
Item	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	\$1,786,006	\$82,136	\$1,064,889	\$803,253
Marine insurance	122,955	8,402	89,553	41,804
Land and air insurance	4,514,514	7,224	282,758	4,238,980
Liability insurance	578,028	700	180,130	398,598
Bonding insurance	36,137	800	22,051	14,886
Other property insurance	631,758	21,985	278,573	375,170
Accident insurance	1,483,727	2,505	59,853	1,426,379
Health insurance	52,128	-	-	52,128
Compulsory automobile liability insurance	1,289,517	481,742	774,469	996,790
Total	\$10,494,770	\$605,494	\$2,752,276	\$8,347,988

b. Reconciliation statement of unearned premium reserve and ceded unearned premium reserve

Item	2017.1.1~2017.12.31		2016.1.1~2016.12.31	
	Unearned premium reserve	Ceded unearned premium reserve	Unearned premium reserve	Ceded unearned premium reserve
Beginning balance	\$11,100,264	\$2,752,276	\$12,064,950	\$2,786,250
Prior period adjustment				
of profit or loss	3,566	-	-	-
Reserve	11,506,609	2,891,151	12,366,459	2,919,491
Recover	(11,098,759)	(2,749,504)	(12,058,201)	(2,787,706)
Effects of exchange rate changes	(8,888)	(4,584)	(70,227)	(8,475)
Lose control	-	-	(1,202,717)	(157,284)
Ending balance	\$11,502,792	\$2,889,339	\$11,100,264	\$2,752,276

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(B) Claims reserve

a. Claims reserve and ceded claims reserve

Item	2017.12.31			
	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	\$3,557,040	\$286,595	\$1,342,214	\$2,501,421
Unreported claims	3,796,257	442,692	1,132,260	3,106,689
Total	\$7,353,297	\$729,287	\$2,474,474	\$5,608,110

Item	2016.12.31			
	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	\$5,932,690	\$235,435	\$3,260,191	\$2,907,934
Unreported claims	3,258,534	417,005	938,123	2,737,416
Total	\$9,191,224	\$652,440	\$4,198,314	\$5,645,350

b. Net changes for claims reserve and ceded claims reserve

Item	2017.1.1~2017.12.31							
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(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	\$7,361,403	\$9,181,887	\$729,287	\$652,440	\$(1,743,637)	\$2,481,627	\$4,189,902	\$(1,708,275)

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2016.1.1~2016.12.31

Item	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)
Claims reported								
but not paid off	\$6,830,877	\$4,550,048	\$235,435	\$334,116	\$2,182,148	\$3,386,015	\$1,548,137	\$1,837,878
Unreported claims	3,783,984	3,884,922	418,869	285,866	32,065	997,557	1,037,228	(39,671)
Total	\$10,614,861	\$8,434,970	\$654,304	\$619,982	\$2,214,213	\$4,383,572	\$2,585,365	\$1,798,207

c. Reported claims but not yet paid off or unreported claims liabilities for policyholder

Item	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

Item	2016.12.31		
	Claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$3,051,885	\$11,708	\$3,063,593
Marine insurance	259,146	1,802	260,948
Land and air insurance	1,315,588	1,177,398	2,492,986
Liability insurance	389,427	455,552	844,979
Bonding insurance	43,266	13,117	56,383
Other property insurance	480,474	28,086	508,560
Accident insurance	125,999	443,176	569,175
Health insurance	7,463	44,110	51,573
Compulsory automobile liability insurance	494,877	1,500,590	1,995,467
Total	\$6,168,125	\$3,675,539	\$9,843,664

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d. Reinsurance asset-ceded claims reserve for policyholder

Item	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

Item	2016.12.31		
	Ceded claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$2,387,195	\$6,623	\$2,393,818
Marine insurance	187,355	339	187,694
Land and air insurance	64,554	63,241	127,795
Liability insurance	222,230	159,847	382,077
Bonding insurance	25,258	12,426	37,684
Other property insurance	175,782	11,257	187,039
Accident insurance	11,295	37,748	49,043
Health insurance	-	773	773
Compulsory automobile liability insurance	186,522	645,869	832,391
Total	\$3,260,191	\$938,123	\$4,198,314

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e. Reconciliation statement of claims reserve and ceded claims reserve

Item	2017.1.1~2017.12.31		2016.1.1~2016.12.31	
	Claims reserve	Ceded claims reserve	Claims reserve	Ceded claims reserve
Beginning balance	\$9,843,664	\$4,198,314	\$9,053,721	\$2,575,432
Prior period adjustment				
of profit or loss	367	170	-	-
Reserve	8,090,690	2,481,627	11,269,165	4,383,572
Recover	(9,834,327)	(4,189,902)	(9,054,952)	(2,585,365)
Effects of exchange				
rate changes	(17,810)	(15,735)	(73,267)	(5,085)
Lose control	-	-	(1,351,003)	(170,240)
Ending balance	\$8,082,584	\$2,474,474	\$9,843,664	\$4,198,314

(C) Special reserve

a. Special reserve - Compulsory automobile liability insurance

Item	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Beginning balance	\$1,530,609	\$1,487,506
Reserve	121,427	116,070
Recover	(76,908)	(72,967)
Ending balance	\$1,575,128	\$1,530,609

b. Special reserve - Non-compulsory automobile liability insurance

Item	Liability					
	2017.1.1~2017.12.31			2016.1.1~2016.12.31		
	Major incidents	Fluctuation of risks	Total	Major incidents	Fluctuation of risks	Total
Beginning balance	\$486,899	\$1,345,017	\$1,831,916	\$505,626	\$1,585,184	\$2,090,810
Reserve	-	-	-	-	-	-
Recover	(18,727)	-	(18,727)	(18,727)	(240,167)	(258,894)
Ending balance	\$468,172	\$1,345,017	\$1,813,189	\$486,899	\$1,345,017	\$1,831,916

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“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 have impact on Cathay Century’s and its subsidiaries’ income before tax decreased \$18,727 thousand, the special reserve under liabilities decreased \$1,504,690 thousand and special earnings capital under equity increased \$594,801 thousand. Earnings per share without applying these rules decreased \$0.05.

(D) Premiums deficiency reserve

a. Premiums deficiency reserve and ceded premium deficiency reserve

Item	2017.12.31			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	Direct business	Assumed	Ceded	Retained
		reinsurance	reinsurance	
	business	business	business	
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

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2016.12.31				
Item	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	\$-	\$-	\$-	\$-
Marine insurance	-	-	-	-
Land and air insurance	1,640	8,893	-	10,533
Liability insurance	-	-	-	-
Bonding insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-
Total	\$1,640	\$8,893	\$-	\$10,533

b. Net loss recognized for premiums deficiency reserve- Net change for premium deficiency reserve and ceded premiums deficiency reserve

2017.1.1~2017.12.31									
Item	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve (5)=(1)-(2)+(3)-(4)	Ceded reinsurance business		Net change for ceded premiums deficiency reserve (8)=(6)-(7)	Recognized net loss (gain) for premiums deficiency reserve (9)=(5)-(8)
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
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)

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Item	2016.1.1~2016.12.31								
	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve	Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$70	\$-	\$-	\$-	\$70	\$468	\$622	\$(154)	\$224
Marine insurance	-	-	-	-	-	14	43	(29)	29
Land and air insurance	1,640	-	8,893	13,988	(3,455)	-	(13,585)	13,585	(17,040)
Liability insurance	13,661	12,400	5	(3)	1,269	5,273	5,913	(640)	1,909
Bonding insurance	11	-	-	-	11	4	4	-	11
Other property insurance	294,628	276,441	-	32	18,155	82	37	45	18,110
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	67,353	61,528	-	-	5,825	-	-	-	5,825
Total	\$377,363	\$350,369	\$8,898	\$14,017	\$21,875	\$5,841	\$(6,966)	\$12,807	\$9,068

c. Reconciliation statement for premium deficiency reserve and ceded premium deficiency reserve

Item	2017.1.1~2017.12.31		2016.1.1~2016.12.31	
	Premiums deficiency reserve	Ceded premiums deficiency reserve	Premiums deficiency reserve	Ceded premiums deficiency reserve
Beginning balance	\$10,533	\$-	\$367,287	\$(6,912)
Reserve	12,625	2,578	386,261	5,841
Recover	(10,533)	-	(364,386)	6,966
Effects of exchange rate changes	-	-	(20,675)	(330)
Lose control	-	-	(357,954)	(5,565)
Ending balance	<u>\$12,625</u>	<u>\$2,578</u>	<u>\$10,533</u>	<u>\$-</u>

d. Effects for the change of estimation and assumption

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 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.

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(E) Liability reserve

a. Liability reserve and liability-ceded reserve

2017.12.31				
Item	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

2016.12.31				
Item	Liability reserve		Liability-ceded reserve	
	Direct written business	Reinsurance ceded-in	Reinsurance ceded-out	Retention
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Health insurance	\$42	\$-	\$-	\$42

b. Net change for liability reserve and liability reserve ceded

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	\$-	\$-	\$-

2016.1.1~2016.12.31								
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	\$43	\$1	\$-	\$-	\$42	\$-	\$-	\$-

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(18) 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 2017 and 2016 are \$1,533,681 thousand and \$1,583,664 thousand, respectively.

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.

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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 \$859,592 thousand to its defined benefit plan during the 12 months beginning after 31 December 2017.

The average duration of the defined benefits plan obligation as at 31 December 2017 and 2016, are 2027~2030 years and 2026~2030 years.

Pension costs recognized in profit or loss for the years ended 31 December 2017 and 2016:

	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Current period service costs	\$464,079	\$479,610
Interest expense from net defined benefit liability	(10,917)	86,587
Total	<u>\$453,162</u>	<u>\$566,197</u>

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	2017.12.31	2016.12.31
Defined benefit obligation	\$19,097,444	\$18,744,357
Fair value of plan assets	(20,515,721)	(19,344,726)
Net defined benefit liability (asset)	<u>\$(1,418,277)</u>	<u>\$(600,369)</u>

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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)
2016.1.1	\$19,118,959	\$(11,908,142)	\$7,210,817
Current period service costs	479,610	-	479,610
Net interest expense (income)	227,900	(141,313)	86,587
Subtotal	<u>707,510</u>	<u>(141,313)</u>	<u>566,197</u>
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	(573)	-	(573)
Actuarial gains and losses arising from changes in financial assumptions	(239,296)	-	(239,296)
Experience adjustments	356,607	-	356,607
Remeasurements of the net defined benefit asset	-	(918,766)	(918,766)
Subtotal	<u>116,738</u>	<u>(918,766)</u>	<u>(802,028)</u>
Payments from the plan	(1,198,850)	1,197,754	(1,096)
Contributions by employer	-	(7,574,259)	(7,574,259)
2016.12.31	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>

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The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	<u>2017.12.31</u>	<u>2016.12.31</u>
Discount rate	1.01%~1.60%	1.29%~1.80%
Expected rate of salary increases	1.00%~3.00%	1.00%~3.00%

A sensitivity analysis for significant assumption as at 31 December 2017 and 2016 is, as shown below:

	<u>2017.1.1~ 2017.12.31</u>		<u>2016.1.1~ 2016.12.31</u>	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate decrease (increase) by 0.5%	\$1,033,684	\$(961,811)	\$1,049,038	\$(966,077)
Future salary increase (decrease) by 0.5%	1,007,234	(942,715)	1,029,296	(964,997)

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 \$271,804 thousand and \$252,512 thousand were recognized for the years ended 31 December 2017 and 2016, and recorded as "Employee benefits expenses", respectively.

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Pension costs recognized in profit or loss for the years ended 31 December 2017 and 2016:

	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Current period service costs	\$-	\$-
Interest expense	21,363	22,452
Total	<u>\$21,363</u>	<u>\$22,452</u>

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	2017.12.31	2016.12.31
Defined benefit obligation	\$(579,063)	\$(576,083)
Fair value of plan assets	-	-
Other non-current liabilities - Net defined benefit liability	<u>\$(579,063)</u>	<u>\$(576,083)</u>

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	Defined benefit obligation
2016.1.1	<u>\$605,038</u>
Defined benefit cost recognized in profit or loss	
Net interest expense	22,452
Subtotal	<u>22,452</u>
Defined benefit cost—recognized in other comprehensive income	
Experience adjustments	48,510
Subtotal	<u>48,510</u>
Payments from the plan	<u>(99,917)</u>
2016.12.31	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	<u>\$579,063</u>

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The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	2017.12.31	2016.12.31
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 2017 and 2016 is, as shown below:

	Effect on the defined benefit obligation			
	2017		2016	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate decrease (increase) by 0.5%	\$31,269	\$(28,374)	\$31,685	\$(28,804)
Death rate adjusted decrease (increase) by 0.5%	5,791	(5,791)	5,761	(5,185)
Interest rate of premium deposit decrease (increase) by 0.5%	135,501	(135,501)	134,803	(134,803)

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.

(19) Capital Stock

A. As of 31 December 2017 and 2016, the authorized share capital amounted to \$180,000,000 thousand and the issued share capital amounted to \$133,965,102 thousand, including 12,563,210 thousand common shares and 833,300 thousand preferred shares. These shares are all with par value of \$10.

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B. Issuance of preferred stock

The shareholders' meeting 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, PYTDWFIX 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 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. Undeclared or under-declared dividends are not cumulative, and are not paid in subsequent years with profit.

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- (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 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 Preferred Shares have no voting right at the annual shareholders meeting, and cannot elect directors. However, holders of 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 Preferred Shares cannot convert said preferred shares to common shares, and have no right to request the Company for redemption of 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. 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).

(20) Capital surplus

	2017.12.31	2016.12.31
Additional paid-in capital	\$126,523,972	\$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	207,620	203,408
Convertible bonds to convert	1,144,486	1,144,486
Others	7,508	8,312
Total	<u>\$130,452,105</u>	<u>\$130,448,697</u>

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- 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 \$130,452,105 thousand and \$130,448,697 thousand as of 31 December 2017 and 31 December 2016, respectively.
- B. According to Letter (91) Tai-Cai-Zheng-Zi (Liu) No. 0910003413 issued by Ministry of Finance, 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.

(21) 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 16 June 2017, the board of shareholders resolved to recognize the legal capital reserves of \$4,762,117 thousand. On 8 June 2016, the Company's board of shareholders resolved to recognize the legal capital reserves of \$5,757,629 thousand.

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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 Group 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 Group 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.

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- (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.
- (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 2017 and 31 December 2016, the special reserves amounted to \$107,270,030 thousand and \$107,271,395 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.

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- (C) According to 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 announced on 20 May, 2015, 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. The company amended the related regulations in the Company's Articles of Incorporation according to the aforementioned amendment on 8 June 2016.
- (E) Details of the years ended 31 December 2016 and 2015 earnings distribution and dividends per share as approved by the board of directors 16 June 2017 and the shareholders' meeting on 8 June 2016, respectively, are as follows:

	Appropriation of earnings		Dividend per share	
	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Legal reserve	\$4,762,117	\$5,757,629	\$-	\$-
(Reversal of) special reserve provision	(1,365)	8,923,216	-	-
Common stock -cash dividend	25,126,420	25,126,420	2.0	2.0
Preferred stock-cash dividend	124,585	-	0.1495	-

Information regarding the employee bonuses and remuneration to directors and supervisors can be obtained from Note.6(23).

- (F) The Company's distribution of 2016 retained earnings has been approved by its board of directors (hereinafter "the Board of Directors") as of the independent auditors' opinion date. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

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(22) Non-controlling interests

	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Beginning balance	\$6,499,449	\$6,005,208
Net income attributed to non-controlling interests	366,489	420,387
Other comprehensive income attributed to non-controlling interests:		
Exchange differences resulting from translating the financial statements of a foreign operation	(376,749)	(304,889)
Unrealized gains from available-for-sale financial assets	47,734	(122,155)
Others	2,866,549	500,898
Ending balance	<u>\$9,403,472</u>	<u>\$6,499,449</u>

(23) Employee benefits, depreciation and amortization

Summary statement of employee benefits and depreciation expenses breakdown:

	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Employee benefits expense		
Salary and wages	\$34,173,966	\$35,121,928
Labor and health insurance	3,891,962	3,869,911
Pension expense	2,042,610	2,186,894
Other employee benefits	4,702,072	4,717,116
Depreciation	2,455,658	2,295,745
Amortization	2,968,590	2,893,403

Based on resolution of the Company's Board of Shareholders meeting held on 8 June 2016 to amend 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.

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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 more than 0.05% of profit of current year, respectively. The Company recognized employees' compensation and remuneration of \$5,812 thousand and \$2,700 thousand for the year ended 31 December 2017, and recorded under salaries expense. 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. 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.

Based on resolution of the Company's Board of Directors meeting held on 8 March 2017 to distribute \$4,920 thousand and \$1,800 thousand in cash as employees' compensation and remuneration to directors for 2016, respectively. Both amounts distributed were the same as the amount recognized as expense on the financial report in 2016.

As of 31 December 2017, and 31 December 2016, the total numbers of the employees of the Group were 54,993 and 51,151, respectively.

(24) The Components of other comprehensive income

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 increments	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	\$93,995,170	\$(46,858,490)	\$47,136,680	\$(2,782,334)	\$44,354,346

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For the year ended 31 December 2016

	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	\$753,518	\$-	\$753,518	\$(128,098)	\$625,420
Revaluation increments	-	-	-	-	-
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(9,343)	-	(9,343)	1,762	(7,581)
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	44,408	-	44,408	(7,549)	36,859
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	(8,920,171)	-	(8,920,171)	221,992	(8,698,179)
Unrealized gains (losses) from available-for-sale financial assets	24,580,403	(23,595,340)	985,063	3,216,600	4,201,663
Gains (losses) on cash flow hedges	(47,367)	(169,489)	(216,856)	36,866	(179,990)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(722,914)	-	(722,914)	92,340	(630,574)
Total	\$15,678,534	\$(23,764,829)	\$(8,086,295)	\$3,433,913	\$(4,652,382)

(25) Income taxes

A. The major components of income tax expense are as follows:

Income tax expense recognized in profit or loss

	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Current income tax expense:		
Current income tax charge	\$12,375,851	\$5,988,162
Adjustments in respect of current income tax of prior periods	214,453	12,176
Deferred tax expense (income):		
Deferred tax income relating to origination and reversal of temporary differences	(12,684,287)	(5,377,883)
Deferred tax expense relating to origination and reversal of tax loss and tax credit	1,065,336	(203,529)
Tax income recognized in the period for previously unrecognized tax loss, tax credit or temporary difference of prior periods	-	(992,385)
Deferred tax expense arising from write-down or reversal of write-down of deferred tax asset	-	396,955
Other components of deferred tax expense	1,991,040	2,321,809
Total income tax expense	\$2,962,393	\$2,145,305

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Income tax relating to components of other comprehensive income

	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
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	(268,589)	7,549
Exchange difference resulting from translating the financial statements of a foreign operation	(216,446)	(221,992)
Unrealized gains (losses) from available-for-sale financial assets	3,571,882	(3,216,600)
Gains on cash flow hedges	2,482	(36,866)
Revaluation gains on property	40,195	-
Remeasurements of defined benefit plans	(142,536)	128,098
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(204,654)	(94,102)
Income tax relating to components of other comprehensive income	<u>\$2,782,334</u>	<u>\$(3,433,913)</u>

B. Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Accounting profit before tax from continuing operations	<u>\$59,635,617</u>	<u>\$50,184,505</u>
Tax at the domestic rates applicable to profits in the country concerned	\$20,190,291	\$17,432,056
Tax effect of revenues exempt from taxation	(18,502,692)	(14,989,228)
Tax effect of expenses not deductible for tax purposes	366,372	105,616
Deferred tax assets of unrecognized tax losses	(1,629)	(13,530)
Tax effect of deferred tax assets/liabilities	(213,695)	(940,698)
10 % surtax on undistributed retained earnings	1,760,706	1,775,428
Tax effect of the rates applicable to profits in the other jurisdictions	(127,761)	32,443
Adjustments in respect of current income tax of prior periods	211,569	10,379
Others	(720,768)	(1,267,161)
Total income tax expense recognized in profit or loss	<u>\$2,962,393</u>	<u>\$2,145,305</u>

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C. Deferred tax assets (liabilities) relate to the following:

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	Deferred tax						Ending balance
	Beginning balance	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in comprehensive income	Deferred tax income (expense) charged directly to equity	Deferred tax assets (liabilities) acquired in business combinations	Exchange differences	
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)	(2,654,593)	268,589	-	-	-	(2,791,810)
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	19,292,542	3,675,101	-	-	4	24,996,320
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)		\$10,946,863	\$(2,782,334)	\$(3)	\$(117,337)	\$599	
Deferred income tax assets (liabilities)-net	\$(11,632,450)						\$(3,584,662)
Reflected in balance sheet as flows:							
Deferred income tax assets	\$14,729,993						\$31,243,778
Deferred income tax liabilities	\$(26,362,443)						\$(34,828,440)

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	Beginning balance	Deferred tax			Deferred tax assets (liabilities) acquired in business combinations	Exchange differences	Ending 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			
Temporary differences:							
Property, plant and equipment	\$458,658	\$80,279	\$-	\$-	\$4,256	\$518	\$543,711
Investment property	(19,441,028)	(2,465,479)	-	-	-	19,145	(21,887,362)
Financial assets at fair value through profit and loss	(2,251,671)	1,853,414	(7,549)	-	-	-	(405,806)
Available-for-sale financial assets	(629,983)	101	658,186	-	-	-	28,304
Derivative financial liabilities for hedging	(76,095)	-	36,866	-	-	-	(39,229)
Investments in debt securities with no active market	(207,587)	87,898	-	-	-	-	(119,689)
Investments accounted for using the equity method	(220,125)	(463,397)	94,102	(151,147)	1,399,036	(57,809)	600,660
Preferential interest rate deposits	102,855	(13,169)	8,246	-	-	-	97,932
Financial liabilities at fair value through profit or loss	6,587,600	(2,048,488)	-	-	-	-	4,539,112
Other receivables	(84,316)	(14,602)	-	-	-	-	(98,918)
Decommissioning costs	19	230	-	-	-	-	249
Bad debt losses	705,498	(127,938)	-	-	-	-	577,560
Deferred income tax assets (liabilities) resulted from income or loss on foreign exchange	(10,557,927)	9,806,198	2,780,406	-	-	(4)	2,028,673
Deferred revenue on customer loyalty programs	228,273	23,379	-	-	-	-	251,652
Other payables	155,048	(9,630)	-	-	(34,180)	(2,671)	108,567
Defined benefit Liability	1,228,882	(1,191,449)	(136,344)	-	-	-	(98,911)
Deferred Income	5,986	(5,055)	-	-	(680)	(251)	-
Fair value adjustments from business consolidation	(439,573)	(52,238)	-	-	-	-	(491,811)
Deferred tax liabilities from business consolidation	(784,429)	179,611	-	-	(781,335)	50,597	(1,335,556)
Office supplies	3,116	(877)	-	-	-	-	2,239
Others	83,979	(221,646)	-	-	(190,486)	(12)	(328,165)
Unused tax losses	6,279,173	218,339	-	-	3,678	(2,826)	6,498,364
Unused tax credit	4,398	(4,301)	-	-	-	(97)	-
Tax effect under consolidated income tax	(1,500,315)	595,430	-	-	(1,199,141)	-	(2,104,026)
Deferred income tax expenses (income)		\$6,226,610	\$3,433,913	\$(151,147)	\$(798,852)	\$6,590	
Deferred income tax assets (liabilities)-net	<u>\$(20,349,564)</u>						<u>\$(11,632,450)</u>
Reflected in balance sheet as flows:							
Deferred income tax assets	<u>\$14,425,707</u>						<u>\$14,729,993</u>
Deferred income tax liabilities	<u>\$(34,775,271)</u>						<u>\$(26,362,443)</u>

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D. Unrecognized deferred tax assets

As of 31 December 2017 and 2016, deferred tax assets that have not been recognized amount to \$1,043,210 thousand and \$2,588,640 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 2017 and 2016, the taxable temporary differences associated with investment in subsidiaries, for which deferred tax liabilities have not been recognized, aggregate to \$144,961 thousand and \$119,321 thousand, respectively.

