Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For the six-month periods ended
30 June 2018 and 2017
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 30 June 2018, 31 December 2017 and 30 June 2017, and the related consolidated statements of comprehensive income for the three-month periods ended 30 June 2018 and 2017, and for the six-month periods ended 30 June 2018 and 2017, changes in equity and cash flows for the six-month periods ended 30 June 2018 and 2017, and notes to the consolidated financial statements, including the summary of significant accounting policies (together "the consolidated financial statements").

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of 30 June 2018, 31 December 2017 and 30 June 2017, the consolidated financial performance for the three-month periods ended 30 June 2018 and 2017, and for the six-month periods ended 30 June 2018 and 2017, and their cash flows for the six-month periods ended 30 June 2018 and 2017, in conformity with the requirements of the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies", "Regulation Governing the Preparation of Financial Reports by Securities Issuers" and "International Accounting Standard 34" "Interim Financial Reporting" as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the "Regulations Governing Auditing and Attestation of Financial Statement by Certified Public Accountants" and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Cathay Financial Holding Co., Ltd. and its subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the "Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audits for the six-month period ended 30 June 2018 consolidated financial statements. These matters were addressed in the context of our audits of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Financial instruments valuation

The Company and its subsidiaries determine the fair value of some of the financial instruments by applying valuation techniques. The Company and its subsidiaries involve internal valuation model to determine the fair value for partial of the financial instruments. The underlying assumptions of the valuation model will significantly impact the fair value of the reported financial instruments. Therefore, we determined financial instruments valuation as a key audit matter.

Our audit procedures included (but not limited to) assessing and testing the effectiveness of internal controls related to financial instruments valuation, including management's decision and approval of the valuation model and related assumptions, the controls related to the valuation model and change of assumptions, and management's valuation review process. We used internal valuation specialists on a sampling basis to assist in reviewing the valuation techniques, understanding and assessing the rationality of key valuation assumptions, performing independent valuation calculation, and determining whether the valuation differences are acceptable.

Please refer to Notes 4, 5. (2) and 12. (2) for information about the Company and its subsidiaries' financial instruments valuation.

Measurement of insurance liabilities

The measurement of the Company and its subsidiaries' insurance liabilities are dependent on the calculations based on different assumptions. Partial of the assumptions followed the regulations issued by the authorities while partial of the assumptions followed the professional judgements of internal specialists, and thus resulting in high complexity. Therefore, we determined measurement of insurance liabilities as a key audit matter.

Our audit procedures included (but not limited to) evaluating and testing the effectiveness of internal controls around insurance liabilities, including management's decision and approval of the methods and assumptions used in setting aside various reserves and controls for changing the methods and assumptions and examining the data of calculating insurance liabilities. Meanwhile, we involved internal specialists in our audit procedures, including assessing the reasonableness of the actuarial judgements and actuarial assumptions models made by management. In the liability adequacy test, the internal specialists evaluated the reasonableness of underlying assumptions and results.

Please refer to Notes 4, 5. (2) and 6. (19) for details of the Company and its subsidiaries' insurance liabilities.

Investment properties measured at fair value

The Company and its subsidiaries' investment properties are measured at fair value. Due to inaccessible market prices, the management evaluates the fair value of investment properties based on external real estate appraisers firm's valuation reports, which highly relied on the valuation approach chosen (including but not limited to income approach and market approach) and the assumptions. The approach chosen and the changes to the assumptions will impact the result of the investment properties valuation. Therefore, we determined investment properties measured at fair value as a key audit matter.

Our audit procedures included (but not limited to) evaluating the objectivity and qualification of external real estate appraisers, and enlisting the internal valuation specialists' assistance to evaluate the external real estate appraisers firm's valuation reports to understand the valuation approach adopted; we also ensure the reasonableness in the valuation approach adopted and key valuation assumptions to verify whether the difference between the internal valuation specialists' work and external valuation reports is acceptable.

Please refer to Notes 4, 5. (2) and 6. (11) for information about the Company and its subsidiaries' investment properties measured at fair value.