F. Income tax returns:

		2017.12.31
		Income tax returns
		examined by tax authorities
		Notes
The Company	through 2014	-
Cathay Life	through 2012	Cathay Life was in the process of administrative remedy for 2007, 2011 and 2012.
Cathay United Bank	through 2012	Cathay United Bank was in the process of administrative remedy from 2010 to 2012.
Cathay Century	through 2012	-
Cathay Securities	through 2012	Cathay Securities was in the process of administrative remedy from 2011 to 2012.
Cathay Venture	through 2012	Cathay Venture was in the process of administrative remedy from 2011.
Cathay Securities Investment Trust	through 2012	-
Cathay Futures	through 2015	-

In accordance with Article 49 of the Financial Holding Company Act, the Group elected to file consolidated income tax return along with 10% surtax on undistributed retained earning tax for all subsidiaries being held by the Group over 12 months within a taxable year.

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G. Information related to imputation credit account:

	2017.12.31	2016.12.31
Balance of imputation credit account	(Note)	\$1,338,315

The Company's cash dividends-imputed tax credit ratio applied to actual distribution were 8.75% and 5.05% for the year ended 31 December 2016 and 2015, respectively. For 2016, imputation credit ratio for individual stockholders residing in R.O.C. is half of the original ratio according to the Article 66-6 of Income Tax Act.

Undistributed earnings occurred before 1997 in the amount of \$267,215 thousand were originally appropriated as capital reserve which may be distributed as cash dividends and were undistributed earnings of the Company's subsidiaries before conversion of shares. On the date of distribution, this amount was used to make up for the changes due to first-time adoption of IFRS.

Note: On 18 January 2018, the Legislative Yuan passed amendments to the Income Tax Act and the President announced on 7 February 2018 that the imputation credit ratio will no longer be used.

(26) Earnings per share

The Company's earnings per share are calculated as follows:

	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company (in thousands) (Note)	\$56,182,150	\$47,618,813
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)	\$4.47	\$3.79

Note: Deducted special dividend 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.

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(27) Business combinations

A. Cathay Life

On 1 February 2016, Cathay Life and its subsidiaries acquired 80% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of the Company, with \$4,708,746 thousand of cash and obtained control of Octagon Credit Investors, LLC. On the acquisition date, Cathay Life and its subsidiaries acquired additional 2.05% of Octagon Credit Investors, LLC through Conning & Company, with \$673,400 thousand of cash and Cathay Life and its subsidiaries thereby held 82.05% of Octagon Credit Investors, LLC.

The fair value of the identifiable assets and liabilities of the subsidiaries mentioned above as at the date of acquisition were disclosed as follows:

	<u>Fair value recognized on the acquisition date</u>
Cash and cash equivalents	\$38
Receivables	286,708
Financial assets at fair value through profit or loss	82,603
Held-to-maturity financial assets	357,388
Intangible assets (Except for goodwill)	2,053,870
Other assets	44,166
Payables	(114,616)
Provisions	(367,003)
Other liabilities	<u>(57,820)</u>
Identifiable net assets	<u><u>\$2,285,334</u></u>

Goodwill of Octagon Credit Investors, LLC is as follows:

Purchase consideration	\$4,708,746
Add: Non-controlling interests at fair value	530,467
Less: Identifiable net assets at fair value	<u>(2,285,334)</u>
Goodwill	<u><u>\$2,953,879</u></u>

B. The Company, Cathay Life and Cathay Century

Loss of control of a subsidiary

Cathay Life and Cathay Century did not participate in the capital increase of its subsidiary, Cathay Century (China), during July 2016 and therefore, the Group's ownership over Cathay Century (China) decreased to 49%. The subsidiary is accounted for using the equity method since Cathay Century lost control of the subsidiary but still retained significant influence. The fair value of the remaining 49% ownership on disposal day was \$2,915,225 thousand and therefore, the Group recognized the profit after income tax of \$2,266,596 thousand.

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Details of the carrying value of derecognized assets and liability of Cathay Century (China) on 26 July 2016 are as follows:

Cash and cash equivalent	\$4,609,822
Receivables	278,491
Financial assets at fair value through profit or loss	264,577
Available-for-sale financial assets	983,769
Debt instrument investments for which no active market exists	48,115
Reinsurance assets	530,468
Property and equipment	51,474
Intangible assets	40,270
Other assets	842,485
Payables	(314,853)
Insurance liabilities	(2,911,675)
Other liabilities	(54,168)
Net assets	<u><u>\$4,368,775</u></u>

(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.
- (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.

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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.

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

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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

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.

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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.

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.

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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.

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) 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.

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- 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.

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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.

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- (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.

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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, the expected investment or loan needs to be reviewed by the loan review or investment decision committee and approved by the risk management department 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 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

For the years ended 31 December 2016			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 2,359,350	Decrease (increase) 1,958,260
Expense	×1.05 (×0.95)	Decrease (increase) 3,385,125	Decrease (increase) 2,809,654
Surrender rates	×1.05 (×0.95)	Increase (decrease) 459,376	Increase (decrease) 381,282
Rate of return	+0.1%	Increase 4,548,123	Increase 3,774,942
Rate of return	-0.1%	Decrease 4,552,582	Decrease 3,778,643

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b. Cathay Lujiazui Life

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

For the years ended 31 December 2016			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.10 (×0.90)	Decrease (increase) 248,834	Decrease (increase) 186,626
Expense	×1.05 (×0.95)	Decrease (increase) 146,617	Decrease (increase) 109,963
Surrender rates	×1.10 (×0.90)	Increase (decrease) 127,668	Increase (decrease) 95,751
Rate of return	+0.25%	Increase 467,118	Increase 350,339
Rate of return	-0.25%	Decrease 508,538	Decrease 381,403

c. Cathay Life (Vietnam)

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

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For the years ended 31 December 2016			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 276	Decrease (increase) 221
Expense	×1.05 (×0.95)	Decrease (increase) 17,299	Decrease (increase) 13,839
Surrender rates	×1.05 (×0.95)	Increase (decrease) 1,295	Increase (decrease) 1,036
Rate of return	+0.1%	Increase 5,171	Increase 4,137
Rate of return	-0.1%	Decrease 5,176	Decrease 4,140

- (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 2017 and 2016. 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 17%, 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.

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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.

(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 reviews the profits and losses on compensation and the capability of assuming risk as a whole periodically. Cathay Life will also evaluate the retention amount according to the risk features and approve 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.

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(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			
2011	15,466,682	18,940,951	19,286,961	19,361,431	19,417,890	19,455,613	19,478,487	-	-	
2012	15,166,460	18,319,737	18,627,566	18,692,848	18,738,263	18,771,322	18,791,600	20,278	20,319	
2013	14,442,425	17,662,901	17,964,940	18,028,018	18,069,018	18,098,499	18,116,659	47,641	47,736	
2014	14,671,864	17,805,516	18,119,932	18,201,744	18,242,928	18,271,520	18,289,519	87,775	87,950	
2015	15,353,566	18,647,560	18,975,168	19,043,649	19,087,142	19,116,954	19,135,587	160,419	160,740	
2016	15,940,308	19,566,897	19,895,098	19,968,525	20,013,548	20,044,792	20,064,486	497,589	498,584	
2017	17,297,974	20,945,515	21,289,539	21,367,654	21,417,667	21,451,594	21,472,944	4,174,970	4,183,320	
									Expected future payment	\$4,998,649
									Add: Assumed reserve for incurred but not reported claim	59,731
									Reserve for unreported claim	5,058,380
									Add: Reported but not paid claim	2,182,413
									Claims reserve balance	<u>\$7,240,793</u>

(b) Retained business development trend

Accident year	Development year							Unreported claim	Reserve for unreported claim
	1	2	3	4	5	6	7		
2011	15,553,626	19,063,409	19,415,280	19,490,798	19,547,836	19,586,014	19,609,097	-	-
2012	15,298,518	18,496,160	18,807,374	18,873,700	18,919,542	18,952,942	18,973,509	20,567	20,608
2013	14,543,224	17,805,873	18,112,807	18,176,624	18,218,139	18,248,001	18,266,399	48,260	48,357
2014	14,764,171	17,934,637	18,252,665	18,335,267	18,376,893	18,405,828	18,424,041	88,774	88,951
2015	15,460,302	18,790,745	19,121,654	19,191,036	19,235,018	19,265,208	19,284,077	162,423	162,748
2016	16,041,097	19,690,231	20,022,069	20,096,276	20,141,722	20,173,294	20,193,193	502,962	503,968
2017	17,420,583	21,111,234	21,460,143	21,539,307	21,589,889	21,624,257	21,645,881	4,225,298	4,233,748

Note: Retained business equals direct business plus assumed reinsurance business less ceded reinsurance business.

	Expected future payment	\$5,058,380
	Add: Reported but not paid claim	2,180,458
	Retained claims reserve balance	<u>\$7,238,838</u>

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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.

b. Cathay Lujiazui Life

(a) Direct business development trend

Accident year	Development year							Expected future payment	
	1	2	3	4	5	6	7		
2011	237,167	438,906	465,126	465,126	480,877	480,877	480,877	-	
2012	252,607	493,329	533,176	537,233	537,233	537,233	537,233	-	
2013	373,487	600,405	638,047	647,886	647,886	647,886	647,886	-	
2014	219,203	410,263	439,067	647,886	647,886	647,886	647,886	-	
2015	260,111	446,354	439,067	449,703	449,703	449,703	449,703	10,636	
2016	267,604	446,354	469,749	490,137	490,137	490,137	490,137	43,783	
2017	267,604	471,264	495,964	536,056	536,056	536,056	536,056	268,452	
								Expected future payment	\$322,871
								Less: Expected reported but not paid claim	(6,290)
								Add: Assumed reserve for incurred but not reported claim	-
								Reserve for unreported claim	316,581
								Add: Reported but not paid claim	16,046
								Claims reserve balance	<u>\$332,627</u>

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(b) Retained business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2011	232,992	438,547	465,126	465,126	472,205	472,205	472,205	-
2012	246,925	492,079	533,154	537,211	472,205	472,205	472,205	-
2013	317,152	591,666	629,265	639,101	639,101	639,101	639,101	-
2014	196,444	387,079	415,859	639,101	639,101	639,101	639,101	-
2015	257,487	443,345	415,859	426,488	426,488	426,488	426,488	10,629
2016	255,291	443,345	463,423	484,661	484,661	484,661	484,661	41,316
2017	255,291	473,886	495,346	518,488	518,488	518,488	518,488	263,197

Note: Retained business equals direct business plus assumed reinsurance business less ceded reinsurance business.

Expected future payment	\$315,142
Less: Expected reported but not paid claim	(6,290)
Add: Reported but not paid claim	16,046
Retained claims reserve balance	<u>\$324,898</u>

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.

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c. Cathay life (Vietnam)

Direct business development trend (and retained business development trend)

Accident year	Development year				
	1	2	3	4	5
2013	546	681	681	681	681
2014	620	675	675	678	678
2015	1,363	1,594	1,594	1,596	1,596
2016	2,112	2,538	2,538	2,540	2,540
2017	12,433	15,098	15,098	15,110	15,110

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."

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The credit ratings of Cathay Life's reinsurers are satisfactory and above certain level, complying with Cathay Life's internal rules and relevant legal requirements in Taiwan. Furthermore, reinsurance assets are relatively immaterial to Cathay Life in terms of assets; therefore, no significant credit risks exist.

(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
2017.12.31	\$(1,082)	\$474	\$171,163
2016.12.31	(2,213)	(1,365)	170,341

Note: Separate account products are not included.

(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.

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B. Century 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.

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.

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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.

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 (quantitative or qualitative) the degree of influence 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.

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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.

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 the board of directors each quarter.

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- (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.

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:

Item	2017	2016
Fire insurance	NT\$1,105,000	NT\$898,000
Marine insurance	NT\$1,105,000	NT\$898,000
Engineering insurance	NT\$1,105,000	NT\$898,000
Other property insurance	NT\$1,105,000	NT\$898,000
Automobile insurance	NT\$1,105,000	NT\$898,000
Health and injury insurance	NT\$1,105,000	NT\$898,000

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(F) Methods of asset/liability management

Provisions are evaluated on a regular basis based on Cathay Century’s 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.

(G) Management, supervision, 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, 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

Item	Premiums receivable (Note)	
	2017.12.31	2016.12.31
Fire insurance	\$751,065	\$545,610
Marine insurance	231,980	211,652
Land and air insurance	130,372	208,831
Liability insurance	251,238	173,051
Bonding insurance	22,206	24,476
Other property insurance	202,333	217,992
Accident insurance	118,032	131,391
Health insurance	6,159	10,393
Compulsory automobile liability insurance	14,866	21,643
Total	1,728,251	1,545,039
Less: Allowance for bad debts	(62,742)	(75,197)
Net	\$1,665,509	\$1,469,842

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Cathay Century and its subsidiaries ageing analysis of receivable:

	2017.12.31	2016.12.31
≤ 90 days	\$1,530,976	\$1,292,660
> 90 days	197,275	252,379
Total	\$1,728,251	\$1,545,039

Note: As of 31 December 2017 and 31 December 2016, the receivables included overdue receivables amounting to \$197,203 thousand and \$251,988 thousand, respectively; and the allowance for bad debts amounting to \$47,475 thousand and \$62,291 thousand, respectively.

(B) Claims recoverable from reinsurers for policyholder with reported and paid off claims

Item	Claims reported and paid off	
	2017.12.31	2016.12.31
Fire insurance	\$18,931	\$108,058
Marine insurance	25,499	12,168
Land and air insurance	41,553	42,067
Liability insurance	33,210	34,899
Bonding insurance	305	2,143
Other property insurance	18,812	14,724
Accident insurance	15,473	16,645
Health insurance	-	-
Compulsory automobile liability insurance	391,512	143,733
Total	545,295	374,437
Less: Allowance for bad debts	(5,453)	-
Net	\$539,842	\$374,437

(C) Payables of insurance contract

Item	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

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Item	2016.12.31		
	Commission payables	Other payables	Total
Fire insurance	\$26,427	\$12,410	\$38,837
Marine insurance	5,947	10,090	16,037
Land and air insurance	28,784	84,010	112,794
Liability insurance	11,180	17,491	28,671
Bonding insurance	3,500	384	3,884
Other property insurance	4,697	10,279	14,976
Accident insurance	12,549	27,366	39,915
Health insurance	3,314	1,619	4,933
Compulsory automobile liability insurance	26,944	-	26,944
Total	\$123,342	\$163,649	\$286,991

(D) Due from (to) reinsurers and ceding companies- reinsurance

Item	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: Allowance for bad debts	(28,716)	-
Net	\$572,453	\$1,343,852

Item	2016.12.31	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C.	\$132,069	\$345,501
AON	48,647	148,371
Marsh	45,277	179,328
Willis	261,070	71,683
Guy Carpenter	76,895	15,070
Others	164,360	629,154
Total	728,318	1,389,107
Less: Allowance for bad debts	(25,058)	-
Net	\$703,260	\$1,389,107

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Notes: As of 31 December 2017 and 31 December 2016, the due from reinsurers and ceding companies included overdue receivables amounting to \$22,912 thousand and \$19,305 thousand, respectively; and the allowance for bad debts amounting to \$22,912 thousand and \$19,305 thousand, respectively.

Information of management achievements

(A) Acquisition cost for insurance contracts

Item	2017.1.1~2017.12.31				
	Commission		Reinsurance		Total
	expense	Surcharge	commission 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

Item	2016.1.1~2016.12.31				
	Commission		Reinsurance		Total
	expense	Surcharge	commission expense	Other cost	
Fire insurance	\$138,190	\$25,804	\$17,016	\$32,353	\$213,363
Marine insurance	43,859	1,828	1,084	2,784	49,555
Land and air insurance	467,703	-	128	732,579	1,200,410
Liability insurance	131,401	17,051	122	757	149,331
Bonding insurance	12,329	170	58	400	12,957
Other property insurance	50,009	278,816	5,126	16,327	350,278
Accident insurance	162,991	-	1	326,366	489,358
Health insurance	32,822	-	-	20,235	53,057
Compulsory automobile liability insurance	2	429,994	-	-	429,996
Total	\$1,039,306	\$753,663	\$23,535	\$1,131,801	\$2,948,305

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(B) Disclosure for insurance cost benefit analysis

a. Cost benefit analysis for direct underwriting

Item	2017.1.1~2017.12.31					
	Direct	Net change for	Acquisition	Insurance	Net change for	Net gain (loss)
	premium	unearned	cost for	claims paid	claims reserve	
income	premiums	insurance	contract	claims paid	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

Item	2016.1.1~2016.12.31					
	Direct	Net change for	Acquisition	Insurance	Net change for	Net gain (loss)
	premium	unearned	cost for	claims paid	claims reserve	
income	premiums	insurance	contract	claims paid	claims reserve	Net gain (loss)
Fire insurance	\$3,083,155	\$22,534	\$(196,347)	\$(2,313,330)	\$(1,815,052)	\$(1,219,040)
Marine insurance	594,231	(24,231)	(48,471)	(291,245)	58,778	289,062
Land and air insurance	8,271,027	(253,165)	(1,200,282)	(4,519,350)	(544,070)	1,754,160
Liability insurance	1,253,048	(56,925)	(149,209)	(471,594)	(94,230)	481,090
Bonding insurance	118,054	7,568	(12,899)	(217,811)	50,706	(54,382)
Other property insurance	1,672,912	99,580	(345,152)	(868,874)	99,563	658,029
Accident insurance	2,996,461	(45,180)	(489,357)	(1,152,253)	(7,392)	1,302,279
Health insurance	259,807	2,513	(53,057)	(108,169)	7,526	108,620
Compulsory automobile liability insurance	3,539,179	(47,764)	(429,996)	(2,245,149)	64,280	880,550
Total	\$21,787,874	\$(295,070)	\$(2,924,770)	\$(12,187,775)	\$(2,179,891)	\$4,200,368

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b. Recognized gain (loss) for reinsurance contract purchased

Item	2017.1.1~2017.12.31					
	Net change for					Net (loss) gain for assumed reinsurance business
	Reinsurance premium income	unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	
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

Item	2016.1.1~2016.12.31					
	Net change for					Net (loss) gain for assumed reinsurance business
	Reinsurance premium income	unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	
Fire insurance	\$150,101	\$(9,834)	\$(17,016)	\$(66,045)	\$65,471	\$122,677
Marine insurance	18,202	1,080	(1,084)	(24,747)	24,856	18,307
Land and air insurance	16,404	8,000	(128)	(1,449)	596	23,423
Liability insurance	1,186	721	(122)	(5)	33	1,813
Bonding insurance	1,300	(43)	(58)	(167)	168	1,200
Other property insurance	31,760	4,777	(5,126)	(13,704)	7,062	24,769
Accident insurance	6,711	(115)	(1)	(116)	9	6,488
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	760,223	(17,774)	-	(708,471)	(132,517)	(98,539)
Total	\$985,887	\$(13,188)	\$(23,535)	\$(814,704)	\$(34,322)	\$100,138

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c. Recognized gain (loss) for reinsurance contract purchased

Item	2017.1.1~2017.12.31						
	Reinsurance expense	Net change for unearned premiums reserve ceded		Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance 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	

Item	2016.1.1~2016.12.31						
	Reinsurance expense	Net change for unearned premiums reserve ceded		Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$2,187,812	\$(78,894)	\$(146,976)	\$(1,496,657)	\$(1,774,246)	\$(1,308,961)	
Marine insurance	427,076	(13,688)	(49,058)	(202,608)	34,738	196,460	
Land and air insurance	466,767	18,801	(102,185)	(175,071)	(50,517)	157,795	
Liability insurance	451,445	(58,291)	(99,293)	(148,922)	(70,794)	74,145	
Bonding insurance	80,758	5,461	(15,033)	(209,742)	55,474	(83,082)	
Other property insurance	269,351	45,548	(52,182)	(137,454)	80,207	205,470	
Accident insurance	242,088	(3,817)	(61,354)	(83,305)	6,300	99,912	
Health insurance	(5)	9	-	-	(697)	(693)	
Compulsory automobile liability insurance	1,258,801	(46,914)	-	(989,626)	(78,672)	143,589	
Total	\$5,384,093	\$(131,785)	\$(526,081)	\$(3,443,385)	\$(1,798,207)	\$(515,365)	

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Sensitivity of insurance risk

(A) Cathay Century

Insurance type	Premium income	Expected loss ratio	The impact to profit and loss when the expected loss ratio increases 5%	
			Before reinsurance	After reinsurance
Fire insurance	\$3,087,894	20.28%	\$(154,395)	\$(109,160)
Marine insurance	579,091	44.23%	(28,954)	(8,639)
Land and air insurance	8,440,380	65.45%	(422,019)	(401,629)
Liability insurance	1,256,751	55.16%	(62,838)	(41,634)
Bonding insurance	146,173	87.69%	(7,309)	(1,929)
Other property insurance	621,180	42.44%	(31,059)	(24,712)
Accident insurance	3,020,539	41.18%	(151,027)	(140,358)
Health insurance	288,144	60.89%	(14,407)	(14,368)
Compulsory automobile liability insurance	2,971,539	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)

Insurance type	Premium income	Expected loss ratio	Changes in income when the expected loss ratio increases 5%	
			Before reinsurance	After reinsurance
Automobile insurance	\$102,106	52.44%	\$(5,105)	\$(5,105)
flood insurance	8,613	29.70%	(430)	(112)
Fire insurance	126,956	155.05%	(6,348)	(605)
Engineering insurance	6,574	119.40%	(329)	-
Accident insurance	18,759	29.73%	(938)	(938)
Liability insurance	1,116	51.42%	(56)	(18)

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.

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Concentration Risk

(A) Cathay Century

a. Situations that might cause concentration of insurance risk:

(a) Single insurance contract or few related contracts

For the years ended 31 December 2017, 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 years ended 31 December 2017, 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 years ended 31 December 2017, 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 years ended 31 December 2017, no catastrophe has taken place.

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- (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 the 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	2017.1.1 ~ 2017.12.31				
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	%
Fire insurance	\$3,087,894	\$274,373	\$2,040,389	\$1,321,878	8.03%
Marine insurance	579,091	35,012	387,309	226,794	1.38%
Land and air insurance	8,440,380	4,060	374,959	8,069,481	49.00%
Liability insurance	1,256,751	1,762	438,089	820,424	4.98%
Bonding insurance	146,173	1,453	107,333	40,293	0.24%
Other property insurance	621,180	96,992	343,315	374,857	2.28%
Accident insurance	3,020,539	8,806	233,051	2,796,294	16.98%
Health insurance	288,144	12,181	-	300,325	1.82%
Compulsory automobile liability insurance	2,971,539	775,569	1,230,002	2,517,106	15.29%
Total	\$20,411,691	\$1,210,208	\$5,154,447	\$16,467,452	100.00%

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- 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 years ended 31 December 2017, 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 years ended 31 December 2017, 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 PROCEDURE FOR SUBROGATION” 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 years ended 31 December 2017, no material lawsuit or legal risks has taken place.

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(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 years ended 31 December 2017, 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	For the years ended 31 December 2017				
	Direct premium income	Reinsurance premium income	Premiums ceded to reinsurers	Net premium income	%
Automobile insurance	\$102,106	\$113	\$49	\$102,170	71.67%
flood insurance	8,613	-	6,069	2,544	1.79%
Fire insurance	126,956	2,257	112,300	16,913	11.86%
Engineering insurance	6,574	-	4,785	1,789	1.25%
Accident insurance	18,759	-	-	18,759	13.16%
Liability insurance	1,116	-	737	379	0.27%
Total	\$264,124	\$2,370	\$123,940	\$142,554	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.

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Claim development table

(A) Cathay Century

Underwriting Year	2012.1.1-	2013.1.1-	2014.1.1-	2015.1.1-	2016.1.1-	2017.1.1-	Total	
	-2011.12.31	3.23.12.31	2013.12.31	2014.12.31	2015.12.31	2016.12.31		2017.12.31
Estimate of cumulative claims incurred:								
At end of underwriting year	\$12,662,713	\$4,851,463	\$5,773,901	\$7,066,945	\$7,559,012	\$12,235,424	\$8,134,147	
One year later	14,579,295	5,687,982	6,109,827	7,217,836	7,418,703	11,455,620		
Two year later	14,208,834	5,742,806	6,169,858	7,156,309	7,548,387			
Three year later	15,628,701	5,780,856	6,103,460	7,135,341				
Four year later	15,588,400	5,667,019	6,135,017					
Five year later	15,518,703	5,723,779						
Six year later	15,370,875							
Estimate of cumulative claims incurred	15,370,875	5,723,779	6,135,017	7,135,341	7,548,387	11,455,620	8,134,147	\$61,503,166
Cumulative payment to date	15,404,991	5,709,763	6,035,770	6,786,744	7,213,628	10,043,459	4,725,465	55,919,820
Subtotal	(34,116)	14,016	99,247	348,597	334,759	1,412,161	3,408,682	5,583,346
Reconciliation	-	-	-	-	-	-	112,755	112,755
Recorded in balance sheet	\$(34,116)	\$14,016	\$99,247	\$348,597	\$334,759	\$1,412,161	\$3,521,437	\$5,696,101

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 \$1,390,925 thousand and assumed reserve for claims – non-compulsory insurance of \$729,287 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.

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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)	"
Conning Asia Pacific Ltd.	"
Cathay Securities Investment Consulting Co., Ltd.	"
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	"
Conning Inc.	"
Cathay Century (China)	Associate
Taiwan Real-estate Management Corp.	"
Symphox Information Co., Ltd.	"
Tien-Tai Energy Corp.	"
Seaward Card Co., Ltd.	Other related party (Note)
Vietinbank	"
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.	"
Others	"

Note: 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 related party.

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(2) Significant transactions with related parties:

A. Cash and cash equivalent

(A) Due from commercial banks

Name	Ending balance	
	2017.12.31	2016.12.31
Other related party		
Vietinbank	\$5,340,176	\$6,162,462

Name	Interest income	
	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Other related party		
Vietinbank	\$5,242	\$35,271

(B) Due to commercial banks

Name	Ending balance	
	2017.12.31	2016.12.31
Other related party		
Vietinbank	\$5,334,420	\$5,849,798

Name	Interest expense	
	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Other related party		
Vietinbank	\$5,561	\$10,550

B. Financial assets at fair value through profit or loss

Name	2017.12.31	2016.12.31
Other related party		
Cathay Dragon Fund etc.	\$238,510	\$116,221

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C. Receivables

Name	2017.12.31	2016.12.31
Other related party		
Cathay Dragon Fund etc.	\$145,162	\$111,523

D. Reinsurance assets

Name	2017.12.31	2016.12.31
Subsidiary		
Cathay Insurance (Bermuda)	\$-	\$13,245

E. Loans

Name	Ending balance	
	2017.12.31	2016.12.31
Associate		
Taiwan Real-estate Management Corp.	\$32,000	\$35,000
Tien-Tai Energy Corp.	87,763	96,131
Other related party		
Liang-Ting Co., Ltd.	-	28,225
Others	2,363,153	2,428,685
Total	\$2,482,916	\$2,588,041

Name	Interest income	
	2017.1.1~	2016.1.1~
	2017.12.31	2016.12.31
Associate		
Taiwan Real-estate Management Corp.	\$613	\$263
Tien-Tai Energy Corp.	2,936	3,283
Other related party		
Liang-Ting Co., Ltd.	272	684
Others	36,233	41,437
Total	\$40,054	\$45,667

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F. Available-for-sale financial assets

Name	2017.12.31	2016.12.31
Other related party		
Cathay Dragon Fund etc.	\$501,033	\$572,783
Cathay Healthcare Management Co., Ltd.	93,225	87,285
Total	\$594,258	\$660,068

G. Deposit

Name	Ending balance	
	2017.12.31	2016.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	\$146,976	\$101,398
Associate		
Symphox Information Co., Ltd.	150,870	94,865
Other related party		
Cathay Real Estate Development Co., Ltd.	253,682	466,369
Cathay Dragon Fund etc.	106,497	21,461
Cathay Hospitality Management Co., Ltd.	9,202	3,018
Others	13,295,842	12,897,507
Total	\$13,963,069	\$13,584,618

Name	Interest expense	
	2017.1.1~	2016.1.1~
	2017.12.31	2016.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	\$565	\$570
Associate		
Symphox Information Co., Ltd.	585	824
Other related party		
Cathay Real Estate Development Co., Ltd.	45	67
Cathay Dragon Fund etc.	1	1
Cathay Hospitality Management Co., Ltd.	22	22
Others	95,377	105,392
Total	\$96,595	\$106,876

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H. Property transactions

(A) Cathay Life and its subsidiaries' significant transactions of undertaking contracted projects with related parties are listed below:

Name	2017.1.1~2017.12.31	
	Item	Amount
Other related party		
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	Jui-Fang Logistic Park, etc.	1,348,450
	Total	<u>\$2,864,474</u>

Name	2016.1.1~2016.12.31	
	Item	Amount
Other related party		
Lin Yuan Property Management Co., Ltd.	Dunnan Xinyi Building, etc.	\$32,158
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	440,901
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	598,936
Ally Logistic Property	Jui-Fang Logistic Park, etc.	1,423,127
	Total	<u>\$2,495,122</u>

The total amounts of the real estate projects contracted as of 31 December 2017 and 31 December 2016 between Cathay Life and its subsidiaries and Lin Yuan Property Management Co., Ltd. were \$1,387 thousand and \$17,252 thousand, respectively.

The total amounts of the real estate projects contracted as of 31 December 2017 and 31 December 2016 between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were \$1,853,190 thousand and \$1,853,332 thousand, respectively.

The total amounts of the real estate projects contracted as of 31 December 2017 and 31 December 2016 between Cathay Life and its subsidiaries and Cathay Real Estate Development Co., Ltd. were \$1,742,250 thousand respectively.

The total amounts of the real estate projects contracted as of 31 December 2017 and 31 December 2016 between Cathay Life and its subsidiaries and Ally Logistic Property were both \$3,383,783 thousand.

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(B) Real estate rental income from Cathay Life and its subsidiaries:

Name	Rental income	
	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	\$8,900	\$8,580
Associate		
Symphox Information Co., Ltd.	40,912	35,867
Cathay Century (China)	27,103	21,373
Other related party		
Cathay Real Estate Development Co., Ltd.	19,361	17,416
San Ching Engineering Co., Ltd.	5,610	5,610
Cathay Medical Care Corporate	185,327	180,882
Cathay Healthcare Management Co., Ltd.	56,032	55,638
Cathay Hospitality Management Co., Ltd.	225,304	206,105
Liang-Ting Co., Ltd.	-	3,088
Ally Logistic Property	299,821	165,768
Total	\$868,370	\$700,327

Name	Guarantee deposits received	
	2017.12.31	2016.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	\$2,089	\$4,108
Associate		
Symphox Information Co., Ltd.	9,798	9,617
Cathay Century (China)	7,186	7,282
Other related party		
Cathay Real Estate Development Co., Ltd.	3,773	3,998
Cathay Medical Care Corporate	10,916	10,801
Cathay Healthcare Management Co., Ltd.	13,157	13,157
Cathay Hospitality Management Co., Ltd.	216,949	214,825
Ally Logistic Property	55,669	55,649
Total	\$319,537	\$319,437

According to contracts, the lease terms are usually between 2 to 5 years and rental incomes are collected on a monthly basis.

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(C) Real estate rental expense from Cathay Life and its subsidiaries:

Name	Rental expense	
	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Other related party		
Cathay Real Estate Development Co., Ltd.	\$7,413	\$7,413

According to contracts, lease terms are usually between 1 to 2 years and rental incomes are collected on a monthly basis.

(D) Real estate rental income from Cathay United Bank:

Name	Rental income	
	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Other related party		
Cathay United Bank Culture and Charity Foundation.	\$4,633	\$4,633

The rental period and the rent collection methods are made in accordance with the lease contract. The main collection method is on a monthly basis and the general term is 1 to 3 years.

(E) Real estate rental expense from Cathay United Bank:

Name	Rental expense	
	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Other related party		
Cathay Real Estate Development Co., Ltd.	\$20,150	\$21,166

Name	Guarantee deposits paid	
	2017.12.31	2016.12.31
Other related party		
Cathay Real Estate Development Co., Ltd.	\$4,549	\$4,605

According to contracts, the lease terms are usually between 2 to 5 years and rental incomes are collected on a monthly basis.

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I. Guarantee deposits received

Name	2017.12.31	2016.12.31
Other related party		
Lin Yuan Property Management Co., Ltd.	\$5,000	\$5,000
San Ching Engineering Co., Ltd.	661,181	297,261
Cathay Hospitality Management Co., Ltd.	120,257	120,257
Ally Logistic Property	337,790	382,618
Total	<u>\$1,124,228</u>	<u>\$805,136</u>

J. Futures traders' equity

Name	2017.12.31	2016.12.31
Other related party		
Cathay Dragon Fund etc.	\$526,611	\$180,621

K. Payables

Name	2017.12.31	2016.12.31
Associate		
Symphox Information Co., Ltd.	\$159,714	\$107,145
Other related party		
Seaward Card Co., Ltd.	24,254	23,361
Total	<u>\$183,968</u>	<u>\$130,506</u>

L. Investment balance of related parties' discretionary investment

Name	2017.12.31	2016.12.31
Other related party		
Charity Foundation of Cathay Life	\$72,580	\$63,161
Cathay Cultural Foundation	52,238	47,680
Total	<u>\$124,818</u>	<u>\$110,841</u>

M. Net commission and handling fee

(A) Handling fee income

Name	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	\$19,039	\$21,184
Other related party		
Cathay Real Estate Development Co., Ltd.	4,636	3,495
Total	<u>\$23,675</u>	<u>\$24,679</u>

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(B) Reinsurance service expense

Name	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Subsidiary		
Cathay Insurance (Bermuda)	\$8,826	\$8,839

N. Net premiums from insurance business

(A) Insurance income

Name	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Other related party		
Cathay Real Estate Development Co., Ltd.	\$6,718	\$7,782
Cathay Medical Care Corporate	46,901	46,352
San Ching Engineering Co., Ltd.	7,264	4,498
Lin Yuan Property Management Co., Ltd.	3,183	3,345
Others	294,377	200,932
Total	\$358,443	\$262,909

(B) Reinsurance income

Name	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Subsidiary		
Cathay Insurance (Bermuda)	\$131,460	\$127,610

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).

(C) Reinsurance claims payment

Name	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Subsidiary		
Cathay Insurance (Bermuda)	\$128,255	\$127,133

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O. Net other non-interest income

(A) Management fee income

Name	2017.1.1~	2016.1.1~
	2017.12.31	2016.12.31
Other related party		
Cathay Dragon Fund etc.	\$1,445,593	\$1,275,642

(B) Other income

Name	2017.1.1~	2016.1.1~
	2017.12.31	2016.12.31
Other related party		
Cathay Healthcare Management Co., Ltd.	\$4,792	\$4,776
Cathay Medical Care Corporate	3,651	3,630
Total	\$8,443	\$8,406

P. Operating expenses

Name	2017.1.1~	2016.1.1~
	2017.12.31	2016.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	\$-	\$35,000
Associate		
Symphox Information Co., Ltd.	1,010,407	870,502
Other related party		
Seaward Card Co., Ltd.	299,654	293,777
Cathay Real Estate Development Co., Ltd.	10,883	12,021
Lin Yuan Property Management Co., Ltd.	791,313	791,898
Cathay Healthcare Management Co., Ltd.	42,147	28,969
Cathay Medical Care Corporate	3,731	7,817
Charity Foundation of Cathay Life	5,550	5,703
San Ching Engineering Co., Ltd.	3,924	3,906
Total	\$2,167,609	\$2,049,593

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Q. Key management personnel compensation

	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Short-term employee benefits	\$793,903	\$800,125
Post-employment pension	16,088	15,932
Other long-term employee benefits	45	96
Repatriation benefits	-	-
Total	\$810,036	\$816,153

The key management personnel of the Group include chairman, directors, supervisors, and vice general managers.

R. Securities trading

Name	Securities Name	2017.1.1~2017.12.31	
		Trading shares	Sale price
Associate			
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 2016.

(3) The Company

Significant intercompany transactions within the Group have been eliminated upon consolidation.

A. Cash in bank

Name	Item	Ending balance	
		2017.12.31	2016.12.31
Subsidiary			
Cathay United Bank	Cash in bank	\$137,400	\$198,101

Interest income from Cathay United Bank for the years ended 31 December 2017 and 2016 were \$294 thousand and \$696 thousand, respectively.

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B. Receivables

Name	Item	2017.12.31	2016.12.31
Subsidiaries			
Cathay Life	Receivables due to interest	\$158,589	\$158,410
Cathay Century	Receivables due to consolidated income tax and interest	231,138	307,399
Cathay United Bank	Receivables due to consolidated income tax	-	263,299
Cathay Securities	Receivables due to consolidated income tax	76,883	4,562
Cathay Securities Investment Trust	Receivables due to consolidated income tax	57,089	61,790
Cathay Venture	Receivables due to consolidated income tax	3,647	-
	Total	<u>\$527,346</u>	<u>\$795,460</u>

C. Guarantee deposits paid

Name	2017.12.31	2016.12.31
Subsidiary		
Cathay Life	<u>\$12,588</u>	<u>\$10,086</u>

D. Held-to-maturity financial asset

Name	2017.12.31	2016.12.31
Subsidiaries		
Cathay Life	\$40,000,000	\$40,000,000
Cathay Century	1,000,000	1,000,000
Total	<u>\$41,000,000</u>	<u>\$41,000,000</u>

E. Payables

Name	Item	2017.12.31	2016.12.31
Subsidiaries			
Cathay Life	Payable due to consolidated income tax	\$706,336	\$4,953,921
Cathay Venture	Payable due to consolidated income tax	-	5,121
Cathay United Bank	Payable due to consolidated income tax	145,836	-
Total		<u>\$852,172</u>	<u>\$4,959,042</u>

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F. Interest income

Name	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Subsidiary		
Cathay Life	\$1,353,179	\$384,230
Cathay Century	18,600	18,600
Total	\$1,371,779	\$402,830

G. Operating expenses

Name	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Subsidiary		
Cathay Life	\$59,138	\$41,762
Other related party		
Seaward Card Co., Ltd.	4,519	3,598
Total	\$63,657	\$45,360

(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	Item	2017.12.31	2016.12.31
Subsidiaries			
Cathay United Bank	Time deposit	\$2,047,772	\$2,069,040
	Cash in bank	26,172,194	24,375,191
	Check deposit	343,491	443,860
	Security deposit	6	6
Indovina Bank	Time deposit	13,140	21,270
	Cash in bank	15,984	33,928
Total		\$28,592,587	\$26,943,295

Interest income from Cathay United Bank for the years ended 31 December 2017 and 2016, were \$28,157 thousand and \$19,034 thousand, respectively.

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Interest income from Indovina Bank for the years ended 31 December 2017 and 2016 were \$1,438 thousand and \$270 thousand, respectively.

As of 31 December 2017 and 31 December 2016, time deposit pledged were \$3,000 thousand and \$4,482 thousand, respectively.

(B) Other receivables

Name	2017.12.31	2016.12.31
The Company		
Cathay Financial Holding (Note)	\$706,336	\$4,953,921
Subsidiary		
Cathay Century	56,124	152,623
Total	\$762,460	\$5,106,544

Note: Receivables are refundable tax under the consolidated income tax system.

(C) Secured loans

Name	2017.1.1~2017.12.31		
	Maximum amount	Rate	Ending balance
Other related party			
Others	\$1,107,371	1.03%~3.44%	\$909,989
Name	2016.1.1~2016.12.31		
	Maximum amount	Rate	Ending balance
Other related party			
Others	\$1,085,235	1.03%~3.44%	\$1,018,137

Interest income from others related parties for three-month and nine-month periods ended 31 December 2017 and 2016 were \$14,329 thousand and \$16,436 thousand, respectively.

(D) Available-for-sale financial assets

Name	2017.12.31	2016.12.31
Subsidiary		
Cathay Dragon Fund etc.	\$-	\$101,392

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(E) Investment balance of related parties' discretionary investment

Name	2017.12.31	2016.12.31
Subsidiary		
Cathay Securities Investment Trust	\$245,661,387	\$183,588,745

(F) Guarantee deposits paid

Name	2017.12.31	2016.12.31
Subsidiary		
Cathay Futures	\$1,628,717	\$1,200,485

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 2017 and 2016 were \$1,087 thousand and \$1,748 thousand, respectively.

(G) Other payables

Name	2017.12.31	2016.12.31
The Company		
Cathay Financial Holding (Note)	\$158,589	\$158,410
Subsidiary		
Cathay United Bank	163,342	549,934
Total	\$321,931	\$708,344

Note: including tax payable under the consolidated income tax system, dividend payable and interest payable accrued from bond and preferred stock liability.

(H) Preferred stock liability

Name	2017.12.31	2016.12.31
The Company		
Cathay Financial Holding	\$5,000,000	\$5,000,000

(I) Bonds payable

Name	2017.12.31	2016.12.31
The Company		
Cathay Financial Holding	\$35,000,000	\$35,000,000

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(J) 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.

Real estate contracted projects of Cathay Life and its subsidiaries:

Name	2017.1.1~2017.12.31	
	Item	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	Jui-Fang Logistic Park, etc	1,348,450
	Total	<u>\$2,848,716</u>

Name	2016.1.1~2016.12.31	
	Item	Amount
Other related party		
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	\$440,901
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	598,936
Ally Logistic Property	Jui-Fang Logistic Park, etc	1,423,127
	Total	<u>\$2,462,964</u>

The total amounts of the real estate projects contracted as of 31 December 2017 and 31 December 2016 between Cathay Life and San Ching Engineering Co., Ltd. were \$1,853,190 thousand and \$1,853,332 thousand, respectively.

The total amounts of the real estate projects contracted as of 31 December 2017 and 31 December 2016 between Cathay Life and its subsidiaries and Cathay Real Estate Development Co., Ltd. were both \$1,742,250 thousand.

The total amounts of the real estate projects contracted as of 31 December 2017 and 31 December 2016 between Cathay Life and Ally Logistic Property were both \$3,383,783 thousand.