Loan loss provision

In accordance with International Financial Reporting Standard 9, the Company and its subsidiaries developed their own systems to perform both individual and collective assessments of bad debts on loans. The systems assess the bad debts based on external and internal historical experience and parameters from forecast data or estimated future recoverable cash flows. The assessment included determining whether credit risk increases significantly, and that credit has impaired, as well as expected credit loss model and the related expected credit loss parameters. Therefore, we determined the loan loss provision as a key audit matter.

Our audit procedures included (but not limited to) assessing and testing the internal controls relating to the underlying loan loss provision, including assessing the source of the bad debt and the bad debt assessment system, and reviewing whether the allowance for bad debt assessment approach has been approved by management. For loan loss provisions calculated on a collective basis, we reviewed whether the models of impairment were approved by management and relied on our 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. 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. We reviewed the classification of loans and the provision of allowance for loans comply to ensure that management complied with the related regulations issued by the authorities of the Republic of China.

Please refer to Notes 4, 5. (2) and 6. (7) for information about the Company and its subsidiaries' the provision of allowance for loans.

Emphasis of Matter – Application of New Accounting Standards

As described in Note 3 of the consolidated financial statements, Cathay Financial Holding Co., Ltd. and its subsidiaries applied the International Financial Reporting Standard 9, "Financial Instruments" and 15, "Revenue from Contracts with Customers" on 1 January, 2018, and elected not to restate the consolidated financial statements for prior periods. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the requirements of the “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies”, “Regulation Governing the Preparation of Financial Reports by Securities Issuers” and “International Accounting Standard 34” “Interim Financial Reporting” as endorsed and became effective by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the ability to continue as a going concern of the Company and its subsidiaries, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including audit committee or supervisors, are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit for the six-month period ended 30 June 2018 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

/s/ CHANG, CHENG-TAO
/s/ HUANG, CHIEN-CHE
Ernst & Young, Taiwan
16 August 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 30 June 2018, 31 December 2017 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

	Notes	2018.6.30	2017.12.31	2017.6.30
Assets				
Cash and cash equivalents	4, 6.(1)	$309,655,895	$245,354,768	$354,829,197
Due from the Central Bank and call loans to banks		109,711,078	125,163,780	131,991,151
Financial assets at fair value through profit or loss	4, 6.(2)	1,423,426,036	365,808,158	278,016,689
Available-for-sale financial assets - net	4, 6.(3)	-	1,681,125,738	1,530,850,336
Financial assets at fair value through other comprehensive income	4, 6.(4)	1,149,474,661	-	-
Financial assets measured at amortized cost	4, 6.(5)	2,496,164,317	-	-
Financial assets for hedging/Derivative financial assets for hedging - net	4	217,899	246,444	283,105
Securities purchased under agreements to resell	4	109,042,261	99,703,578	89,378,584
Receivables - net	4, 6.(6)	189,220,327	169,202,260	163,280,334
Current income tax assets	4	2,536,508	4,362,608	4,248,603
Loans - net	4, 6.(7)	2,119,649,909	2,038,528,190	2,020,044,431
Reinsurance assets - net		7,781,759	7,237,144	8,112,480
Held-to-maturity financial assets - net	4, 6.(8)	-	98,759,110	90,474,000
Investments accounted for using the equity method - net	4, 6.(9)	42,829,463	37,355,653	35,376,451
Other financial assets - net	4, 6.(10)	583,446,775	3,347,907,301	3,140,887,410
Investment properties - net	4, 6.(11)	319,005,665	318,106,325	315,363,484
Property and equipment - net	4, 6.(12)	165,211,367	165,095,690	165,248,420
Intangible assets - net	4, 6.(13)	54,793,271	55,802,976	57,227,936
Deferred tax assets - net	4	39,100,999	31,243,778	28,555,154
Other assets - net		87,977,919	50,506,788	49,379,798
Total assets		$9,209,246,109	$8,841,510,289	$8,463,547,563

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 30 June 2018, 31 December 2017 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