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(K) Rental income

Name	Item	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Subsidiary			
Cathay United Bank	Real-estate rental income	\$580,440	\$480,382
Cathay Century	Real-estate rental income	105,435	103,072
Other related party			
Cathay Medical Care Corporate	Real-estate rental income	185,327	180,882
Cathay Hospitality Management Co., Ltd.	Real-estate rental income	225,304	206,105
Ally Logistic Property	Real-estate rental income	299,821	165,768
Total		<u>\$1,396,327</u>	<u>\$1,136,209</u>

According to contracts, the lease terms are usually between 2 to 5 years and rental incomes are collected on a monthly basis.

(L) Guarantee deposits paid

Name	2017.12.31	2016.12.31
Subsidiary		
Cathay United Bank	\$164,798	\$157,492
Other related party		
San Ching Engineering Co., Ltd.	661,181	297,261
Cathay Hospitality Management Co., Ltd.	337,206	335,082
Ally Logistic Property	393,459	438,267
Total	<u>\$1,556,644</u>	<u>\$1,228,102</u>

(M) Miscellaneous income

Name	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Subsidiary		
Cathay Century	\$580,053	\$1,334,873
Cathay United Bank	174,073	181,017
Total	<u>\$754,126</u>	<u>\$1,515,890</u>

Miscellaneous income is mainly generated from Cathay Life's integrated marketing activities.

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(N) Insurance expenses

Name	2017.1.1~	2016.1.1~
	2017.12.31	2016.12.31
Subsidiary		
Cathay Century	\$115,158	\$122,617

(O) Insurance income

Name	2017.1.1~	2016.1.1~
	2017.12.31	2016.12.31
Other related party		
Others	\$294,377	\$200,932

(P) Reinsurance income

Name	2017.1.1~	2016.1.1~
	2017.12.31	2016.12.31
Subsidiary		
Cathay Insurance (Bermuda)	\$131,460	\$127,610

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).

(Q) Handling fees income

Name	2017.1.1~	2016.1.1~
	2017.12.31	2016.12.31
Subsidiary		
Cathay Securities Investment Trust	\$182,147	\$143,984

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(R) Reinsurance claim payments

Name	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Subsidiary		
Cathay Insurance (Bermuda)	\$128,255	\$127,133

(S) Operating expenses

Name	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Subsidiary		
Cathay United Bank	\$6,743,403	\$8,583,492
Cathay Securities Investment Trust	152,394	109,201
Associate		
Symphox Information Co., Ltd.	286,646	357,766
Other related party		
Lin Yuan Property Management Co., Ltd.	781,188	782,457
Total	<u>\$7,963,631</u>	<u>\$9,832,916</u>

(T) Non-operating expenses

Name	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
The Company		
Cathay Financial Holding	<u>\$1,353,179</u>	<u>\$384,230</u>

Non-operating expenses are interest expenses accrued from preferred stock liability and corporate bond.

(U) Other disclosures

As of 31 December 2017 and 31 December 2016, the nominal amounts (in thousands) of the financial instruments transactions between Cathay Life and Cathay United Bank are summarized below:

Item	2017.12.31	2016.12.31
CS contracts	<u>USD 3,322,000</u>	<u>USD 3,269,000</u>

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B. Cathay United Bank and its subsidiaries

(A) Loans and deposits

Account/Name	Ending balance	
	2017.12.31	2016.12.31
Loans		
Other related party		
Others	\$1,422,061	\$1,384,358

Account/Name	Ending balance	
	2017.12.31	2016.12.31
Deposits		
The Company		
Cathay Financial Holding	\$137,400	\$198,101
Subsidiaries		
Cathay Life	28,472,961	26,758,316
Cathay Century	1,827,176	1,400,324
Cathay Securities	3,414,826	2,320,198
Cathay Futures Co., Ltd.	1,041,691	1,364,251
Cathay Securities Investment Trust	179,814	168,566
Cathay Life (Vietnam)	29,124	55,198
Cathay Century (Vietnam)	145,661	225,719
Conning Asia Pacific Ltd.	90,502	129,781
Cathay Securities Investment Consulting Co., Ltd..	146,976	101,398
Cathay Securities (Hong Kong) ,Ltd	66	74
Cathay Private Equity	49,963	-
Associate		
Symphox Information Co., Ltd.	150,870	94,865
Other related party		
Cathay Real Estate Development Co., Ltd.	253,682	466,369
Cathay Dragon Fund etc.	106,497	21,461
Others	13,295,842	12,897,507
Total	\$49,343,051	\$46,202,128

Account/Name	Interest income	
	2017.1.1~	2016.1.1~
	2017.12.31	2016.12.31
Loans		
Other related party		
Others	\$21,453	\$24,571

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Account /Name	Interest expense	
	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Deposits		
The Company		
Cathay Financial Holding	\$294	\$696
Subsidiary		
Cathay Life	27,653	18,450
Cathay Century	7,110	7,303
Cathay Securities	4,652	3,814
Cathay Futures Co., Ltd.	9,198	15,804
Cathay Securities Investment Trust	249	473
Cathay Securities Investment Consulting Co., Ltd.	565	570
Cathay Life (Vietnam)	1,438	270
Cathay Century (Vietnam)	5,638	4,954
Conning Asia Pacific Ltd.	504	584
Cathay Private Equity	4	-
Associate		
Symphox Information Co., Ltd.	585	824
Other related party		
Cathay Real Estate Development Co., Ltd.	45	67
Cathay Dragon Fund etc.	1	1
Others	95,377	105,392
Total	\$153,313	\$159,202

Account/Name	Ending balance	
	2017.12.31	2016.12.31
Call loans to banks		
Other related party		
Vietinbank	\$5,340,176	\$6,162,462
Due to commercial banks		
Other related party		
Vietinbank	5,334,420	5,849,798

Account/Name	Interest income	
	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Call loans to banks		
Other related party		
Vietinbank	\$5,242	\$35,271

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Account/Name	Interest expense	
	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Due to commercial banks		
Other related party		
Vietinbank	\$5,561	\$10,550

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	2017.12.31	2016.12.31
Subsidiary		
Cathay Life	\$163,342	\$549,934

(D) Payables

Name	2017.12.31	2016.12.31
Associate		
Symphox Information Co., Ltd.	\$157,938	\$78,383

(E) Combined tax receivable

Name	2017.12.31	2016.12.31
The Company		
Cathay Financial Holding	\$145,836	\$-

(F) Combined tax payable

Name	2017.12.31	2016.12.31
The Company		
Cathay Financial Holding	\$-	\$263,299

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(G) Rental expense

Name	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Subsidiary		
Cathay Life	\$580,440	\$480,382

According to contracts, the lease terms are usually between 2 to 5 years and rentals are paid on a monthly basis.

(H) Guarantee deposits paid

Name	2017.12.31	2016.12.31
Subsidiary		
Cathay Life	\$164,798	\$157,492
Cathay Futures Co., Ltd.	79,854	120,374
Total	\$244,652	\$277,866

(I) Handling fees income

Name	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Subsidiary		
Cathay Life	\$6,743,403	\$8,583,492
Cathay Century	154,446	122,711
Total	\$6,897,849	\$8,706,203

(J) Operating expenses

Name	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Subsidiary		
Cathay Life	\$174,073	\$181,017
Associate		
Symphox Information Co., Ltd.	656,647	446,920
Other related party		
Seaward Card Co., Ltd.	199,585	192,472
Total	\$1,030,305	\$820,409

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(K) Insurance expenses

Name	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Subsidiary		
Cathay Century	\$172,376	\$167,339

C. Cathay Century and its subsidiaries

(A) Cash in banks

Name	Item	2017.12.31	2016.12.31
Subsidiaries			
Cathay United Bank	Time deposit	\$618,200	\$623,200
	Cash in bank	1,079,221	634,754
	Check deposit	129,755	142,370
Indovina Bank	Time deposit	140,380	219,997
	Cash in bank	5,281	5,722
	Total	\$1,972,837	\$1,626,043

Interest income from Cathay United Bank for the years ended 31 December 2017 and 2016 were \$7,110 thousand and \$7,303 thousand, respectively.

Interest income from Indovina Bank for the three-month and nine-month periods ended 31 December 2017 and 2016 were \$5,638 thousand and \$4,954 thousand, respectively.

As of 31 December 2017 and 31 December 2016, the time deposit pledged were \$23,041 thousand and \$28,677 thousand, respectively.

(B) Available-for-sale financial assets

Name	Item	2017.12.31	2016.12.31
Other related party			
Cathay Dragon Fund etc.	Beneficiary certificates	\$302,124	\$306,641

(C) Investment balance of related parties' discretionary investment

Name	2017.12.31	2016.12.31
Subsidiary		
Cathay Securities Investment Trust	\$898,774	\$1,069,225

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(D) Other payables

Name	2017.12.31	2016.12.31
The Company		
Cathay Financial Holding	\$231,138	\$307,399
Subsidiary		
Cathay Life	56,124	152,623
Total	<u>\$287,262</u>	<u>\$460,022</u>

(E) Preferred stock liability

Name	2017.12.31	2016.12.31
The Company		
Cathay Financial Holding	<u>\$1,000,000</u>	<u>\$1,000,000</u>

(F) Insurance income

Name	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Subsidiary		
Cathay Life	\$115,158	\$122,617
Cathay United Bank	172,376	167,339
Total	<u>\$287,534</u>	<u>\$289,956</u>

(G) Operating expenses

Name	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Subsidiary		
Cathay Life	\$580,053	\$1,334,873
Cathay United Bank	154,446	122,711
Total	<u>\$734,499</u>	<u>\$1,457,584</u>

(H) Rental expense

Name	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Subsidiary		
Cathay Life	<u>\$105,435</u>	<u>\$103,072</u>

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(I) Other disclosure

As of 31 December 2017 and 31 December 2016, the nominal amounts (in thousand) of the derivative financial instruments transactions with Cathay United Bank are summarized as below:

Item	2017.12.31		2016.12.31	
CS contracts	USD	88,700	USD	76,700
	EUR	4,850	EUR	5,850

D. Cathay Securities and its subsidiaries

(A) Cash in bank

Name	Item	2017.12.31	2016.12.31
Subsidiary			
Cathay United Bank	Time deposits (Note)	\$2,042,784	\$1,870,837
	Cash in bank	1,697,512	765,855
	Check deposits	3	26
	Total	\$3,740,299	\$2,636,718

Interest income from Cathay United Bank for the years ended 31 December 2017 and 2016 were \$13,850 thousand and \$19,618 thousand, respectively.

As of 31 December 2017 and 31 December 2016, the time deposits pledged were both \$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 2017 and 31 December 2016, the operating bonds were \$385,000 thousand and \$355,000 thousand, respectively.

(B) Customer’s margin accounts

Name	Ending balance	
	2017.12.31	2016.12.31
Subsidiary		
Cathay United Bank	\$716,284	\$1,047,805

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(C) Financial assets at fair value through profit or loss

Name	2017.12.31	2016.12.31
Other related party		
Cathay Dragon Fund etc.	\$238,510	\$116,221
	\$238,510	\$116,221

(D) Futures trader's equity

Name	2017.12.31	2016.12.31
Subsidiary		
Cathay Life	\$1,628,717	\$1,200,485
Cathay United Bank	79,854	120,374
Other related party		
Cathay Dragon Fund etc.	526,611	180,621
Total	\$2,235,182	\$1,501,480

E. Cathay Securities Investment Trust

(A) Cash in bank

Name	Item	2017.12.31	2016.12.31
Subsidiary			
Cathay United Bank	Time deposit (Note)	\$96,300	\$118,800
	Cash in bank	55,082	24,113
	Check deposits	78,395	25,653
	Total	\$229,777	\$168,566

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 2017 and 31 December 2016, the operating bonds were both \$50,000 thousand.

In accordance with “Discretionary Investment Services Contract”, as of 31 December 2017 and 31 December 2016, Cathay Securities Investment Trust reserved the performance bonds amounting to \$36,300 thousand and \$64,800 thousand, respectively.

Interest income from Cathay United Bank for the years ended 31 December 2017 and 2016 were \$252 thousand and \$473 thousand respectively.

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(B) Management fee income

Name	2017.1.1~	2016.1.1~
	2017.12.31	2016.12.31
Subsidiary		
Cathay Life	\$152,394	\$109,201
Other related party		
Cathay Dragon Fund etc.	1,445,593	1,275,642
Total	<u>\$1,597,987</u>	<u>\$1,384,843</u>

(C) Receivables

Name	2017.12.31	2016.12.31
Other related party		
Cathay Dragon Fund etc.	<u>\$145,162</u>	<u>\$111,523</u>

(D) Investment balance of related parties' discretionary investment

Name	2017.12.31	2016.12.31
Subsidiary		
Cathay Life	\$245,661,387	\$183,588,745
Cathay Century	898,774	1,069,225
Total	<u>\$246,560,161</u>	<u>\$184,657,970</u>

(E) Operating expenses

Name	2017.1.1~	2016.1.1~
	2017.12.31	2016.12.31
Subsidiary		
Cathay Life	\$80,707	\$82,129
Conning Asia Pacific Ltd.	90,805	57,004
Conning, Inc.	10,635	4,851
Total	<u>\$182,147</u>	<u>\$143,984</u>

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8. Pledged assets

As of 31 December 2017 and 31 December 2016 the Group's pledged assets are summarized below:

Item	Guarantee purpose	Carrying amount	
		2017.12.31	2016.12.31
Time deposits and guarantee deposits paid	Capital guarantee, serving as deposits paid, settlement accounts, collateral for overdraft, government bonds, court guarantees, business reserves and guarantees	\$14,608,359	\$14,083,308
Financial assets at fair value through profit or loss	Securities lending	1,241,468	46,748
Available-for-sale financial assets	Business reserves and guarantees	57,613	79,962
Held-to-maturity financial assets	Business reserves and guarantees	595,043	2,361,157
Investments in debt securities with no active market	Business reserves and guarantees	63,800,000	63,800,000
Total		<u>\$80,302,483</u>	<u>\$80,371,175</u>

9. Commitment and contingent liabilities

(1) Cathay United Bank

Lee and Li Attorneys-at-Law and SanDisk Corporation filed lawsuits in the Taiwan Taipei District Court and alleged that Cathay United Bank breached its contractual and fiduciary duties in connection with the embezzlement conducted by Eddie Liu, a former employee of Lee and Li Attorneys-at-Law on October 2003. Both plaintiffs claimed indemnities amounting to \$991,002 thousand and \$3,090,000 thousand. The claim made by Lee and Li started litigation procedures in July 2007. Cathay United Bank won the first instance and the second instance, and the action is still pending in the Supreme Court. However, Cathay United Bank is in mediation procedure with SanDisk Corporation. Thus, the case is still pending. Cathay United Bank has been advised by its legal counsel that it is possible, but not probable, that the action will be resolved in Cathay United Bank's favor and accordingly no provision for such claims has been made in these financial statements.

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- (2) As of 31 December 2017 and 31 December 2016 Cathay United Bank and its subsidiaries had the following commitments and contingent liabilities, which were not reflected in the financial statements:

Item	2017.12.31	2016.12.31
Trust and security held for safekeeping	\$684,016,891	\$604,042,204
Travelers checks for sale	355,055	403,853
Bills for collection	40,718,597	44,989,884
Book-entry for government bonds and depository for short-term marketable securities under management	388,637,503	367,976,014
Entrusted financial management business	8,827,034	4,965,210
Guarantees on duties and contracts	7,167,460	7,141,798
Unused commercial letters of credit	5,395,278	4,586,568
Irrevocable loan commitments	211,869,506	183,084,665
Unused credit card lines commitments	555,882,027	520,857,417
Underwriting securities	230,000	-
Financial guarantee contracts	2,648,521	2,929,405

- (3) Leases

As of 31 December 2017 and 31 December 2016. According to the effective operating leases agreement (the longest lease term is 5 years), rentals for the next five years are as follows:

	2017.12.31	2016.12.31
Within 1 year	\$2,025,770	\$2,000,363
1 to 5 years	3,337,847	3,910,592
Over 5 year	108,483	155,319
Total	\$5,472,100	\$6,066,274

- (4) Investment commitment for private equity fund

As of 31 December 2017, the maximum remaining capital commitment for the contracted private equity fund of Cathay Life was USD2,001,623 thousand, EUR179,315 thousand, and GBP1,557 thousand.

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10. Significant disaster losses:

None

11. Subsequent events:

- (1) On 18 January 2018, the Legislative Yuan passed amendments to the Income Tax Act. The amendments raised the corporate income tax rate for companies from 17% to 20%. After the change of the tax rate, the deferred tax assets and deferred tax liabilities will be increased by \$5,492,518 thousand and \$2,910,808 thousand, respectively.
- (2) On 9 February 2018, the Company was approved by the board of directors for the issuance of special shares of Class B. The interest rate was capped at 8%, and the number of shares outstanding was \$800 million shares. The issuance amount was tentatively set at \$30 billion. The proposal of the aforementioned issuance plan has not yet been completed at the date of issuance of the Company's financial statements.
- (3) In order to increase the net adjusted capital and RBC ratio, Cathay Life's board of directors, on behalf of the shareholders, resolved to issue 300,000 thousand shares of common stocks at a premium of \$100 per share through private placement. All the newly issued common stocks will be subscribed by the parent company, Cathay Financial Holding Co., Ltd. The proposal of the capital increase has not yet been approved by the Insurance Bureau of FSC at the date of issuance of Cathay Life's financial statements.
- (4) Cathay Life's board of directors resolved to early redeem \$5 billion of Class C preferred stocks on 15 March 2018. The right of redemption is expected to be exercised in July 2018, and the proposal is still pending approval from the Insurance Bureau of FSC.
- (5) Cathay Life's board of directors resolved to increase capital in its subsidiary, Cathay Vietnam, by investing USD 0.12 billion on 15 March 2018. The proposal of capital increase is still pending approval from the Insurance Bureau of FSC. In addition, the Company's board of directors also expects to participate in capital increase of Rizal Commercial Banking Corporation to maintain its percentage of ownership interests on 15 March 2018. The purchase amount is approximately PHP 3.5025 billion, and the proposal of capital increase is still pending approval from the Insurance Bureau of FSC and Philippines Stock Exchange.

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12. Other significant matters

(1) Categories of financial instruments

The Group

	<u>2017.12.31</u>	<u>2016.12.31</u>
Financial assets		
Financial assets at fair value through profit or loss:	\$365,808,158	\$244,529,264
Available-for-sale financial assets -net	<u>1,681,125,738</u>	<u>1,591,359,657</u>
Derivative financial assets for hedging	<u>246,444</u>	<u>232,269</u>
Held-to-maturity financial assets -net	<u>98,759,110</u>	<u>81,826,739</u>
Other financial assets - investments with no active market	<u>2,783,306,758</u>	<u>2,526,608,201</u>
Loans and receivables:		
Cash and cash equivalents (petty cash and cash on hand excluded)	227,032,625	175,741,536
Due from the Central Bank and call loans to banks	125,163,780	71,940,935
Securities purchased under agreements to resell	99,703,578	50,160,342
Receivables -net	169,202,260	154,212,060
Loans -net	2,038,528,190	2,045,532,795
Other financial assets	564,600,543	509,773,012
Guarantee deposits paid	<u>46,625,268</u>	<u>47,894,944</u>
Subtotal	<u>3,270,856,244</u>	<u>3,055,255,624</u>
Total	<u>\$8,200,102,452</u>	<u>\$7,499,811,754</u>
	<u>2017.12.31</u>	<u>2016.12.31</u>
Financial liabilities		
Financial liabilities at fair value through profit or loss:	\$90,514,268	\$115,014,826
Financial liabilities at amortized cost:		
Due to the Central Bank and call loans from banks	\$90,417,859	77,493,795
Securities sold under agreements to repurchase	112,643,582	59,139,059
Commercial paper payable -net	51,468,158	41,578,838
Payables	57,943,815	55,295,781
Deposits	2,062,953,012	1,999,943,172
Bonds payable	98,350,000	51,900,000
Other borrowings	441,199	87,229
Other financial liabilities	623,527,312	561,224,829
Guarantee deposits received	<u>13,392,097</u>	<u>6,888,074</u>
Subtotal	<u>3,111,137,034</u>	<u>2,853,550,777</u>
Total	<u>\$3,201,651,302</u>	<u>\$2,968,565,603</u>

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(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).

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(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, 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	
	2017.12.31	2016.12.31
Financial assets		
Held-to-maturity financial assets - net (Note)	\$107,306,112	\$90,337,053
Investments with no active market	2,783,306,758	2,526,608,201
Other financial assets - structured time deposits	4,500,000	7,661,395
Total	<u>\$2,895,112,870</u>	<u>\$2,624,606,649</u>
	Fair value	
	2017.12.31	2016.12.31
Financial assets		
Held-to-maturity financial assets - net (Note)	\$115,588,892	\$94,617,535
Investments with no active market	2,876,428,806	2,505,365,077
Other financial assets - structured time deposits	4,521,701	7,720,518
Total	<u>\$2,996,539,399</u>	<u>\$2,607,703,130</u>

Note: Guarantee deposits paid in bonds are included.

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(3) Hedge accounting disclosures

A. Cash flow hedges

The following table summarizes the terms of Cathay Life and its subsidiaries' interest rate swaps for bonds used as hedging instruments as of 31 December 2017 and 31 December 2016:

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

2016.12.31				
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	\$232,269	2017.1.25~2024.5.26	2017.1.25~2024.5.26

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	2016.1.1~ 2016.12.31
Amount recognized in other comprehensive income	\$14,595	\$(216,856)
Amount reclassified from equity to profit or loss	(419)	1,798

(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.

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Information related to offsetting financial assets and financial liabilities of Cathay Life and its subsidiaries is disclosed as follows:

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	\$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						
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral pledged	
Derivative financial instrument	\$1,104,658	\$-	\$1,104,658	\$1,102,509	\$24,176	\$(22,027)

2016.12.31						
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	\$1,846,433	\$-	\$1,846,433	\$(1,846,433)	\$-	\$-

2016.12.31						
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	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral pledged	
Derivative financial instrument	\$26,975,904	\$-	\$26,975,904	\$(1,846,433)	\$-	\$25,129,471

Note: Master netting arrangement and non-cash collateral are included.