Liabilities & equity	Notes	2018.6.30	2017.12.31	2017.6.30
Liabilities				
Due to the Central Bank and call loans from banks		$91,802,507	$90,417,859	$75,187,547
Financial liabilities at fair value through profit or loss	4, 6.(14)	167,696,630	90,514,268	90,918,060
Securities sold under agreements to repurchase	4	105,689,690	112,643,582	74,325,892
Commercial paper payable-net	4, 6.(15)	53,847,245	51,468,158	47,617,018
Payables		92,897,195	57,943,815	83,879,474
Current income tax liabilities	4	6,869,180	8,879,563	11,619,571
Deposits	6.(16)	2,121,960,307	2,062,953,012	2,025,898,760
Bonds payable	4, 6.(17)	90,600,000	98,350,000	98,350,000
Other borrowings		218,389	441,199	595,770
Provisions	4, 6.(19)	5,177,374,930	4,972,427,256	4,747,503,802
Other financial liabilities	4, 6.(18)	654,949,610	623,527,312	594,609,900
Deferred tax liabilities	4	28,014,899	34,828,440	31,414,973
Other liabilities		17,654,575	28,645,282	19,206,215
Total liabilities		8,609,575,157	8,233,039,746	7,901,126,982
Equity attributable to owners of parent				
Capital stock	6.(21)			
Common stock		125,632,102	125,632,102	125,632,102
Preferred stock		15,333,000	8,333,000	8,333,000
Capital surplus	6.(22)	165,452,143	130,452,105	130,452,105
Retained earnings	6.(23)			
Legal reserve		40,976,121	35,339,841	35,339,841
Special reserve		149,346,119	149,106,971	149,106,971
Undistributed earnings		86,636,398	99,296,739	69,225,535
Other equity		7,114,564	50,906,313	37,952,635
Non-controlling interests	4, 6.(24)	9,180,505	9,403,472	6,378,392
Total equity		599,670,952	608,470,543	562,420,581
Total liabilities and equity		$9,209,246,109	$8,841,510,289	$8,463,547,563

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 three-month periods ended 30 June 2018 and 2017, and six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