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Information relating to offsetting financial assets and financial liabilities of Cathay United Bank and its subsidiaries is disclosed as follows:

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 liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral pledged	
Derivative financial instrument	\$33,616,157	\$-	\$33,616,157	\$(33,172,556)	\$(443,601)	\$-

2016.12.31						
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	\$52,646,314	\$-	\$52,646,314	\$(48,567,099)	\$(2,907,944)	\$1,171,271

2016.12.31						
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	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral pledged	
Derivative financial instrument	\$48,567,099	\$-	\$48,567,099	\$(48,567,099)	\$-	\$-

Note: Master netting arrangement and non-cash collateral are included.

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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:

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 assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Repurchase bonds	\$2,702,157	\$-	\$2,702,157	\$(2,702,157)	\$-	\$-

2016.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities	Gross amount of offset assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Repurchase bonds	\$2,339,864	\$-	\$2,339,864	\$(2,339,864)	\$-	\$-

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.

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3rd Level: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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 item	2017.12.31				2016.12.31			
	Total	1 st Level	2 nd Level	3 rd Level	Total	1 st Level	2 nd Level	3 rd Level
Non-derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss								
Designated financial assets at fair value through profit or loss at initial recognition								
					\$80,102	\$-	\$80,102	\$-
Stocks	\$84,171	\$84,171	\$-	\$-				
Others	155,197	-	155,197	-				
Held for trading								
Stocks	17,846,019	17,831,044	14,975	-	10,792,048	10,787,152	4,896	-
Bonds	109,547,916	87,569,462	21,978,454	-	60,043,600	23,624,124	36,419,476	-
Others	188,322,026	17,758,394	170,563,632	-	121,164,594	25,762,591	95,402,003	-
Available-for-sale financial assets								
Stocks	714,154,085	695,086,227	4,610,042	14,457,816	627,044,109	609,357,808	4,619,448	13,066,853
Bonds (Note 1)	603,558,399	111,083,203	492,475,196	-	655,990,021	123,042,469	532,947,552	-
Others	364,504,104	296,861,181	16,490,474	51,152,449	310,274,359	254,869,230	14,949,452	40,455,677
Investment properties (Note 2)	307,186,618	-	-	307,186,618	301,744,407	-	-	301,744,407
Liabilities								
Financial liabilities at fair value through profit or loss								
Designated financial liabilities at fair value through profit or loss at initial recognition								
	\$53,639,010	\$-	\$53,639,010	\$-	39,491,908	-	39,491,908	-
Held for trading								
Bonds	49,945	49,945	-	-				
Others	1,824,436	1,824,436	-	-	1,745,169	1,745,169	-	-

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Financial instruments measured at fair value item	2017.12.31				2016.12.31			
	Total	1 st Level	2 nd Level	3 rd Level	Total	1 st Level	2 nd Level	3 rd Level
Derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss	49,852,829	587,791	40,544,691	8,720,347	\$52,448,920	\$346,319	\$34,479,901	\$17,622,700
Derivatives financial assets for hedging	246,444	-	246,444	-	232,269	-	232,269	-
Liabilities								
Financial liabilities at fair value through profit or loss	35,000,877	874,418	25,303,587	8,822,872	73,777,749	299,136	55,779,345	17,699,268

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 years ended 31 December 2017, Cathay Life and Subsidiaries transferred stocks held for trading which were measured at fair value on a recurring basis, from Level 2 to Level 1. A total of \$354,375 thousand was transferred as its market price was obtainable. For the years ended 31 December 2016, Cathay Life and Subsidiaries transferred stocks held for trading which were measured at fair value on a recurring basis, from Level 2 to Level 1. A total of \$133,875 thousand was transferred as its market price was obtainable.

For the years ended 31 December 2017, Cathay United Bank transferred government bonds designated as at fair value through profit or loss, an asset measured at fair value on a recurring basis, from 1st level to 2nd level. A total of \$8,431,930 thousand was transferred as its market price was not obtainable. For the years ended 31 December 2016, Cathay United Bank transferred government bonds designated as at fair value through profit or loss, an asset measured at fair value on a recurring basis, from 1st Level to 2nd Level. A total of \$5,627,229 was transferred as its market price was not obtainable.

For the years ended 31 December 2017, Cathay Century transferred stocks which were measured at fair value on a recurring basis, from 2nd level to 1st level. A total of \$435,526 thousand was transferred as its market price was obtainable. For the years ended 31 December 2016, there were no assets transfers between Level 1 and Level 2 fair value measurements.

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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	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	\$301,744,407	\$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	\$307,186,618	\$8,822,872

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	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
2016.1.1	\$22,533,717	\$45,059,646	\$370,583,060	\$22,517,930
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	(2,719,249)	-	-	(2,627,086)
Realized gains from available-for-sale financial assets	-	2,240,165	-	-
Valuation gains from investment property	-	-	1,847,034	-
Amount recognized in other comprehensive income				
Unrealized valuation losses from available- for-sale financial assets	-	1,088,806	-	-
Exchange differences resulting from translating the financial statements of foreign operations	(344)	-	(8,800,438)	(152)
Acquisition or issues	464,592	11,824,242	-	464,592
Transfers to property and equipment	-	-	(65,318,977)	-
Transfers from investment property under construction and prepayment for properties	-	-	3,442,088	-
Disposal or settlements	(2,656,016)	(5,978,446)	(8,360)	(2,656,016)
Transfers from 3 rd level	-	(711,883)	-	-
2016.12.31	\$17,622,700	\$53,522,530	\$301,744,407	\$17,699,268

Total gains (losses) recognized in profit or loss in the table above contained unrealized gains and losses related to assets on hand as of 31 December 2017 and 2016 in the amount of \$9,612,329 thousand and \$872,215 thousand, respectively.

Total gains (losses) recognized in profit or loss in the table above contained unrealized gains and losses related to liabilities on hand as of 31 December 2017 and 2016 in the amount of \$8,749,500 thousand and \$2,627,086 thousand, respectively.

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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:

Cathay Life and its subsidiaries

		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	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	15% ~ 53%	The higher the discount for lack of marketability, 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	
Investment property	Refer to Note.6(9)				
		2016.12.31			
		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	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	15% ~ 20%	The higher the discount for lack of marketability, the lower the fair value of the stocks	
		growth rate of adjusted net profit after tax	-50%~235%	The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks	
		dividend payout ratio	50% ~ 100%	The higher the dividend payout ratio, the higher the fair value of the stocks	
Investment property	Refer to Note.6(9)				

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Cathay United Bank and its subsidiaries

		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	Not applicable	The higher the value of net assets, the higher the fair value of the stocks	
Investment property	Income approach and sales comparison approach	Capitalization rate	2.03% ~ 5.83%	The higher the Direct capitalization rate, the lower the fair value	
	Land development analysis approach and cost approach	Composite interest rate for capital interest	0.76% ~ 2.89%	The higher the composite interest rate for capital interest, the lower the fair value	
		2016.12.31			
		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	Not applicable	The higher the value of net assets, the higher the fair value of the stocks	
Investment property	Income approach and sales comparison approach	Capitalization rate	1.60% ~ 2.75%	The higher the Direct capitalization rate, the lower the fair value	
	Land development analysis approach and cost approach	Composite interest rate for capital interest	0.84% ~ 16.98%	The higher the composite interest rate for capital interest, the lower the fair value	

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Cathay Century and its subsidiaries

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	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 increase (decrease) in Cathay Century's profit by \$31,200 or loss by \$31,200 thousand

2016.12.31

	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 increase (decrease) in Cathay Century's profit or loss by \$37,200 thousand

Cathay Securities and its subsidiaries

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
Investment property	Discounted Cash Flow Analysis	Discount rate	According to the investment property assessment rules issued by FSC, the discount rate 2.045% is measured by risk premium method, using Chunghwa Post Co. two-year small time deposits floating rate 1.095% plus 0.75%, taking the risk and risk premium into considerations.	The higher the discount rate, the lower the fair value. The lower the discount rate, the higher the fair value.	Discount rate 1.545%~2.545% ↓ Floating rate of fair value 5.37%~3.85%

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	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity analysis of relationship between inputs and fair value
Investment property	Discounted Cash Flow Analysis	Discount rate	According to the investment property assessment rules issued by FSC, the discount rate 2.045% is measured by risk premium method, using Chunghwa Post Co. two-year small time deposits floating rate 1.095% plus 0.75%, taking the risk and risk premium into considerations.	The higher the discount rate, the lower the fair value. The lower the discount rate, the higher the fair value.	Discount rate 1.545%~2.545% ↓ Floating rate of fair value 5.37%~-3.85%

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.

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

	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	-

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	2016.12.31			
	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	\$2,505,365,077	\$820,441	\$2,499,700,470	\$4,844,166
Held-to-maturity financial assets (Note)	94,617,535	35,918,374	58,324,074	375,087
Other financial assets	7,720,518	-	7,720,518	-

Note: Guarantee deposits paid in bonds are included.

(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 Cathay Securities' 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 and Cathay Securities are obligated to buy back the transferred financial assets according to fixed prices in future periods. With respect to such transactions, Cathay United Bank and Cathay Securities will not be able to use, sell or pledge said transferred financial assets during the effective period however Cathay United Bank and Cathay Securities 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	2017.12.31				
	Transferred Financial Assets Carrying Value	Related Financial Liabilities Carrying value	Transferred Financial Assets Fair Value	Related Financial Liabilities Fair value	Net fair 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

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Categories of financial assets	2016.12.31				
	Transferred	Related Financial	Transferred	Related Financial	Net fair value
	Financial Assets	Liabilities	Financial Assets	Liabilities Fair	
Carrying Value	Carrying value	Fair Value	value		
Available for sale financial					
assets repurchase agreements	\$23,261,811	\$22,468,724	\$22,577,930	\$22,468,724	\$109,206
Held to maturity financial					
assets repurchase agreements	31,325,346	31,066,277	31,325,346	31,066,277	259,069
Debt instrument investments					
for which no active market					
exists repurchase agreements	4,817,209	3,217,750	4,817,209	3,217,750	1,599,459

Transferred financial assets that are part of Cathay Securities' 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 are obligated to buy back the transferred financial assets according to fixed prices in future periods. With respect to such transactions, Cathay Securities will not be able to use, sell or pledge said transferred financial assets during the effective period however Cathay Securities are still exposed to interest rate risk and credit risk, hence the assets are not removed.

The following table analyses Cathay Securities' financial assets and financial liabilities that have not been fully removed:

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

Categories of financial assets	2016.12.31				
	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	\$2,375,207	\$2,339,864	\$2,375,207	\$2,339,864	\$35,343

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(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:

- 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

Regional distribution of credit risk exposure for financial assets of Cathay Life:

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%

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Financial assets	Taiwan	Asia	Europe	North America	Emerging markets and others	Total
Cash and cash equivalents	\$87,108,982	\$154,207	\$214,434	\$50,897,880	\$2,250,356	\$140,625,859
Financial assets at fair value through profit or loss	5,912,042	159,986	436,867	900,477	-	7,409,372
Available-for-sale financial assets	208,994,073	21,188,062	47,296,352	146,039,840	132,691,256	556,209,583
Derivative financial assets for hedging	70,905	-	6,036	155,328	-	232,269
Debt instrument investments for which no active market exists	79,879,337	131,219,394	422,728,136	939,595,037	543,161,710	2,116,583,614
Held-to-maturity financial assets	26,551,251	-	-	-	-	26,551,251
Other financial assets	4,161,395	-	3,500,000	-	-	7,661,395
Total	\$412,677,985	\$152,721,649	\$474,181,825	\$1,137,588,562	\$678,103,322	\$2,855,273,343
Proportion	14.5%	5.3%	16.6%	39.8%	23.8%	100.0%

(C) Credit Quality

Classification of credit quality for financial assets of Cathay Life:

2017.12.31

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	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%

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Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade or unrated				
Cash and cash equivalents	\$140,625,859	\$-	\$-	\$-	\$-	\$140,625,859
Financial assets at fair value through profit or loss	5,596,015	1,813,357	-	-	-	7,409,372
Available-for-sale financial assets	489,718,539	66,491,044	-	-	-	556,209,583
Derivative financial assets for hedging	232,269	-	-	-	-	232,269
Debt instrument investments for which no active market exists	2,047,651,043	68,932,571	-	419,627	(419,627)	2,116,583,614
Held-to-maturity financial assets	26,551,251	-	-	-	-	26,551,251
Other financial assets	7,661,395	-	-	-	-	7,661,395
Total	\$2,718,036,371	\$137,236,972	\$-	\$419,627	\$(419,627)	\$2,855,273,343
Proportion	95.2%	4.8%	-	-	-	100.0%

Note: 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.

(D) Regional distribution of credit risk exposure for secured loans and overdue receivables:

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	71%	11%	17%	1%	100%

2016.12.31

Location	Northern and eastern areas	Central area	Southern area	Overseas	Total
Secured loans	\$317,414,591	\$49,707,033	\$77,800,104	\$-	\$444,921,728
Overdue receivables	202,100	22,926	75,299	-	300,325
Total	\$317,616,691	\$49,729,959	\$77,875,403	\$-	\$445,222,053
Proportion	71%	11%	18%	-	100%

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(E) Secured loans and overdue receivables

2017.12.31

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
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

2016.12.31

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$243,209,527	\$117,269,110	\$52,440,764	\$198,646	\$3,336,620	\$416,454,667	\$5,873,070	\$410,581,597
Corporate finance	23,812,636	4,239,528	616,002	-	99,220	28,767,386	243,337	28,524,049
Total	\$267,022,163	\$121,508,638	\$53,056,766	\$198,646	\$3,435,840	\$445,222,053	\$6,116,407	\$439,105,646

(F) Ageing analysis of past due but not impaired secured loans and overdue receivables:

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
31 December 2017	\$176,870	\$31,620	\$208,490
31 December 2016	164,117	34,529	198,646

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.

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(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 derivative financial liability:

2017.12.31	Less than six 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

2016.12.31	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Short-term debts	\$46,444	\$-	\$-	\$-	\$-	\$46,444
Payables	24,023,143	161,436	97,186	70,924	-	24,352,689
Bonds payables (Note)	-	1,260,000	1,260,000	3,780,000	41,234,411	47,534,411
Preferred stock liability	-	-	5,173,005	-	-	5,173,005

Note: Bonds payable are perpetual and the contract cash flows are calculated over the 10-year residual term.

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b. Maturity analysis of derivative financial liability:

2017.12.31	Less than six 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

2016.12.31	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$30,094	\$25,847	\$47,231	\$3,278	\$-	\$106,450
Forward	3,439,114	1,524,029	92,750	-	-	5,055,893
CS	25,588,589	294,288	-	-	-	25,882,877
Option	6,304	-	-	-	-	6,304

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.

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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.

(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
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)

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Table of Stress Testing
2016.1.1~2016.12.31

Risk Factors	Changes (+/-)	Gain (loss)
Equity risk (Price)	Price decreases by 10%	\$(59,988,277)
Interest rate risk (Yield curve)	The main yield curve shifts up by 100 bps	(43,562,955)
Exchange risk (Foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(6,730,848)

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.

c. Sensitivity Analysis

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

Summarization of Sensitivity Analysis
2016.1.1~2016.12.31

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD/NTD appreciates 1%	\$1,999,538	\$4,798,619
	CNY(CNH)/USD appreciates 1%	452,155	295,279
	HKD/USD appreciates 1%	(13,843)	728,461
	EUR/USD appreciates 1%	(33,948)	109,022
	GBP/USD appreciates 1%	30,075	11,340
Interest rate risk	Yield curve (USD) parallelly shifts up 1 bp	-	(216,091)
	Yield curve (AUD) parallelly shifts up 1 bp	-	(825)
	Yield curve (EUR) parallelly shifts up 1 bp	-	(3,977)
	Yield curve (NTD) parallelly shifts up 1 bp	982	(185,555)
Equity price risk	Equity price increases 1%	91,639	5,905,205

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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.

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.

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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.

(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 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.

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(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.

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.

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(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.

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.

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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 addition, 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.

(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.

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- 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.

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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.

2017.12.31			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	\$1,413,900	\$1,885,738	\$1,105,164
Foreign exchange	252,124	554,769	115,940
Equity Securities price	232,500	303,251	165,345

2016.12.31			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	\$1,257,294	\$2,000,760	\$707,624
Foreign exchange	460,721	619,473	309,051
Equity Securities price	227,274	534,899	118,192

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.

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(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			
Market/ Product	Scenarios	2017.12.31	2016.12.31
Stock Market	Major Stock Exchanges +15%	\$2,668,120	\$1,781,090
	Major Stock Exchanges -15%	(2,668,120)	(1,781,090)
Interest Rate/ Bond Market	Major Interest Rate + 100bp	(9,791,210)	(6,797,830)
	Major Interest Rate - 100bp	10,097,920	6,773,150
Foreign Exchange Market	Major Currencies + 3%	6,597,235	5,703,175
	Major Currencies - 3%	(6,596,390)	(5,703,175)
Composite	Major Stock Exchanges -15%		
	Major Interest Rate + 100bp	(5,862,095)	(2,875,745)
	Major Currencies +3%		

(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 0.01% (1 basis point) in the interest rates in various yield curves affecting the portfolio. Cathay United Bank's interest rate-sensitive portfolios include bonds, interest rate swaps and structured products composed of such products.

b. Foreign exchange risk

Foreign exchange rate factor sensitivities ("FX delta") represent the change of the foreign exchange portfolios 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% (100 basis points) in the underlying stocks prices fluctuation. Cathay United Bank's equity portfolios include stocks and equity index options.

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Market risk factor sensitivity of Cathay United Bank

		2017.12.31	
		Sensitivity of	Sensitivity
		profit or loss	of equity
Foreign exchange rate factor sensitivity			
(FX Delta)	USD+1%	\$1,603,478	\$785
	HKD+1%	3,030	6,815
	JPY+1%	5,609	-
	AUD+1%	146,393	-
	CNY+1%	356,174	25,520
Interest rate factor sensitivity (PVBP)			
	Yield curves (USD) parallel shift+1bp	(32,220)	(14,516)
	Yield curves (HKD) parallel shift+1bp	(11)	-
	Yield curves (JPY) parallel shift+1bp	(195)	-
	Yield curves (AUD) parallel shift+1bp	(137)	(437)
	Yield curves (CNY) parallel shift+1bp	(947)	(16,479)
Equity securities price factor sensitivity			
(Equity Delta)	Equity securities price factor+1bp	-	177,875
		2016.12.31	
		Sensitivity of	Sensitivity
		profit or loss	of equity
Foreign exchange rate factor sensitivity			
(FX Delta)	USD+1%	\$620,573	\$523
	HKD+1%	3,576	1,142
	JPY+1%	8,865	-
	AUD+1%	86,912	-
	CNY+1%	256,047	25,929
Interest rate factor sensitivity (PVBP)			
	Yield curves (USD) parallel shift+1bp	(2,558)	(36,101)
	Yield curves (HKD) parallel shift+1bp	(1)	(24)
	Yield curves (JPY) parallel shift+1bp	(11)	(262)
	Yield curves (AUD) parallel shift+1bp	-	(2,959)
	Yield curves (CNY) parallel shift+1bp	(90)	(12,449)
Equity securities price factor sensitivity			
(Equity Delta)	Equity securities price factor+1bp	-	118,740

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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.

To centralize risk management functions currently handled by different departments, Cathay United Bank's board of directors resolved that a risk management department would be established to manage the credit risk. The objectives of a credit risk management are to improve asset quality and to generate stable profits while reducing risk through a diversified and balanced loan portfolio. Cathay United Bank's board of directors sets the counterparty credit limits, which are then implemented by the credit committee. The credit committee also monitors current and potential credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates. Cathay United Bank performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess the overall collectability of those portfolios.

Cathay United Bank and its subsidiaries maintain a strict policy to evaluate customers' credit ratings when providing loan commitments and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loans, and Cathay United Bank and its subsidiaries retain 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's main business are as follows:

Credit business (including the loan commitments and guarantees)

The category of credit asset and the grade of credit quality were narrated as follow:

(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.

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(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 statistic 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, and average.

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.

Due from and call loans to other banks

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.

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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.

(D) Cathay United Bank's maximum exposures to credit risk

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	
	2017.12.31	2016.12.31
Irrevocable loan commitments	\$211,222,089	\$182,538,242
Credit card commitments	626,829,201	584,566,895
Unused commercial letters of credit	3,765,996	3,741,879
Guarantees on duties and contracts	7,167,460	7,141,798
Total	\$848,984,746	\$777,988,814

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b. Indovina Bank

Off balance sheet items	Maximum exposure to credit risk	
	2017.12.31	2016.12.31
Unused commercial letters of credit	\$1,629,282	\$841,466
Finance guarantee contracts	2,587,848	2,865,926
Total	\$4,217,130	\$3,707,392

c. CUBC Bank

Off balance sheet items	Maximum exposure to credit risk	
	2017.12.31	2016.12.31
Irrevocable loan commitments	\$647,417	\$546,423
Credit card lines commitments	403,120	328,186
Unused commercial letters of credit	-	3,223
Finance guarantee contracts	60,673	63,479
Total	\$1,111,210	\$941,311

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.

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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:

Item	2017.12.31		2016.12.31	
	amount	%	amount	%
Industry type				
Manufacturing	\$98,481,993	6.72	\$80,057,522	5.46
Financial institutions and insurance	67,599,101	4.61	52,975,202	3.61
Leasing and real estate	122,798,794	8.38	115,994,786	7.90
Individuals	822,631,846	56.14	726,970,977	49.52
Others	353,911,306	24.15	491,942,342	33.51
Total	<u>\$1,465,423,040</u>	<u>100.00</u>	<u>\$1,467,940,829</u>	<u>100.00</u>

Item	2017.12.31		2016.12.31	
	amount	%	amount	%
Geographic Region				
Domestic	\$1,223,249,877	83.47	\$1,262,746,943	86.02
Asia	130,593,968	8.91	116,804,425	7.96
America	28,077,424	1.92	24,369,284	1.66
Others	83,501,771	5.70	64,020,177	4.36
Total	<u>\$1,465,423,040</u>	<u>100.00</u>	<u>\$1,467,940,829</u>	<u>100.00</u>

(F) Credit quality analysis of the financial assets

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.