	Notes	2018.4.1~2018.6.30	2017.4.1~2017.6.30	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Interest income	4	$49,554,232	$45,470,147	$95,804,662	$89,934,148
Less: Interest expenses		(5,558,524)	(4,189,274)	(10,704,571)	(8,128,488)
Net interest income	4	43,995,708	41,280,873	85,100,091	81,805,660
Net income other than interest					
Net commission and handling fee		1,019,146	723,189	1,997,552	507,335
Net premiums from insurance business		64,754,512	81,993,331	111,372,467	152,557,422
(Losses) gains on financial assets and liabilities at fair value through profit or loss		(72,558,295)	(11,173,667)	(40,787,307)	70,078,931
Gains from investment properties		1,947,920	2,124,103	4,760,406	4,815,626
Realized gains on available-for-sale financial assets		-	18,323,970	-	35,374,503
Realized gains on financial assets at fair value through other comprehensive income		1,993,953	-	9,434,202	-
Realized (losses) gains on held-to-maturity financial assets		-	(44)	-	15,020
Gains from derecognition of financial assets measured at amortized cost		896,408	-	2,940,279	-
Gains (losses) on foreign exchange		84,263,348	8,975,150	45,566,290	(86,970,071)
Impairment gains (losses) on assets		148,026	(42,096)	(247,042)	(42,096)
Share of profit of associates and joint ventures accounted for using the equity method		470,304	218,172	537,062	690,185
Gains from reclassification using overlay approach		10,200,958	-	36,387,275	-
Net other non-interest (losses) gains		(2,983,348)	5,264,209	(1,768,575)	15,781,057
Total income		134,148,640	147,687,190	255,292,700	274,613,572
Bad debt expenses, commitments and provision for premiums reserve		(1,027,111)	(954,193)	(1,443,618)	(1,273,522)
Changes in insurance liabilities and provisions		(98,225,236)	(110,023,441)	(178,134,614)	(208,596,056)
Operating expenses	6.(25)				
Employee benefits expenses		(11,979,248)	(10,712,242)	(24,208,444)	(21,634,485)
Depreciation and amortizations expenses		(1,396,662)	(1,337,409)	(2,780,677)	(2,672,964)
Other general and administration expenses		(5,766,652)	(5,872,421)	(11,173,060)	(10,790,476)
Subtotal		(19,142,562)	(17,922,072)	(38,162,181)	(35,097,925)
Profit before income tax from continuing operations		15,753,731	18,787,484	37,552,287	29,646,069
Income tax expense	4, 6.(27)	(2,996,258)	(3,122,627)	(1,537,888)	(3,190,990)
Net income		12,757,473	15,664,857	36,014,399	26,455,079
Other comprehensive income	4, 6.(26)				
Not to be reclassified to profit or loss in subsequent periods:					
Revaluation gains on property		-	-	-	235,064
Valuation losses on equity instruments at fair value through other comprehensive income		(2,399,291)	-	(2,497,980)	-
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk		647,951	(1,020,305)	1,355,730	(1,265,243)
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		(9,525)	(22,985)	(86,186)	3,352
Income tax relating to the components not to be reclassified to profit or loss in subsequent periods		233,656	177,360	464,919	168,279
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation		852,604	1,721,850	733,324	(3,136,775)
Unrealized gains from available-for-sale financial assets		-	30,377,549	-	37,335,335
(Losses) gains on hedging instruments/Effective portion of gains on hedging instruments in cash flow hedges		(2,838)	2,187	(27,607)	50,504
Losses on debt instruments at fair value through other comprehensive income		(22,938,202)	-	(66,136,530)	-
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		240,124	27,099	(649,065)	(1,120,576)
Other comprehensive losses reclassified using overlay approach		(10,200,958)	-	(36,387,275)	-
Income tax relating to the components to be reclassified to profit or loss in subsequent periods		3,203,974	(2,512,224)	14,211,628	(778,689)
Other comprehensive (loss) income, net of tax		(30,372,505)	28,750,531	(89,019,042)	31,491,251
Total comprehensive (loss) income		$(17,615,032)	$44,415,388	$(53,004,643)	$57,946,330
Net income attributable to:					
Owners of parent		$12,915,840	$15,610,520	$35,983,223	$26,235,531
Non-controlling interests		(158,367)	54,337	31,176	219,548
Subtotal		$12,757,473	$15,664,857	$36,014,399	$26,455,079
Total comprehensive income attributable to:					
Owners of parent		$(17,509,164)	$44,264,041	($53,111,128)	$57,965,214
Non-controlling interests		(105,868)	151,347	106,485	(18,884)
Subtotal		$(17,615,032)	$44,415,388	$(53,004,643)	$57,946,330
Earnings per share (expressed in dollars) :	6.(28)				
Basic earnings per share:					
Net income		$0.87	$1.23	$2.71	$2.08

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 six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars)

	Equity attributable to owners of parent																
	Capital stock			Retained earnings			Other equity										
Items	Common stock	Preferred stock	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of a foreign operation	Unrealized gains (losses) from financial assets at fair value through other comprehensive income	Unrealized gains (losses) from available-for-sale financial assets	Gains (losses) on hedging instruments /Effective portion of gains (losses) on hedging instruments in cash flow hedges	Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	Remeasurements of defined benefit plans	Revaluation gains on property	Other comprehensive income (losses) reclassified using overlay approach	Total	Non-controlling interests	Total equity
Balance on 1 January 2017	$125,632,102	$8,333,000	$130,448,697	$30,577,724	$149,108,336	$73,001,761	$(7,274,912)	$-	$4,023,159	$191,534	$120,321	$(945,933)	$10,108,783	$-	$523,324,572	$6,499,449	$529,824,021
Appropriations and distribution for 2016																	
Legal reserve				4,762,117		(4,762,117)									-		-
Cash dividends						(25,126,420)									(25,126,420)		(25,126,420)
Cash dividends of preferred stock						(124,585)									(124,585)		(124,585)
Reversal of special reserve					(1,365)	1,365									-		-
Other additional paid-in capital																	
Share of changes in net assets of associates and joint ventures accounted for using the equity method			(804)												(804)		(804)
Net income for the six-month periods ended 30 June 2017						26,235,531									26,235,531	219,548	26,455,079
Other comprehensive income for the six-month periods ended 30 June 2017							(3,535,392)		36,081,704	41,919	(1,050,152)	2,783	188,821		31,729,683	(238,432)	31,491,251
Comprehensive income for the six-month periods ended 30 June 2017	-	-	-	-	-	26,235,531	(3,535,392)	-	36,081,704	41,919	(1,050,152)	2,783	188,821	-	57,965,214	(18,884)	57,946,330
Share-based payment			4,212												4,212		4,212
Decrease in non-controlling interests																(102,173)	(102,173)
Balance on 30 June 2017	$125,632,102	$8,333,000	$130,452,105	$35,339,841	$149,106,971	$69,225,535	$(10,810,304)	$-	$40,104,863	$233,453	$(929,831)	$(943,150)	$10,297,604	$-	$556,042,189	$6,378,392	$562,420,581
Balance on 1 January 2018	$125,632,102	$8,333,000	$130,452,105	$35,339,841	$149,106,971	$99,296,739	$(10,823,242)	$-	$53,789,800	$203,647	$(1,191,027)	$(1,449,679)	$10,376,814	$-	$599,067,071	$9,403,472	$608,470,543
Effects on retrospective application and restatement	-	-	-	-	-	(3,653,038)	-	37,343,476	(53,789,800)	-	-	-	-	55,941,777	35,842,415	8,904	35,851,319
Balance on 1 January 2018 (Adjusted)	125,632,102	8,333,000	130,452,105	35,339,841	149,106,971	95,643,701	(10,823,242)	37,343,476	-	203,647	(1,191,027)	(1,449,679)	10,376,814	55,941,777	634,909,486	9,412,376	644,321,862
Appropriations and distribution for 2017																	
Legal reserve				5,636,280		(5,636,280)									-		-
Special reserve					234,146	(234,146)									-		-
Cash dividends						(31,408,025)									(31,408,025)		(31,408,025)
Cash dividends of preferred stock						(1,899,924)									(1,899,924)		(1,899,924)
Other additional paid-in capital																	
Share of changes in net assets of associates and joint ventures accounted for using the equity method			38												38		38
Net income for the six-month periods ended 30 June 2018						35,983,223									35,983,223	31,176	36,014,399
Other comprehensive income for the six-month periods ended 30 June 2018							126,542	(57,180,515)		(29,446)	1,127,633	42,180	46,241	(33,226,986)	(89,094,351)	75,309	(89,019,042)
Comprehensive income for the six-month periods ended 30 June 2018	-	-	-	-	-	35,983,223	126,542	(57,180,515)	-	(29,446)	1,127,633	42,180	46,241	(33,226,986)	(53,111,128)	106,485	(53,004,643)
Issue of preferred stock		7,000,000	35,000,000												42,000,000		42,000,000
Disposal of equity instrument at fair value through other comprehensive (losses) income						(5,862,293)		5,862,293							-		-
Decrease in non-controlling interests																(338,356)	(338,356)
Others					5,002	50,142							(55,144)		-		-
Balance on 30 June 2018	$125,632,102	$15,333,000	$165,452,143	$40,976,121	$149,346,119	$86,636,398	$(10,696,700)	$(13,974,746)	$-	$174,201	$(63,394)	$(1,407,499)	$10,367,911	$22,714,791	$590,490,447	$9,180,505	$599,670,952