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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

	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

	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	
2016.12.31										
Receivables										
Credit card business	\$45,930,089	\$10,400,044	\$3,620,218	\$59,950,351	\$177,494	\$166,800	\$60,294,645	\$135,097	\$1,008,209	\$59,151,339
Others	18,043,437	4,588,328	84,966	22,716,731	5,583	84,087	22,806,401	49,991	2,619,510	20,136,900
Loans	929,993,249	435,476,181	40,751,762	1,406,221,192	913,366	15,811,890	1,422,946,448	3,088,327	16,597,827	1,403,260,294

b. The credit quality analysis on neither past due nor impaired discounts and loans of Cathay United Bank

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
Other	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	\$941,240,553	\$413,585,185	\$48,456,790	\$1,403,282,528

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2016.12.31	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	\$260,337,798	\$70,434,151	\$11,978,542	\$342,750,491
Unsecured personal loans	25,676,322	15,839,926	4,634,166	46,150,414
Other	293,208,211	64,003,096	9,591,057	366,802,364
Corporate banking				
Secured	33,210,000	169,692,228	6,202,863	209,105,091
Unsecured	317,560,918	115,506,780	8,345,134	441,412,832
Total	\$929,993,249	\$435,476,181	\$40,751,762	\$1,406,221,192

c. Credit quality analysis on securities investment of Cathay United Bank

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

2016.12.31	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	\$135,593,396	\$101,939	\$135,695,335	\$-	\$-	\$135,695,335	\$-	\$135,695,335
Stocks	1,547,161	10,186,373	11,733,534	-	140,985	11,874,519	140,985	11,733,534
Others	917,355	3,586,499	4,503,854	-	-	4,503,854	-	4,503,854
Held-to-maturity financial assets								
Bonds	35,526,500	1,946,358	37,472,858	-	-	37,472,858	-	37,472,858
Others	5,422,099	-	5,422,099	-	-	5,422,099	-	5,422,099
Investments in debt securities with no active market								
Bonds	81,310,348	114,660	81,425,008	-	1,478,556	82,903,564	1,478,556	81,425,008
Others	316,050,000	-	316,050,000	-	-	316,050,000	-	316,050,000

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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.

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
2016.12.31	Less than 60 days	61 - 90 days	Total
Receivables			
Credit card business	\$107,733	\$69,761	\$177,494
Others	3,335	2,248	5,583
Discounts and loans			
Consumer banking			
Residential mortgage loans	276,308	144,448	420,756
Unsecured personal loans	70,608	57,371	127,979
Others	182,770	35,679	218,449
Corporate banking			
Secured	140,175	-	140,175
Unsecured	6,007	-	6,007

(G) Impairment analysis of financial assets of Cathay United Bank

- 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 and \$140,985 thousand as of 31 December 2017 and 31 December 2016, respectively, due to the existence of objective impairment evidence.

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- b. Cathay United Bank and its subsidiaries have recognized accumulated impairment loss for investments in debt securities with no active market in the amount of \$0 thousand and \$1,382,970 thousand as of 31 December 2017 and 31 December 2016, respectively, due to credit deterioration of securitization products and financial debentures.

Cathay United Bank and its subsidiaries have recognized accumulated impairment loss for investment in debt securities with no active market in the amount of \$0 thousand and \$95,586 thousand as of 31 December 2017 and 31 December 2016, respectively, due to the default on the convertible bonds.

- c. Cathay United Bank's impairment assessment of discounts, loans and receivables, please refer to Note.6(4) and Note.6(5).

(H) Impairment analysis of non-financial assets of Cathay United Bank and its subsidiaries

- a. Foreclosed properties management policy

The foreclosed properties in CUBC Bank exhibited objective impairment evidence. CUBC Bank has recognized impairment loss for foreclosed properties were \$0 thousand and \$58,161 thousand for the years ended 31 December 2017 and 2016, respectively. The accumulated impairment loss amounted to \$53,726 thousand and \$58,102 thousand as of 31 December 2017 and 31 December 2016, respectively.

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.

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 Cathay United Bank and its subsidiaries believes it can generate within that period. As part of our liquidity risk management, Cathay United Bank and its subsidiaries focuses on a number of components, including tapping available sources of liquidity, preserving necessary funds at reasonable cost and continuous contingency planning.

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(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, discounts and loans, available-for-sale financial assets, held-to-maturity financial assets and investments in debt securities with no active market.

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.

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	49,696,920	50,340,013
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

2016.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$36,668,211	\$19,582,460	\$11,159,327	\$11,987	\$67,421,985
Non-derivative financial liabilities at fair value through profit or loss	-	-	641,491	37,766,430	38,407,921
Securities sold under agreements to repurchase	32,151,648	18,162,666	-	6,458,060	56,772,374
Payables	17,087,536	1,882,092	68,098	402,241	19,439,967
Deposits and remittances	270,499,401	837,032,161	764,993,589	123,482,329	1,996,007,480
Financial debentures payable	7,800	3,986,939	37,213	48,250,000	52,281,952
Other capital outflow at maturity	26,286,100	30,646,766	4,455,094	389,911	61,777,871

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(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:

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

2016.12.31	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	\$121,095	\$1,576,083	\$1,796,462	\$307	\$3,493,947
- Interest rate derivative instruments	1,886,141	419,128	88,343	22,041,123	24,434,735
Total	\$2,007,236	\$1,995,211	\$1,884,805	\$22,041,430	\$27,928,682

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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:

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)

2016.12.31	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	\$(2,608,154)	\$(7,043,669)	\$(1,487,912)	\$(330,246)	\$(11,469,981)
- Cash inflow	31,816	48,284	69,423	-	149,523
- Interest rate derivative instruments					
- Cash outflow	(169,357)	(880,692)	(617,141)	(1,021,022)	(2,688,212)
- Cash inflow	-	-	-	-	-
Cash outflow subtotal	(2,777,511)	(7,924,361)	(2,105,053)	(1,351,268)	(14,158,193)
Cash inflow subtotal	31,816	48,284	69,423	-	149,523
Net cash flow	\$(2,745,695)	\$(7,876,077)	\$(2,035,630)	\$(1,351,268)	\$(14,008,670)

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(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:

2017.12.31	Not later than		Later than	Total
	1 year	1~5 years	5 years	
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	\$255,565,345	\$308,296,305	\$289,804,542	\$853,666,192

2016.12.31	Not later than		Later than	Total
	1 year	1~5 years	5 years	
Irrevocable loan commitments	\$129,060,972	\$51,146,768	\$2,330,502	\$182,538,242
Credit card commitments	78,376,870	229,495,576	276,694,449	584,566,895
Financial guarantee contracts	9,837,073	1,035,270	11,334	10,883,677
Leasing commitments				
Non-cancellable operating lease payments	1,657,098	3,472,465	113,195	5,242,758
Total	\$218,932,013	\$285,150,079	\$279,149,480	\$783,231,572

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.

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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 risk).

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.

(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 available-for-sale financial assets.

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(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 held for trading financial assets or available-for-sale financial assets. Cathay Century and its subsidiaries manage the equity price risk through diversification and placing limits on individual and total equity instruments.

B. Credit risk

(A) 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 the 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

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- 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.

(B) Credit concentration risk analysis

- a. The amounts of credit risk exposure of Cathay Century and its subsidiaries' financial assets are as follows:

	The amount of credit risk exposure - by area					
	2017.12.31					
	Taiwan	Asia	Europe	North Americas	Emerging market and others	Total
Financial assets						
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%

	The amount of credit risk exposure - by area					
	2016.12.31					
	Taiwan	Asia	Europe	North Americas	Emerging market and others	Total
Financial assets						
Cash and cash equivalents	\$5,569,029	\$107,518	\$62,267	\$296,291	\$912,818	\$6,947,923
Financial assets at fair value through profit or loss	40,000	-	-	-	-	40,000
Available-for-sale financial assets (Note)	2,070,592	86,670	-	-	239,212	2,396,474
Debt instruments investments with no active market exists	1,400,000	-	347,116	332,006	441,611	2,520,733
Held-to-maturity investments	799,987	-	1,025,896	2,919,855	1,366,727	6,112,465
Total	\$9,879,608	\$194,188	\$1,435,279	\$3,548,152	\$2,960,368	\$18,017,595
Each area percentage	54.83%	1.08%	7.97%	19.69%	16.43%	100.00%

Note: Guarantee deposits paid in bonds are included.

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(C) Credit risk quality analysis

- a. Credit quality classifications of Cathay Century and its subsidiaries' financial assets are as follows:

Financial assets	Credit quality of financial assets				
	2017.12.31				
	Normal assets (Note 2)		Past due but not impaired	Impaired	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 1)	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

Financial assets	Credit quality of financial assets				
	2016.12.31				
	Normal assets (Note 2)		Past due but not impaired	Impaired	Total
	Investment grade	Non-investment grade			
Cash and cash equivalents	\$6,947,923	\$-	\$-	\$-	\$6,947,923
Financial assets at fair value through profit or loss	40,000	-	-	-	40,000
Available-for-sale financial assets (Note 1)	2,396,474	-	-	-	2,396,474
Debt instruments investments with no active market exists	2,520,733	-	-	-	2,520,733
Held-to-maturity investments	6,112,465	-	-	-	6,112,465
Total	\$18,017,595	\$-	\$-	\$-	\$18,017,595

Note 1: Guarantee deposits paid in bonds are included.

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.

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b. Secured loans

Secured loans	2017.12.31							
	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

Secured loans	2016.12.31							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$279,075	\$-	\$-	\$-	\$-	\$279,075	\$3,477	\$275,598
Corporate Finance	64,100	-	-	-	15,750	79,850	636	79,214
Total	\$343,175	\$-	\$-	\$-	\$15,750	\$358,925	\$4,113	\$354,812

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.

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(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.

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.

Liabilities	2017.12.31					
	Book value	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
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	-	-	-

Liabilities	2016.12.31					
	Book value	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Payables	\$2,663,593	\$2,645,825	\$8,293	\$1,013	\$8,462	\$-
Financial liabilities at fair value through profit or loss	54,590	46,807	7,783	-	-	-
Preferred stock liability	1,000,000	-	-	1,000,000	-	-

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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.

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

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b. Scenario Analysis

Scenario Analysis measures the change in the total value of portfolio under a 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.

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

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

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2016.12.31	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$(500,093)
Interest rate risk (Yield curve)	20bp	(162,035)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(99,465)

2016.12.31		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	\$117	\$714
	CNY appreciate 1 %	10,422	761
	HKD appreciate 1 %	543	2,729
	USD appreciate 1 %	30,270	7,227
	VND appreciate 1 %	6,127	-
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(5,226)	(93)
	Yield curve (CNY) flat rises 1bp	(1)	(58)
	Yield curve (NTD) flat rises 1bp	(1,605)	(1,119)
Equity securities price sensitivity	Increase 1% in equity price	300	49,709

Cathay Securities and its subsidiaries

A. Risk management policies

(A) Risk management objectives

Adhering to the risk management policies of the Company, Cathay Financial Holding, 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 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.

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(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.

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.

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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.

(D) Risk Management Workflows

Risk management workflows for Cathay Securities and its subsidiaries include 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.

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(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.

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.

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(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 the company to acquire the sufficient capital and to support assets growth and payout the liabilities.

(b) Controls

Measurement index for liquidity risk is established and Cathay Securities 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.

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.

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(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' 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 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.

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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 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 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

Credit risks due to conducting financial transactions include the credit risks from issuers, counterparties, and underlying assets:

- (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

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(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.

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.

2017.12.31					
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	\$441,199	\$-	\$-	\$-	\$441,199
Bonds payables	8,528,158	-	-	-	8,528,158
Financial liabilities at fair value through profit or loss -current	2,694,753	-	-	-	2,694,753
Liabilities for bonds with repurchase agreements	2,702,157	-	-	-	2,702,157
Deposits for securities borrowed	51,112	102,224	153,336	613,340	920,012
Securities lending margin – deposit received	15,724	31,448	47,172	188,696	283,040
Futures trader's equity	3,915,880	-	-	-	3,915,880
Account payables	5,592,914	-	-	304,892	5,897,806
Others	108,804	-	-	-	108,804
Total	\$24,050,701	\$133,672	\$200,508	\$1,106,928	\$25,491,809
% to the total	94.35%	0.52%	0.79%	4.34%	100.00%

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Short-term loans, bonds payables and repurchase bonds are fund procurement instruments and matured within three months.

Financial Assets	2017.12.31				
	Cash Flow Gap				
	Received Terms				
	Less than			More than	Total
	1 month	1 to 3 months	3 to 6 months	6 months	
Cash and cash equivalents	\$3,357,647	\$-	\$-	\$-	\$3,357,647
Financial assets at fair value					
through profit or loss -current					
Operations Security	10,743,771	-	-	-	10,743,771
Open-end Funds	9,657	-	-	-	9,657
Call option-futures	17,474	-	-	-	17,474
Futures trading margin	538,593	-	-	-	538,593
Available for sale financial assets	-	-	-	328,254	328,254
Securities financing receivables	235,077	470,154	705,231	2,820,930	4,231,392
Refinancing margin and					
refinancing deposits receivable	1,861	3,722	5,583	22,327	33,493
Security lending receivable	5,510	-	-	-	5,510
Client margin accounts	3,919,834	-	-	-	3,919,834
Security lending deposits price					
and security lending margin –					
deposits paid	89,586	179,172	268,758	1,075,036	1,612,552
Account receivables	4,907,335	-	-	22,711	4,930,046
Others	698,153	-	-	903,008	1,601,161
Subtotal	24,524,498	653,048	979,572	5,172,266	31,329,384
Residual cash	\$473,797	\$519,376	\$779,064	\$4,065,338	\$5,837,575

(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.

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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 the Group “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 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 (PVBP): 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 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.

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VaR at one single trading day within 99% confidence level

<u>2017.1.1~2017.12.31</u>	<u>NT\$ (in thousands)</u>
Period Ended	\$23,312
Average	17,261
Lowest	10,712
Highest	25,516

(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.

Strees 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.

2017.12.31
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	<u>-10%</u>	\$(232,886)
Interest Risk	Yield Curve	<u>+100bps</u>	(117,490)
Exchange Risk	Exchange Rate	<u>+3%</u>	(13,076)
Product Risk	Price	<u>-10%</u>	-

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(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 2017 and 31 December 2016, Cathay life and its subsidiaries provides loans amounting to both 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 2017 and 31 December 2016, 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>2017.12.31</u>	
	<u>Private equity funds</u>	<u>Asset-backed securities</u>
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	<u>\$51,152,449</u>	<u>\$215,823,342</u>

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	2016.12.31	
	Private equity funds	Asset-backed securities
Available-for-sale financial assets	\$40,455,678	\$100,957,444
Debt instrument investments for which no active market exist	-	106,571,086
Held-to-maturity financial assets	-	342,391
Total	\$40,455,678	\$207,870,921

(C) As of 31 December 2017, 31 December 2016 and 31 December 2016 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:

	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

	2016.12.31	
	Private Fund	Asset Securitization commodity
Available-for-sale financial assets	\$-	\$922,506
Held-to-maturity financial assets	-	12,296,939
Investments in debt securities with no active market	-	28,079,749
Total	\$-	\$41,299,194

(D) As of 31 December 2017 and 31 December 2016 the carrying amount of assets recognized by Cathay Century and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

	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

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	2016.12.31	
	Private Fund	Asset Securitization commodity
Available-for-sale financial assets	\$-	\$136,785
Held-to-maturity financial assets	-	880,018
Total	\$-	\$1,016,803

(9) Exchange rates used to translate material financial assets and liabilities denominated in foreign currencies are disclosed as follows at 31 December 2017 and 31 December 2016:

	2017.12.31			2016.12.31		
	Foreign Currency	Exchange Rate	NT\$	Foreign Currency	Exchange Rate	NT\$
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	\$100,965,332	29.8480	\$3,013,613,230	\$81,437,597	32.2790	\$2,628,724,194
CNY	31,634,624	4.5835	144,997,299	22,132,024	4.6219	102,292,002
<u>Non-Monetary Items</u>						
USD	13,110,182	29.8480	391,312,712	12,049,891	32.2790	388,958,432
<u>Financial Liabilities</u>						
<u>Monetary Items</u>						
USD	12,348,268	29.8480	368,571,103	11,243,321	32.2790	362,923,159

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 2017 and 2016 were \$116,155,990 thousand and \$42,817,155 thousand, respectively.

(10) Discretionary account management

As of 31 December 2017 and 31 December 2016, Cathay Life contracts with securities investment trust business for discretionary investments management. The investment details are disclosed as follows:

Item	2017.12.31		2016.12.31	
	Book value	Fair value	Book value	Fair value
Domestic stocks	\$146,469,572	\$146,469,572	\$111,615,056	\$111,615,056
Overseas stocks	55,439,633	55,439,633	43,865,191	43,865,191
Reverse repurchase bonds	8,910,000	8,910,000	8,570,400	8,570,400
Cash in banks	34,384,975	34,384,975	18,580,579	18,580,579
Beneficiary certificates	318,911	318,911	710,198	710,198
Futures and options	138,296	138,296	247,321	247,321
Total	\$245,661,387	\$245,661,387	\$183,588,745	\$183,588,745

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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 2016, Cathay Life entered into discretionary account management contracts in the amounts of \$90,748,903 thousand, US\$1,185,000 thousand, and HK\$1,780,000 thousand.

As of 31 December 2017 and 31 December 2016, Cathay Century and its subsidiaries contract with securities investment trust business for discretionary investments management. The investment details are disclosed as follows:

Item	2017.12.31		2016.12.31	
	Book value	Fair value	Book value	Fair value
Listed stocks	\$1,076,002	\$1,076,002	\$880,460	\$880,460
Reverse repurchase bonds	320,431	320,431	600,050	600,050
Cash in banks	203,770	203,770	104,183	104,183
Futures and options	2,008	2,008	2,007	2,007
Total	\$1,602,211	\$1,602,211	\$1,586,700	\$1,586,700

As of 31 December 2017 and 31 December 2016, Cathay Century and its subsidiaries entered into discretionary account management contracts in the amounts of \$1,200,000 thousand and \$1,500,000 thousand, respectively.

(11) Capital management

Currently, the Company 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

2017.12.31			
Item	Ownership interest	Eligible capital	Statutory capital
The Company	100.00%	\$598,780,346	\$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%

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Item	Ownership interest	Eligible capital	Statutory capital
The Company	100.00%	\$522,841,915	\$544,461,814
Cathay United Bank	100.00%	214,610,255	130,408,330
Cathay Securities	100.00%	5,042,620	1,757,108
Cathay Life	100.00%	427,858,678	280,769,853
Cathay Century	100.00%	9,385,177	4,877,648
Cathay Venture	100.00%	3,728,806	1,868,265
Cathay Securities Investment Trust	100.00%	2,141,926	1,263,804
Less: Item		(568,922,573)	(543,808,375)
Subtotal		(A) \$616,686,804	(B) \$421,598,447
Consolidated capital adequacy ratios		(C) =(A)/(B)	146.27%

B. Eligible capital

2017.12.31

Item	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

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2016.12.31

Item	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	130,448,697
Legal reserve	30,577,724
Special reserve	149,108,336
Accumulated profit	73,001,761
Equity adjustments	6,222,952
Less: Goodwill	-
Less: Deferred assets	(482,657)
Less: Treasury stock	-
Consolidated eligible capital	\$522,841,915

(12) According to the provisions of Article 46 of the Financial Holding Company Act

Please refer to the original financial report for detail information.

(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 735 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.

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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 (163 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 (174 locations).

(C) Cathay Security may engage in cross-selling activities in Cathay United Bank’s Banxin branch (and other 161 branches) and Cathay Life’s Taitung 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.

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(14) Significant contracts

None

13. Information regarding investment in Mainland China

- (1) 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 2017, Cathay Life's remittances to the subsidiary totaled approximately CNY 900,000 thousand and USD 78,210 thousand.
- (2) 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 2017, Cathay Life's remittances to this general insurance company totaled approximately CNY 200,000 thousand and USD 28,140 thousand.

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- (3) 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 2017, Cathay Life's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately CNY 1,500,000 thousand.
- (4) 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. As of 31 December 2017, Cathay Century has totally remitted USD 60,010 thousand.
- (5) 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.

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- (6) 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 2017, Cathay Securities Investment Trust remittances to CDBS Cathay Asset Management totaled approximately CNY 11,988 thousand.
- (7) 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.

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.
- (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.

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- (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

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.

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2016.1.1~2016.12.31

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$25,960,366	\$127,218,298	\$555,781	\$158,359	\$(414,901)	\$153,477,903
Net income other than interest	13,536,600	351,862,647	7,890,903	1,869,732	10,599,616	385,759,498
Total income	39,496,966	479,080,945	8,446,684	2,028,091	10,184,715	539,237,401
Bad debt expenses and Provision for premiums reserve	(4,455,361)	(776,855)	576	(36)	-	(5,231,676)
The net change of insurance liabilities	-	(408,398,319)	(215,636)	-	-	(408,613,955)
Operating expenses	(26,040,630)	(36,931,566)	(4,022,346)	(1,612,032)	(6,600,691)	(75,207,265)
Income (loss) from continuing operations before income taxes	9,000,975	32,974,205	4,209,278	416,023	3,584,024	50,184,505
Income taxes (expense) benefit	(2,231,832)	2,514,328	(491,519)	(68,659)	(1,867,623)	(2,145,305)
Consolidated net income	6,769,143	35,488,533	3,717,759	347,364	1,716,401	48,039,200

Note: All of the internal transactions between the operating segments have been eliminated.

B. Segment information

Revenue from external customers

	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Taiwan	\$47,519,365	\$47,070,965
Other countries	120,941,385	106,406,938
Total	<u>\$168,460,750</u>	<u>\$153,477,903</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 perf.

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 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)**

	2017.12.31	2016.12.31
Assets		
Cash and cash equivalents	\$1,212,677	\$14,822,959
Available-for-sale financial assets - net	91,136	85,689
Securities purchased under agreements to resell	-	79,968
Receivables - net	527,534	537,085
Current income tax assets	4,341,510	4,215,323
Held-to-maturity financial assets - net	41,000,000	41,000,000
Investments accounted for using the equity method - net	605,207,073	507,608,375
Other financial assets - net	-	430,111
Property and equipment - net	11,247	7,699
Intangible assets - net	6,649	11,968
Deferred tax assets - net	320,076	482,657
Other assets - net	31,797	10,998
Total assets	\$652,749,699	\$569,292,832
Liabilities & Equity		
Liabilities		
Commercial paper payable - net	\$42,940,000	\$35,980,000
Payables	1,156,176	5,625,178
Current income tax liabilities	8,262,477	3,031,746
Provisions	933,466	918,764
Deferred tax liabilities	226,707	226,707
Other liabilities	163,802	185,865
Total liabilities	53,682,628	45,968,260
Equity		
Capital stock		
Common stock	125,632,102	125,632,102
Perferred stock	8,333,000	8,333,000
Capital surplus	130,452,105	130,448,697
Retained earnings		
Legal reserve	35,339,841	30,577,724
Special reserve	149,106,971	149,108,336
Undistributed earnings	99,296,739	73,001,761
Other equity	50,906,313	6,222,952
Total equity	599,067,071	523,324,572
Total liabilities and equity	\$652,749,699	\$569,292,832

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Cathay Financial Holding Co., Ltd.

Statements of Comprehensive Income

For the years ended 31 December 2017 and 2016

(Expressed in thousands of New Taiwan Dollars , except earning per share)

	<u>2017.1.1~2017.12.31</u>	<u>2016.1.1~2016.12.31</u>
Income		
Gains on investment - equity method	\$57,734,234	\$48,764,631
Other operating income	1,416,301	1,800,203
	<u>59,150,535</u>	<u>50,564,834</u>
Expenses and loss		
Operating expenses	(822,604)	(772,271)
Other expenses and losses	(213,888)	(599,464)
	<u>(1,036,492)</u>	<u>(1,371,735)</u>
Profit before income tax from continuing operations	58,114,043	49,193,099
Income tax expense	(1,807,308)	(1,574,286)
Profit after income tax from continuing operations	<u>56,306,735</u>	<u>47,618,813</u>
Net Income	<u>56,306,735</u>	<u>47,618,813</u>
Other comprehensive income		
Not to be reclassified to profit or loss in subsequent periods:		
Remeasurements of defined benefit plans	(4,019)	(8,793)
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	(1,543,726)	661,996
Income tax relating to the components not to be reclassified to profit or loss in subsequent periods	683	1,495
To be reclassified to profit or loss in subsequent periods:		
Unrealized gains (losses) from available-for-sale financial assets	5,448	6,238
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	46,224,975	(4,886,274)
Other comprehensive income, net of tax	<u>44,683,361</u>	<u>(4,225,338)</u>
Total comprehensive income	<u>\$100,990,096</u>	<u>\$43,393,475</u>
Earnings per share (expressed in dollars)		
Basic earnings per share:		
Net income	<u>\$4.47</u>	<u>\$3.79</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 2017 and 2016
(Expressed in thousands of New Taiwan Dollars)

	Equity attributable to owners of parent													
	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 available-for-sale financial assets	Gains (losses) on 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 Surplus	Others		
Balance on 1 January 2016	\$125,632,102	\$-	\$88,781,174	\$24,820,095	\$140,185,120	\$65,190,213	\$1,865,366	\$(417,073)	\$371,524	\$83,462	\$(1,562,755)	\$10,108,783	\$(1,017)	\$455,056,994
Appropriations and distribution for 2015														
Legal reserve				5,757,629		(5,757,629)								-
Special reserve					8,923,216	(8,923,216)								-
Stock dividends						(25,126,420)								(25,126,420)
Other additional paid-in capital														
Share of changes in net assets of associates and joint ventures accounted for using the equity method			2,523											2,523
Net income for the year ended 31 December 2016 (Note 1)						47,618,813								47,618,813
Other comprehensive income for the year ended 31 December 2016							(9,140,278)	4,440,232	(179,990)	36,859	616,822		1,017	(4,225,338)
Comprehensive income for the year ended 31 December 2016	-	-	-	-	-	47,618,813	(9,140,278)	4,440,232	(179,990)	36,859	616,822	-	1,017	43,393,475
Issue of preferred stock		8,333,000	41,665,000											49,998,000
Balance on 31 December 2016	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 year ended 31 December 2017 (Note 2)						56,306,735								56,306,735
Other comprehensive income for the year 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 year 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			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

Note1: For the year ended 2016, the remuneration to directors and supervisors in the amount of \$1,800 thousand and employees' compensation in the amount of \$4,920 thousand have been deducted from the Statement of Comprehensive Income.

Note2: 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.

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Cathay Financial Holding Co., Ltd.

Statements of Cash Flows

For the years ended 31 December 2017 and 2016

(Expressed in thousands of New Taiwan Dollars)

Items	2017.1.1~2017.12.31	2016.1.1~2016.12.31
Cash flows from operating activities		
Profit before income tax from continuing operations	\$58,114,043	\$49,193,099
Adjustments :		
Income and other adjustments with no cash flow effects		
Depreciation	2,094	1,777
Amortization	5,319	5,319
Interest expenses	171,795	544,652
Interest income	(1,405,666)	(424,407)
Share of profit of associates and joint ventures accounted for using the equity method	(57,734,234)	(48,764,631)
Losses on disposal of property and equipment	191	-
Unrealized foreign exchange losses	11,548	20,173
Others	4,212	(1,325,222)
Changes in operating assets and liabilities		
Increase in held-to-maturity financial assets	-	(25,000,000)
Decrease (increase) in other financial assets	430,111	(430,111)
Increase in other assets	(16,257)	(2,658)
Increase in payables	28,983	61,619
Increase in provisions	10,683	183,374
(Decrease) increase in other liabilities	(22,063)	103,814
Interest received	1,410,223	647,415
Interest paid	(171,795)	(668,076)
Income taxes paid	(1,032,490)	(1,292,075)
Net cash flows used in operating activities	(193,303)	(27,145,938)
Cash flows from investing activities		
Acquisition of investments accounted for using the equity method	(15,668,000)	(557,375)
Acquisition of property and equipment	(5,833)	(2,227)
Increase in other assets	(4,542)	-
Dividends received	20,483,981	25,953,687
Net cash flows from investing activities	4,805,606	25,394,085
Cash flows from financing activities		
Increase in commercial paper payable	6,960,000	7,160,000
Decrease in bonds payable	-	(20,000,000)
Dividends paid	(25,251,005)	(25,126,420)
Increase in cash capital	-	49,998,000
Net cash flows (used in) from financing activities	(18,291,005)	12,031,580
Effects of exchange rate changes on cash and cash equivalents	(11,548)	(20,173)
(Decrease) Increase in cash and cash equivalents	(13,690,250)	10,259,554
Cash and cash equivalents at the beginning of periods	14,902,927	4,643,373
Cash and cash equivalents at the end of periods	\$1,212,677	\$14,902,927
The components of cash and cash equivalents		
Cash and cash equivalents presented in balance sheet	\$1,212,677	\$14,822,959
Securities purchased under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7	-	79,968
Cash and cash equivalents at the end of periods	\$1,212,677	\$14,902,927

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16.The major subsidiaries' condensed balance sheets and statements of comprehensive income

**Cathay Life Insurance Co., Ltd.
Condensed Balance Sheet
As of 31 December 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)**

Items	2017.12.31	2016.12.31
Assets		
Cash and cash equivalents	\$201,115,297	\$140,831,329
Receivables	77,861,873	67,241,645
Financial asset at fair value through profit or loss	42,735,409	38,630,178
Available-for-sale financial assets	1,502,895,656	1,412,651,333
Derivative financial assets for hedging	246,444	232,269
Investments accounted for using the equity method	88,768,088	84,609,212
Investment in debt securities with no active market	2,378,799,262	2,116,583,614
Held-to-maturity financial assets	50,808,599	26,551,251
Other financial assets	4,500,000	7,661,395
Investment property	422,287,644	415,029,800
Loans	617,373,227	621,186,946
Reinsurance contract assets	726,118	703,844
Property and equipment	29,532,953	27,983,884
Intangible assets	35,653,303	37,657,462
Deferred tax assets	28,356,809	11,140,995
Other assets	23,898,695	28,031,900
Separate account product assets	555,129,997	497,855,802
Total assets	\$6,060,689,374	\$5,534,582,859
Liabilities		
Payables	\$16,112,637	\$21,434,245
Financial liability at fair value through profit or loss	1,104,658	26,982,208
Bonds payable	70,000,000	35,000,000
Preferred stock liability	5,000,000	5,000,000
Insurance liability	4,911,915,146	4,539,152,066
Reserve for insurance contract with feature of financial instruments	472,573	4,392,757
Foreign exchange volatility reserve	11,589,138	9,871,478
Liability reserve	56,245	56,245
Deferred tax liability	36,348,432	27,254,976
Other liability	17,372,503	6,287,921
Separate account product liabilities	555,129,997	497,855,802
Total liabilities	5,625,101,329	5,173,287,698
Stockholders' equity		
Capital stock	53,065,274	53,065,274
Capital surplus	13,767,663	13,768,468
Retained earnings	326,660,113	298,348,294
Other equity	42,094,995	(3,886,875)
Total stockholders' equity	435,588,045	361,295,161
Total liabilities and stockholders' equity	\$6,060,689,374	\$5,534,582,859

**Cathay Life Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2017.1.1~2017.12.31	2016.1.1~2016.12.31
Operating income	\$861,140,395	\$836,502,388
Operating costs	(807,086,790)	(786,309,932)
Operating expenses	(21,676,305)	(24,154,280)
Operating profit	32,377,300	26,038,176
Non-operating income and expenses	1,429,361	1,955,342
Profit from continuing operations before income tax	33,806,661	27,993,518
Income tax profit	2,483,477	2,135,142
Profit from continuing operations after income tax	36,290,138	30,128,660
Net income	36,290,138	30,128,660
Other comprehensive income (loss)	45,981,870	(229,942)
Total comprehensive income	\$82,272,008	\$29,898,718
Primary earnings per share	\$6.84	\$5.68

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**Cathay Lujiazui Life Insurance Co., Ltd.
Condensed Balance Sheet
As of 31 December 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)**

Items	2017.12.31	2016.12.31
Assets		
Cash and cash equivalents	\$2,799,589	\$2,260,384
Receivables	1,163,541	633,632
Financial asset at fair value through profit or loss	62,584	371,693
Available-for-sale financial assets	8,128,348	2,807,016
Investment in debt securities with no active market	14,024,356	9,396,965
Held-to-maturity financial assets	823,696	881,767
Loans	185,535	102,607
Reinsurance contract assets	32,340	34,935
Property and equipment	116,674	64,909
Intangible assets	27,330	28,042
Other assets	2,948,413	1,574,840
Separate account product assets	139,182	158,408
Total assets	\$30,451,588	\$18,315,198
Liabilities		
Short-term debt	\$-	\$46,444
Payables	1,950,310	1,381,443
Reserve for insurance contract		
with feature of financial instruments	8,289,036	5,927,993
Insurance liabilities	10,036,076	6,794,489
Other liabilities	49,886	27,833
Separate account product liabilities	139,182	158,408
Total liabilities	20,464,490	14,336,610
Stockholders' equity		
Capital stock	13,497,155	7,067,795
Retained earnings	(3,522,642)	(3,330,427)
Other equity	12,585	241,220
Total stockholders' equity	9,987,098	3,978,588
Total liabilities and stockholders' equity	\$30,451,588	\$18,315,198

**Cathay Lujiazui Life Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2017.1.1~2017.12.31	2016.1.1~2016.12.31
Operating income	\$8,312,772	\$5,477,738
Operating costs	(6,674,558)	(3,891,114)
Operating expenses	(1,759,378)	(1,467,901)
Operating (loss) profit	(121,164)	118,723
Non-operating income and expenses	9,664	(1,010)
(Loss) profit from continuing operations before income tax	(111,500)	117,713
Income tax expense	(80,715)	-
(Loss) profit from continuing operations after income tax	(192,215)	117,713
Net (loss) income	(192,215)	117,713
Other comprehensive loss	(228,635)	(627,535)
Total comprehensive loss	\$(420,850)	\$(509,822)
Primary earnings per share	Note	Note

Note: Cathay Lujiazui Life is a limited company; there is no information about earning per share.

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**Cathay Life Insurance Company (Vietnam)
Condensed Balance Sheet
As of 31 December 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)**

Items	2017.12.31	2016.12.31
Assets		
Cash and cash equivalents	\$934,009	\$262,961
Receivables	381,301	373,027
Available-for-sale financial assets	6,426,711	6,158,060
Investment in debt securities with no active market	183,960	198,520
Loans	29,789	22,820
Property and equipment	13,886	14,877
Intangible assets	112	174
Other assets	62,321	43,477
Total assets	\$8,032,089	\$7,073,916
Liabilities		
Payables	\$58,664	\$56,232
Current income tax liabilities	17,860	8,308
Insurance liabilities	1,989,642	1,185,667
Other liabilities	304	425
Total liabilities	2,066,470	1,250,632
Stockholders' equity		
Capital stock	5,410,990	5,410,990
Retained earnings	478,442	398,269
Other equity	76,187	14,025
Total stockholders' equity	5,965,619	5,823,284
Total liabilities and stockholders' equity	\$8,032,089	\$7,073,916

**Cathay Life Insurance Company (Vietnam)
Condensed Statement of Comprehensive Income
For the years ended 31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2017.1.1~2017.12.31	2016.1.1~2016.12.31
Operating income	\$1,552,735	\$1,032,372
Operating costs	(1,065,596)	(511,133)
Operating expenses	(391,239)	(292,840)
Operating profit	95,900	228,399
Non-operating income and expenses	2,677	1,930
Profit from continuing operations before income tax	98,577	230,329
Income tax expense	(18,404)	(44,114)
Profit from continuing operations after income tax	80,173	186,215
Net income	80,173	186,215
Other comprehensive income	62,162	76,901
Total comprehensive income	\$142,335	\$263,116
Primary earnings per share	Note	Note

Note: Cathay Life Insurance Company (Vietnam) is a limited company; there is no information about earning per share.

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Lin Yuan (Shanghai) Real Estate Co., Ltd.
Condensed Balance Sheet
As of 31 December 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)

Items	2017.12.31	2016.12.31
Assets		
Current assets	\$843,290	\$654,653
Investment property	6,536,159	6,623,574
Property and equipment	549,458	574,700
Total assets	<u>\$7,928,907</u>	<u>\$7,852,927</u>
Liabilities		
Current liabilities	\$1,316	\$1,617
Deferred tax liabilities	307,251	267,939
Other liabilities	92,484	91,823
Total liabilities	<u>401,051</u>	<u>361,379</u>
Stockholders' equity		
Capital stock	7,223,435	7,223,435
Retained earnings	614,591	481,748
Other equity	(310,170)	(213,635)
Total stockholders' equity	<u>7,527,856</u>	<u>7,491,548</u>
Total liabilities and stockholders' equity	<u>\$7,928,907</u>	<u>\$7,852,927</u>

Lin Yuan (Shanghai) Real Estate Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2017.1.1~2017.12.31	2016.1.1~2016.12.31
Operating income	\$241,081	\$649,152
Operating expenses	(66,113)	(65,118)
Operating profit	174,968	584,034
Non-operating income and expenses	(17)	(18)
Profit from continuing operations before income tax	174,951	584,016
Income tax expense	(42,108)	(142,557)
Profit from continuing operations after income tax	132,843	441,459
Net income	132,843	441,459
Other comprehensive loss	(96,535)	(700,829)
Total comprehensive income (loss)	<u>\$36,308</u>	<u>\$(259,370)</u>
Primary earnings per share	<u>Note</u>	<u>Note</u>

Note: Lin Yuan (Shanghai) Real Estate Co. Ltd. is a limited company; there is no information about earnings per share.

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Cathay Woolgate Exchange Holding 1 Limited
Condensed Balance Sheet
As of 31 December 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)

<u>Items</u>	<u>2017.12.31</u>	<u>2016.12.31</u>
Assets		
Current assets	\$2,178,540	\$1,773,667
Investment property	12,012,179	12,696,899
Total assets	<u>\$14,190,719</u>	<u>\$14,470,566</u>
Liabilities		
Current liabilities	\$99,103	\$92,333
Total liabilities	<u>99,103</u>	<u>92,333</u>
Stockholders' equity		
Capital stock	16,654,013	16,654,013
Retained earnings	1,166,022	1,653,963
Other equity	(3,728,419)	(3,929,743)
Total stockholders' equity	<u>14,091,616</u>	<u>14,378,233</u>
Total liabilities and stockholders' equity	<u>\$14,190,719</u>	<u>\$14,470,566</u>

Cathay Woolgate Exchange Holding 1 Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

<u>Items</u>	<u>2017.1.1~2017.12.31</u>	<u>2016.1.1~2016.12.31</u>
Operating income	\$(106,998)	\$1,222,268
Operating expenses	(702)	(889)
Operating (loss) profit	<u>(107,700)</u>	<u>1,221,379</u>
(Loss) profit from continuing operations before income tax	(107,700)	1,221,379
Income tax expense	(145,611)	(39,003)
(Loss) profit from continuing operations after income tax	<u>(253,311)</u>	<u>1,182,376</u>
Net (loss) income	(253,311)	1,182,376
Other comprehensive income (loss)	201,324	(3,299,392)
Total comprehensive loss	<u>\$(51,987)</u>	<u>\$(2,117,016)</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.

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**Cathay Woolgate Exchange Holding 2 Limited
Condensed Balance Sheet
As of 31 December 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)**

Items	2017.12.31	2016.12.31
Assets		
Current assets	\$22,438	\$18,075
Investment property	121,335	128,251
Total assets	<u>\$143,773</u>	<u>\$146,326</u>
Liabilities		
Current liabilities	\$952	\$842
Total liabilities	<u>952</u>	<u>842</u>
Stockholders' equity		
Capital stock	168,222	168,222
Retained earnings	12,278	16,992
Other equity	(37,679)	(39,730)
Total stockholders' equity	<u>142,821</u>	<u>145,484</u>
Total liabilities and stockholders' equity	<u>\$143,773</u>	<u>\$146,326</u>

**Cathay Woolgate Exchange Holding 2 Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2017.1.1~2017.12.31	2016.1.1~2016.12.31
Operating income	\$(1,086)	\$12,342
Operating expenses	(693)	(830)
Operating (loss) profit	<u>(1,779)</u>	<u>11,512</u>
(Loss) profit from continuing operations before income tax	(1,779)	11,512
Income tax expense	(1,340)	(143)
(Loss) profit from continuing operations after income tax	<u>(3,119)</u>	<u>11,369</u>
Net (loss) income	(3,119)	11,369
Other comprehensive income (loss)	2,051	(33,369)
Total comprehensive loss	<u>\$(1,068)</u>	<u>\$(22,000)</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 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)

Items	2017.12.31	2016.12.31
Assets		
Current assets	\$619,438	\$668,335
Investment property	22,019,380	21,561,429
Other non-current assets	-	6,813
Total assets	<u>\$22,638,818</u>	<u>\$22,236,577</u>
Liabilities		
Current liabilities	\$91,915	\$69,664
Other non-current liabilities	13,177,287	12,982,046
Total liabilities	<u>13,269,202</u>	<u>13,051,710</u>
Stockholders' equity		
Capital stock	10,189,090	10,189,090
Retained earnings	807,170	761,707
Other equity	(1,626,644)	(1,765,930)
Total stockholders' equity	<u>9,369,616</u>	<u>9,184,867</u>
Total liabilities and stockholders' equity	<u>\$22,638,818</u>	<u>\$22,236,577</u>

Cathay Walbrook Holding 1 Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2017.1.1~2017.12.31	2016.1.1~2016.12.31
Operating income	\$471,780	\$1,604,078
Operating cost	(419,367)	(498,330)
Operating expense	(6,951)	(2,178)
Operating profit	45,462	1,103,570
Profit from continuing operations before income tax	45,462	1,103,570
Income tax expense	-	(19,972)
Profit from continuing operations after income tax	45,462	1,083,598
Net income	45,462	1,083,598
Other comprehensive income (loss)	139,286	(2,058,199)
Total comprehensive income (loss)	<u>\$184,748</u>	<u>\$(974,601)</u>
Primary earnings per share	<u>Note 1</u>	<u>Note 1</u>

Note 1: 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 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)

Items	2017.12.31	2016.12.31
Assets		
Current assets	\$30,556	\$33,652
Investment property	1,158,915	1,134,812
Other non-current assets	-	359
Total assets	<u>\$1,189,471</u>	<u>\$1,168,823</u>
Liabilities		
Current liabilities	\$4,838	\$3,667
Other non-current liabilities	693,541	683,265
Total liabilities	<u>698,379</u>	<u>686,932</u>
Stockholders' equity		
Capital stock	536,268	536,268
Retained earnings	40,247	38,341
Other equity	(85,423)	(92,718)
Total stockholders' equity	<u>491,092</u>	<u>481,891</u>
Total liabilities and stockholders' equity	<u>\$1,189,471</u>	<u>\$1,168,823</u>

Cathay Walbrook Holding 2 Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2017.1.1~2017.12.31	2016.1.1~2016.12.31
Operating income	\$24,827	\$84,425
Operating cost	(22,072)	(26,228)
Operating expenses	(849)	(1,234)
Operating profit	<u>1,906</u>	<u>56,963</u>
Profit from continuing operations before income tax	1,906	56,963
Income tax expense	-	(1,050)
Profit from continuing operations after income tax	<u>1,906</u>	<u>55,913</u>
Net income	1,906	55,913
Other comprehensive income (loss)	7,295	(108,098)
Total comprehensive income (loss)	<u>\$9,201</u>	<u>\$(52,185)</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 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)