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
For the six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Cash flows from operating activities		
Profit before income tax from continuing operations	$37,552,287	$29,646,069
Adjustments :		
Income and other adjustments with no cash flow effects		
Depreciation expenses	1,272,514	1,202,848
Amortization expenses	1,508,163	1,470,116
Expected credit impairment losses and gains/Bad debt expense	1,443,618	1,273,522
Net gains on financial assets and liabilities at fair value through profit or loss	50,226,330	(67,069,251)
Interest expenses	10,704,571	8,128,488
Net gains on financial assets measured at amortized cost	(535)	-
Interest revenue	(95,804,662)	(89,934,148)
Dividend income	(6,760,430)	(6,784,578)
Net changes in insurance liabilities and provisions	201,220,942	153,894,664
Net changes of other liabilities and provisions	3,760,915	(2,854,198)
Share of gain of associates and joint ventures accounted for using the equity method	(537,062)	(690,185)
Other comprehensive income reclassified using overlay approach	(36,387,275)	-
Losses on disposal or scrapping of property and equipment	2,905	14,367
Gains on disposal of investment properties	(14,723)	(77,366)
Losses on disposal of intangible assets	-	42
Gains on disposal of investments	(1,735)	(37,926,725)
Losses on disposal of investments accounted for using the equity method	10,773	-
Impairment losses on financial assets	247,042	42,096
Unrealized foreign exchange losses (gains)	42,868	(78,269)
Revaluation losses on investment properties	656,636	329,055
Others	-	6,470
Subtotal	131,590,855	(39,053,052)
Changes in operating assets and liabilities		
Changes in operating assets		
Increase in due from the Central Bank and call loans to banks	(2,175,522)	(250,505)
Decrease in financial assets at fair value through profit or loss	133,213,219	30,178,058
Increase in financial assets at fair value through other comprehensive income	(8,760,659)	-
Increase in debt instruments investments measured at amortized cost	(251,766,443)	-
Decrease in available-for-sale financial assets	-	125,159,075
Decrease (increase) in derivative financial assets for hedging	938	(332)
Increase in accounts receivable	(9,504,649)	(9,147,000)
(Increase) decrease in loans	(81,534,827)	22,406,569
(Increase) decrease in reinsurance contract assets	(540,869)	640,070
Increase in financial assets held to maturity	-	(8,939,073)
Increase in other financial assets	(1,518,859)	(60,349,148)
(Increase) decrease in other assets	(24,166,138)	8,229,203
Subtotal	(246,753,809)	107,926,917
Changes in operating liabilities		
Increase (decrease) in due to the Central Bank and call loans from banks	1,169,151	(1,389,633)
Decrease in financial liabilities at fair value through profit or loss	(7,490,176)	(21,161,271)
(Decrease) increase in securities purchased under agreements to repurchase	(6,953,893)	15,233,277
Increase in payables	124,946	7,976,414
Increase in deposits	58,094,774	28,149,396
Increase (decrease) in provisions for the liabilities of employee benefits	70,474	(56,384)
(Decrease) increase in reserves for the operations and liabilities	(248,007)	9,426
Increase (decrease) in other financial liabilities	11,687,687	(1,729,092)
(Decrease) increase in other liabilities	(8,708,924)	1,493,666
Subtotal	47,746,032	28,525,799
Subtotal of Changes in operating assets and liabilities	(199,007,777)	136,452,716
Subtotal of Adjustment	(67,416,922)	97,399,664

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Cash generated from operations	(29,864,635)	127,045,733
Interest received	86,647,136	87,219,795
Dividends received	7,176,693	5,458,360
Interest paid	(11,170,378)	(8,806,061)
Income taxes paid	(8,338,162)	(4,072,085)
Net cash flows from operating activities	44,450,654	206,845,742
Cash flows from investing activities		
Acquisition of financial assets at fair value through other comprehensive income	(3,266,989)	-
Acquisition of financial assets at fair value through profit or loss	(300,457)	(40,059)
Disposal of financial assets at fair value through profit or loss	107,997	44,927
Acquisition of financial assets available for sale	-	(472,357)
Disposal of financial assets available for sale	-	512,423
Acquisition of investments accounted for using the equity method	(5,748,225)	(1,050,000)
Disposal of investments accounted for using the equity method	119,873	2,843
Cash returned by capital deduction from investments accounted for using equity method	3,232	-
Acquisition of property and equipment	(1,354,687)	(2,585,021)
Disposal of property and equipment	2,796	10,173
Decrease in clearing and settlement funds	-	(6,506)
Decrease in guarantee deposits paid	(31,428)	(20,663)
Acquisition of intangible assets	(180,222)	(193,476)
Acquisition of investment properties	(1,802,103)	(4,613,460)
Disposal of investment properties	100,700	165,128
Increase in other assets	(11,983,925)	(4,808)
Decrease in other assets	-	9,201,508
Dividends received	2,541	1,507
Net cash flows (used in) from investing activities	(24,330,897)	952,159
Cash flows from financing activities		
Increase in short-term borrowings	-	524,692
Decrease in short-term borrowings	(226,597)	-
Decrease in commercial paper payable	2,380,000	6,040,000
Issue of corporate bonds	-	35,000,000
Decrease in bills and bonds sold under agreements to repurchase	-	(46,444)
Issue of financial debentures	-	11,450,000
Repayment of financial debentures	(7,750,000)	-
Increase in other liabilities	-	310,909
Decrease in other liabilities	(1,286,349)	-
Increase in cash capital	42,000,000	-
Decrease in non-controlling interests	(56,812)	(48,030)
Net cash flows from financing activities	35,060,242	53,231,127
Effects of exchange rate changes on cash and cash equivalents	799,738	(2,968,867)
Increase in cash and cash equivalents	55,979,737	258,060,161
Cash and cash equivalents at the beginning of periods	415,218,017	264,597,958
Cash and cash equivalents at the end of periods	$471,197,754	$522,658,119
The components of cash and cash equivalents		
Cash and cash equivalents presented in balance sheet	$309,655,895	$354,829,197
Due from the Central Bank and call loans to banks satisfied the definition of cash and cash equivalents under IAS No.7	52,499,598	78,450,338
Bills sold under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7	109,042,261	89,378,584
Cash and cash equivalents at the end of periods	$471,197,754	$522,658,119

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

English Translation of Financial Statement Originally issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to Consolidated Financial Statements
30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

1. Organization and business scope

On 31 December 2001, Cathay Life Insurance Co., Ltd. ("Cathay Life") was reincorporated as Cathay Financial Holding Co., Ltd. (the "Company") through stock conversion pursuant to the Republic of China ("ROC") Financial Holding Company Act ("Financial Holding Company Act") and its shares were listed on the Taiwan Stock Exchange Corporation (TWSE) on the same day. On 22 April 2002, Cathay Century Insurance Co., Ltd. ("Cathay Century") and Cathay United Bank Co., Ltd. ("Cathay United Bank") became subsidiaries of the Company through stock conversion approved by the government. On 18 December 2002, United World Chinese Commercial Bank Co., Ltd. ("UWCCB") also became a subsidiary of the Company through stock conversion approved by the government. UWCCB and Cathay United Bank merged on 27 October 2003, in accordance with the relevant laws and regulations. UWCCB was the surviving company and was re-named Cathay United Bank Co., Ltd. ("Cathay United Bank"). On 12 May 2004, the Company established Cathay Securities Corporation ("Cathay Securities") as a wholly owned subsidiary. On 30 September 2005, the Company invested in Lucky Bank, Inc. ("Lucky Bank") which was approved as a strategic investment by the Financial Supervisory Commission ("FSC"), Executive Yuan. Lucky Bank became a subsidiary of the Company by stock conversion on 25 August 2006. Cathay United Bank merged with Lucky Bank on 1 January 2007. Cathay United Bank acquired specific assets, liabilities, and business of China United Trust & Investment Corporation ("CUTIC") on 29 December 2007 to improve competitiveness. Cathay Venture Inc. ("Cathay Venture") was incorporated on 10 April 2003, under the Company Act. Cathay Venture is the surviving company from the merger with Cathay Venture, Cathay II Venture and Cathay Capital Management on 10 August 2009. On 13 June 2011, the Company obtained the acquisition approval of Cathay Securities Investment Trust Co., Ltd. (Cathay Securities Investment Trust) from FSC of Executive Yuan and acquired all shares of Cathay Securities Investments Trust by cash purchase on 24 June 2011. On 29 July 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs). The Company mainly engages in financial holding business.