Items	2017.12.31	2016.12.31
Assets		
Current assets	\$4,604,691	\$4,785,821
Financial asset at fair value through profit or loss	239,368	80,102
Investment in debt securities with no active market	3,006	3,250
Held-to-maturity financial assets	6,175,423	342,391
Property and equipment	233,778	199,970
Intangible assets	10,592,201	11,359,876
Deferred tax assets	91,882	1,499,196
Other non-current assets	216,672	224,632
Total assets	\$22,157,021	\$18,495,238
Liabilities		
Current liabilities	\$7,222,207	\$1,652,779
Liability reserve	415,757	367,981
Deferred tax liabilities	388,369	1,335,556
Other non-current liabilities	379,310	387,097
Total liabilities	8,405,643	3,743,413
Stockholders' equity		
Capital stock	93,791	93,791
Capital surplus	14,413,268	14,414,089
Retained earnings	84,428	(58,528)
Other equity	(1,439,878)	(396,992)
Non-controlling interest	599,769	699,465
Total stockholders' equity	13,751,378	14,751,825
Total liabilities and stockholders' equity	\$22,157,021	\$18,495,238

Conning Holdings Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2017.1.1~2017.12.31	2016.1.1~2016.12.31
Operating income	\$5,804,132	\$5,625,559
Operating costs	(787,112)	(739,117)
Operating expenses	(4,898,966)	(4,789,513)
Operating profit	118,054	96,929
Profit from continuing operations before income tax	118,054	96,929
Income tax profit (expense)	98,597	(36,912)
Profit from continuing operations after income tax	216,651	60,017
Net income	216,651	60,017
Other comprehensive loss	(1,091,949)	(671,025)
Total comprehensive loss	\$(875,298)	\$(611,008)
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 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)**

Items	2017.12.31	2016.12.31
Assets		
Cash and cash equivalents	\$7,420,391	\$6,795,981
Receivables	2,095,541	1,946,466
Financial asset at fair value through profit or loss	90,521	875,543
Available-for-sale financial assets	11,050,902	9,201,915
Investments accounted for using the equity method	1,739,672	1,893,711
Investment in debt securities with no active market	1,998,068	2,468,267
Held-to-maturity financial assets	6,114,610	5,682,189
Loans	251,770	354,812
Reinsurance contract assets	6,186,264	7,777,095
Property and equipment	69,476	90,794
Intangible assets	46,492	32,096
Deferred tax assets	174,813	132,374
Other assets	679,965	642,153
Total assets	\$37,918,485	\$37,893,396
Liabilities		
Payables	\$2,512,322	\$2,636,465
Financial liability at fair value through profit or loss	3,238	54,590
Preferred stock liability	1,000,000	1,000,000
Insurance liabilities	22,594,714	23,993,602
Liability reserve	426,446	380,158
Deferred tax liabilities	254,789	260,485
Other liabilities	609,655	352,115
Total liabilities	27,401,164	28,677,415
Stockholders' equity		
Capital stock	3,057,052	2,889,552
Capital surplus	502,500	-
Retained earnings	7,256,757	6,849,656
Other equity	(298,988)	(523,227)
Total stockholders' equity	10,517,321	9,215,981
Total liabilities and stockholders' equity	\$37,918,485	\$37,893,396

**Cathay Century Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2017.1.1~2017.12.31	2016.1.1~2016.12.31
Operating income	\$17,581,119	\$17,678,368
Operating costs	(11,920,415)	(11,372,201)
Operating expenses	(3,488,954)	(3,336,977)
Operating profit	2,171,750	2,969,190
Non-operating income and expenses	(16,936)	(7,151)
Profit from continuing operations before income tax	2,154,814	2,962,039
Income tax expense	(296,677)	(491,568)
Profit from continuing operations after income tax	1,858,137	2,470,471
Net income	1,858,137	2,470,471
Other comprehensive income (loss)	224,239	(148,205)
Total comprehensive income	\$2,082,376	\$2,322,266
Primary earnings per share	\$6.32	\$8.55

English Translation of Financial Statements Originally Issued in Chinese

Cathay Insurance Co., Ltd (Vietnam)
Condensed Balance Sheet
As of 31 December 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)

Items	2017.12.31	2016.12.31
Assets		
Cash and cash equivalents	\$127,944	\$165,874
Receivables	54,719	36,843
Investment in debt securities with no active market	10,512	52,466
Held-to-maturity financial assets	491,697	430,276
Reinsurance contract assets	294,563	251,967
Property and equipment	5,669	468
Intangible assets	2,355	2,328
Deferred tax assets	-	2
Other assets	36,446	30,122
Total assets	\$1,023,905	\$970,346
Liabilities		
Payables	\$32,226	\$27,903
Insurance liabilities	391,660	323,426
Deferred tax liabilities	106	-
Other liabilities	10,355	6,346
Total liabilities	434,347	357,675
Stockholders' equity		
Capital stock	845,585	845,585
Retained earnings	(116,597)	(139,183)
Other equity	(139,430)	(93,731)
Total stockholders' equity	589,558	612,671
Total liabilities and stockholders' equity	\$1,023,905	\$970,346

Cathay Insurance Co., Ltd (Vietnam)
Condensed Statement of Comprehensive Income
For the years ended 31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2017.1.1~2017.12.31	2016.1.1~2016.12.31
Operating income	\$208,066	\$183,870
Operating costs	(66,691)	(62,696)
Operating expenses	(120,232)	(106,618)
Operating profit	21,143	14,556
Non-operating income and expenses	1,440	158
Profit from continuing operations before income tax	22,583	14,714
Income tax profit	3	48
Profit from continuing operations after income tax	22,586	14,762
Net income	22,586	14,762
Other comprehensive (loss) income	(45,699)	4,993
Total comprehensive (loss) income	\$(23,113)	\$19,755
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 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)**

Items	2017.12.31	2016.12.31
Assets		
Cash and cash equivalents	\$58,342,595	\$56,011,450
Due from the Central Bank and call loans to banks	121,859,843	68,782,302
Financial assets at fair value through profit or loss	309,972,777	196,166,871
Securities purchased under agreements to resell	85,388,175	36,466,540
Receivables	76,953,234	79,273,844
Discounts and loans	1,399,567,004	1,403,835,506
Available-for-sale financial assets	142,212,975	151,932,723
Held-to-maturity financial assets	31,853,543	42,894,957
Investments accounted for using the equity method	9,017,435	7,877,956
Other financial assets	1,276	3,373
Investment in debt securities with no active market	388,287,593	397,475,008
Property and equipment	24,262,267	24,208,305
Investment property	1,547,372	1,554,600
Intangible assets	7,398,865	7,413,407
Deferred tax assets	2,223,266	1,410,010
Other assets	23,704,316	36,538,491
Total assets	\$2,682,592,536	\$2,511,845,343
Liabilities		
Due to the Central Bank and call loans from banks	\$84,375,047	\$67,298,569
Financial liabilities at fair value through profit or loss	87,305,126	88,060,416
Securities sold under agreements to repurchase	109,941,425	56,752,751
Payables	22,794,360	22,183,733
Current income tax liabilities	408,947	269,766
Deposits and remittances	2,056,168,811	1,993,999,765
Financial debentures payable	63,350,000	51,900,000
Other financial liabilities	66,057,646	61,566,809
Liability reserve	3,187,664	3,053,964
Deferred tax liabilities	1,580,152	1,552,030
Other liabilities	8,959,880	9,116,761
Total liabilities	2,504,129,058	2,355,754,564
Stockholders' equity		
Capital stock	78,604,060	72,099,815
Capital surplus	33,610,983	23,969,412
Retained earnings	67,103,367	59,763,752
Other equity	(854,932)	257,800
Total stockholders' equity	178,463,478	156,090,779
Total liabilities and stockholders' equity	\$2,682,592,536	\$2,511,845,343

**Cathay United Bank Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2017.1.1~2017.12.31	2016.1.1~2016.12.31
Interest income	\$42,724,485	\$37,666,600
Interest expenses	(15,037,732)	(13,558,911)
Net interest income	27,686,753	24,107,689
Non-interest income	25,268,099	25,395,260
Total income	52,954,852	49,502,949
Bad debt expense and reserve for loss on guarantees	(2,729,328)	(4,069,204)
Operating expenses	(28,399,121)	(26,166,045)
Profit from continuing operations before income tax	21,826,403	19,267,700
Income tax expense	(2,524,000)	(2,056,000)
Profit from continuing operations after income tax	19,302,403	17,211,700
Net income	19,302,403	17,211,700
Other comprehensive loss	(1,112,732)	(3,706,875)
Total comprehensive income	\$18,189,671	\$13,504,825
Primary earnings per share	\$2.53	\$2.35

English Translation of Financial Statements Originally Issued in Chinese

Indovina Bank Limited
Condensed Balance Sheet
As of 31 December 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)

Items	2017.12.31	2016.12.31
Assets		
Cash and cash equivalents	\$6,211,898	\$6,623,200
Due from the Central Bank and call loans to banks	4,953,082	6,881,758
Financial assets at fair value through profit or loss	2,012,283	3,150,720
Securities purchased under agreements to resell	2,095,480	1,673,379
Available-for-sale financial assets	6,266,930	4,220,410
Receivables	124,196	874,067
Discounts and loans	29,183,283	27,240,509
Held-to-maturity financial assets	2,491,542	5,043,907
Property and equipment	370,421	434,134
Intangible assets	14,276	17,110
Other assets	533,777	635,766
Total assets	\$54,257,168	\$56,794,960
Liabilities		
Due to the Central Bank and call loans from banks	\$10,099,989	\$14,872,722
Financial liabilities at fair value through profit or loss	102,525	76,569
Payables	765,044	1,685,991
Current income tax liabilities	1,755	2,041
Deposits and remittances	35,414,936	32,230,220
Deferred tax liabilities	122,206	51,566
Other liabilities	62,536	121,538
Total liabilities	46,568,991	49,040,647
Stockholders' equity		
Capital stock	6,094,911	6,094,911
Retained earnings	1,769,012	1,494,205
Other equity	(175,746)	165,197
Total stockholders' equity	7,688,177	7,754,313
Total liabilities and stockholders' equity	\$54,257,168	\$56,794,960

Indovina Bank Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2017.1.1~2017.12.31	2016.1.1~2016.12.31
Interest income	\$3,065,431	\$2,568,961
Interest expenses	(1,420,766)	(1,169,298)
Net interest income	1,644,665	1,399,663
Non-interest income	641,449	160,968
Total income	2,286,114	1,560,631
Bad debt expense and reserve for loss on guarantees	(709,872)	(269,072)
Operating expenses	(650,912)	(546,923)
Profit from continuing operations before income tax	925,330	744,636
Income tax expense	(202,924)	(145,517)
Profit from continuing operations after income tax	722,406	599,119
Net income	722,406	599,119
Other comprehensive loss	(340,943)	(172,550)
Total comprehensive income	\$381,463	\$426,569
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 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)

Items	2017.12.31	2016.12.31
Assets		
Cash and cash equivalents	\$2,237,632	\$840,466
Due from the Central Bank and call loans to banks	1,574,440	1,828,862
Available-for-sale financial assets	764	826
Receivables	127,783	120,494
Discounts and loans	5,807,880	6,454,893
Property and equipment	157,404	165,991
Intangible assets	57,336	49,287
Other assets	47,212	48,555
Total assets	\$10,010,451	\$9,509,374
Liabilities		
Due to the Central Bank and call loans from banks	\$-	\$1,065,207
Payables	122,169	132,120
Current income tax liabilities	29,195	22,795
Deposits and remittances	6,784,217	6,369,803
Deferred tax liabilities	10,473	7,615
Other liabilities	33,810	50,568
Total liabilities	6,979,864	7,648,108
Stockholders' equity		
Capital stock	3,020,769	1,786,169
Retained earnings	61,476	(56,169)
Other equity	(51,658)	131,266
Total stockholders' equity	3,030,587	1,861,266
Total liabilities and stockholders' equity	\$10,010,451	\$9,509,374

Cathay United Bank (Cambodia) Corporation Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2017.1.1~2017.12.31	2016.1.1~2016.12.31
Interest income	\$500,275	\$525,542
Interest expenses	(130,896)	(122,854)
Net interest income	369,379	402,688
Non-interest income	90,274	35,772
Total income	459,653	438,460
Bad debt expense and reserve for loss on guarantees	(54,945)	(117,085)
Operating expenses	(251,414)	(245,774)
Profit from continuing operations before income tax	153,294	75,601
Income tax expense	(35,649)	(27,242)
Profit from continuing operations after income tax	117,645	48,359
Net profit	117,645	48,359
Other comprehensive loss	(182,924)	(44,708)
Total comprehensive (loss) income	\$(65,279)	\$3,651
Primary earnings per share	\$0.66	\$0.77

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Securities Corporation
Condensed Balance Sheet
As of 31 December 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)**

Items	2017.12.31	2016.12.31
Assets		
Current assets	\$25,614,023	\$19,343,177
Available-for-sale financial assets	18	18
Investments accounted for using the equity method	1,559,266	1,589,073
Property and equipment	156,523	157,703
Intangible assets	47,520	44,151
Deferred tax assets	5,410	4,948
Other non-current assets	549,778	497,032
Total assets	<u>\$27,932,538</u>	<u>\$21,636,102</u>
Liabilities		
Current liabilities	\$20,652,294	\$14,613,294
Deferred tax liabilities	10,463	24,947
Other non-current liabilities	24,485	19,175
Total liabilities	<u>20,687,242</u>	<u>14,657,416</u>
Stockholders' equity		
Capital stock	5,510,000	5,330,000
Capital surplus	491,766	491,766
Retained earnings	1,008,860	914,989
Other equity	234,670	241,931
Total stockholders' equity	<u>7,245,296</u>	<u>6,978,686</u>
Total liabilities and stockholders' equity	<u>\$27,932,538</u>	<u>\$21,636,102</u>

**Cathay Securities Corporation
Condensed Statement of Comprehensive Income
For the years ended 31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2017.1.1~2017.12.31	2016.1.1~2016.12.31
Revenues	\$2,901,034	\$2,136,535
Service fee expenses	(99,310)	(74,747)
Employee benefit expenses	(994,707)	(846,513)
Share of the profit of associates and joint ventures accounted for using the equity method	(2,410)	(14,418)
Operating expenses	(1,472,514)	(891,170)
Non-operating income and expenses	20,807	16,537
Profit from continuing operations before income tax	352,900	326,224
Income tax expense	(79,029)	(68,659)
Profit from continuing operations after income tax	<u>273,871</u>	<u>257,565</u>
Net income	273,871	257,565
Other comprehensive loss	(7,261)	(117,621)
Total comprehensive income	<u>\$266,610</u>	<u>\$139,944</u>
Primary earnings per share	<u>\$0.50</u>	<u>\$0.47</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Futures Co., Ltd.

Condensed Balance Sheet

As of 31 December 2017 and 31 December 2016

(Expressed in thousands of New Taiwan Dollars)

Items	2017.12.31	2016.12.31
Assets		
Current assets	\$5,454,433	\$4,122,393
Available-for-sale financial assets	328,236	305,516
Property and equipment	69,862	75,032
Investment property	290,341	290,341
Intangible assets	31,657	29,775
Other non-current assets	154,443	147,337
Total assets	<u>\$6,328,972</u>	<u>\$4,970,394</u>
Liabilities		
Current liabilities	\$5,148,201	\$3,832,278
Deferred tax liabilities	6,554	6,869
Other non-current liabilities	1,675	1,455
Total liabilities	<u>5,156,430</u>	<u>3,840,602</u>
Stockholders' equity		
Capital stock	667,000	667,000
Retained earnings	207,975	187,646
Other equity	297,567	275,146
Total stockholders' equity	<u>1,172,542</u>	<u>1,129,792</u>
Total liabilities and stockholders' equity	<u>\$6,328,972</u>	<u>\$4,970,394</u>

Cathay Futures Co., Ltd.

Condensed Statement of Comprehensive Income

For the years ended 31 December 2017 and 2016

(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2017.1.1~2017.12.31	2016.1.1~2016.12.31
Operating income	\$239,019	\$208,758
Operating expenses	<u>(259,367)</u>	<u>(239,394)</u>
Operating loss	(20,348)	(30,636)
Non-operating income and expenses	54,375	60,407
Profit from continuing operations before income tax	34,027	29,771
Income tax expense	(93)	(4,522)
Profit from continuing operations after income tax	<u>33,934</u>	<u>25,249</u>
Net income	33,934	25,249
Other comprehensive income	22,421	27,129
Total comprehensive income	<u>\$56,355</u>	<u>\$52,378</u>
Primary earnings per share	<u>\$0.51</u>	<u>\$0.38</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities (Hong Kong) Limited
Condensed Balance Sheet
As of 31 December 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)

<u>Items</u>	<u>2017.12.31</u>	<u>2016.12.31</u>
Assets		
Current assets	\$1,173,810	\$688,463
Property and equipment	16,005	21,129
Intangible assets	1,880	2,055
Other non-current assets	80,360	77,774
Total assets	<u>\$1,272,055</u>	<u>\$789,421</u>
Liabilities		
Current liabilities	\$904,870	\$354,690
Total liabilities	<u>904,870</u>	<u>354,690</u>
Stockholders' equity		
Capital stock	728,544	728,544
Retained earnings	(305,128)	(273,500)
Other equity	(56,231)	(20,313)
Total stockholders' equity	<u>367,185</u>	<u>434,731</u>
Total liabilities and stockholders' equity	<u>\$1,272,055</u>	<u>\$789,421</u>

Cathay Securities (Hong Kong) Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

<u>Items</u>	<u>2017.1.1~2017.12.31</u>	<u>2016.1.1~2016.12.31</u>
Revenues	\$102,482	\$88,961
Service fee expenses	(5,263)	(2,033)
Employee benefit expenses	(39,166)	(42,509)
Operating expenses	(90,954)	(75,274)
Non-operating income and expenses	1,273	(765)
Loss from continuing operations before income tax	(31,628)	(31,620)
Income tax expense	-	-
Loss from continuing operations after income tax	(31,628)	(31,620)
Net loss	(31,628)	(31,620)
Other comprehensive loss	(35,918)	(20,304)
Total comprehensive loss	<u>\$(67,546)</u>	<u>\$(51,924)</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 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)**

Items	2017.12.31	2016.12.31
Assets		
Current assets	\$1,927,099	\$1,896,666
Available-for-sale financial assets	8,362	74,695
Financial assets carried at cost	13,986	5,745
Investments accounted for using the equity method	563,400	263,243
Property and equipment	54,691	66,975
Intangible assets	8,677	9,493
Deferred tax assets	16,367	14,722
Other non-current assets	259,320	257,859
Total assets	\$2,851,902	\$2,589,398
Liabilities		
Current liabilities	\$384,855	\$302,534
Other non-current liabilities	138,093	144,938
Total liabilities	522,948	447,472
Stockholders' equity		
Capital stock	1,500,000	1,500,000
Capital surplus	13,908	13,908
Retained earnings	855,115	655,353
Other equity	(40,069)	(27,335)
Total stockholders' equity	2,328,954	2,141,926
Total liabilities and stockholders' equity	\$2,851,902	\$2,589,398

**Cathay Securities Investment Trust Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2017.1.1~2017.12.31	2016.1.1~2016.12.31
Operating income	\$1,755,727	\$1,506,682
Operating expenses	(1,256,839)	(1,135,175)
Operating gross profit	498,888	371,507
Non-operating income and expenses	26,369	(14,305)
Profit from continuing operations before income tax	525,257	357,202
Income tax expense	(85,842)	(60,440)
Profit from continuing operations after income tax	439,415	296,762
Net income	439,415	296,762
Other comprehensive loss	(12,734)	(25,861)
Total comprehensive income	\$426,681	\$270,901
 Primary earnings per share	 \$2.93	 \$1.98

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Private Equity Co., Ltd.
Condensed Balance Sheet
As of 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2017.12.31
Assets	
Current assets	\$49,963
Other non-current assets	21
Total assets	<u>\$49,984</u>
Liabilities	
Current liabilities	\$86
Total liabilities	<u>86</u>
Stockholders' equity	
Capital stock	50,000
Retained earnings	(102)
Total stockholders' equity	<u>49,898</u>
Total liabilities and stockholders' equity	<u>\$49,984</u>

**Cathay Private Equity Co., Ltd.
Condensed Statement of Comprehensive Income
From 15 November 2017 (date of establishment) to 31 December 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2017.11.15~2017.12.31
Operating income	\$-
Operating expenses	(126)
Operating loss	(126)
Non-operating income and expenses	3
Loss from continuing operations before income tax	(123)
Income tax profit	21
Loss from continuing operations after income tax	(102)
Net loss	(102)
Total comprehensive loss	<u>\$(102)</u>
Primary earnings per share	<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 2017 and 31 December 2016
(Expressed in thousands of New Taiwan Dollars)

Items	2017.12.31	2016.12.31
Assets		
Current assets	\$753,153	\$683,197
Available-for-sale financial assets	2,549,427	2,775,518
Investments accounted for using the equity method	275,945	271,764
Property and equipment	3,064	3,414
Deferred tax assets	6,373	5,797
Other non-current assets	1,126	1,962
Total assets	<u>\$3,589,088</u>	<u>\$3,741,652</u>
Liabilities		
Current liabilities	\$35,670	\$8,548
Other non-current liabilities	5,408	4,298
Total liabilities	<u>41,078</u>	<u>12,846</u>
Stockholders' equity		
Capital stock	3,173,235	3,000,000
Capital surplus	128,625	128,625
Retained earnings	337,806	304,538
Other equity	(91,656)	295,643
Total stockholders' equity	<u>3,548,010</u>	<u>3,728,806</u>
Total liabilities and stockholders' equity	<u>\$3,589,088</u>	<u>\$3,741,652</u>

Cathay Venture Inc.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2017.1.1~2017.12.31	2016.1.1~2016.12.31
Operating income	\$283,108	\$240,197
Operating costs	(31,798)	(30,331)
Operating expenses	(21,032)	(17,378)
Non-operating income and expenses	(1,116)	(1,185)
Profit from continuing operations before income tax	229,162	191,303
Income tax (expense) profit	(22,659)	1,180
Profit from continuing operations after income tax	<u>206,503</u>	<u>192,483</u>
Net income	206,503	192,483
Other comprehensive (loss) income	(387,299)	55,124
Total comprehensive (loss) income	<u>\$(180,796)</u>	<u>\$247,607</u>
Primary earnings per share	<u>\$0.65</u>	<u>\$0.70</u>