Cathay Life has participated and won the bid, which was held by the Taiwan Insurance Guaranty Fund, for the takeover of the assets, liabilities and operations of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. Cathay Life entered into the general assignment and assumption agreement on 27 March 2015. Cathay Life assumed all assets, liabilities and operations of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd., except for their reserved assets and liabilities on 1 July 2015.

2. Date and procedures of authorization of financial statements for issue

The consolidated financial statements of the Company and subsidiaries (the Group) for the six-month periods ended 30 June 2018 and 2017 were authorized for issue in accordance with a resolution of the board of directors on 16 August 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 ("IFRS"), International Accounting Standards ("IAS"), and interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after 1 January 2018. The nature and the impact of each new standard and amendment is described below. Only paragraph A has a material effect on the Group.

A. IFRS 9 *"Financial Instruments"* (including the adoption of overlay approach of IFRS 9 *"Financial Instruments"* under IFRS 4 *"Insurance Contracts"*) supersedes IAS 39 *"Financial Instruments: Recognition and Measurement"*. In accordance with the transition provision in IFRS 9 *"Financial Instruments"* , the Group elected not to restate prior periods at the date of initial application (1 January 2018). The adoption of IFRS 9 *"Financial Instruments"* has the following impacts on the Group:

(A) The Group adopted IFRS 9 *"Financial Instruments"* on 1 January 2018 and they adopted IAS 39 *"Financial Instruments: Recognition and Measurement"* before 1 January 2018. Please refer to Note 4 for more details on accounting policies.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(B) In accordance with the transition provision in IFRS 9 *"Financial Instruments"*, the assessment of the business model and classification of financial assets to the appropriate categories are based on the facts and circumstances that existed as at 1 January 2018. The classifications of financial assets and their carrying amounts as at 1 January 2018 are as follows:

IAS 39		IFRS 9	
Measurement categories	Carrying amounts	Measurement categories	Carrying amounts
Fair value through profit or loss		Fair value through profit or loss	
Financial assets at fair value through profit or loss	$365,808,158	Financial assets at fair value through profit or loss	$1,518,823,024
Derivative financial assets for hedging	246,444	Financial assets for hedging	246,444
Subtotal	366,054,602	Subtotal	1,519,069,468
Fair value through other comprehensive income		Fair value through other comprehensive income	
Available-for-sale financial assets	1,681,125,738	Financial assets at fair value through other comprehensive income	1,208,739,971
At amortized cost		At amortized cost	
Cash and cash equivalents (petty cash and cash on hand excluded)	227,032,625	Cash and cash equivalents (petty cash and cash on hand excluded)	227,030,124
Due from the Central Bank and call loans to banks	125,163,780	Due from the Central Bank and call loans to banks	125,154,825
Securities purchased under agreements to resell	99,703,578	Financial assets measured at amortized cost	2,244,523,940
Receivables - net	169,202,260	Securities purchased under agreements to resell	99,697,303
Loans - net	2,038,528,190	Receivables - net	169,369,984
Debt instrument investments for which no active market exists	2,783,306,758	Loans - net	2,038,528,190
Held-to-maturity financial assets	98,759,110	Other financial assets	563,585,656
Other financial assets	564,600,543	Other assets	38,375,709
Other assets	37,656,509		
Subtotal	6,143,953,353	Subtotal	5,506,265,731
Allowance for impairment of off Balance Sheet items		Allowance for impairment of off Balance Sheet items	
Reserve for losses on guarantees	(72,897)	Reserve for losses on guarantees	(72,897)
The letters of credit receivables	(5,993)	The letters of credit receivables	(5,993)
Reserve for financing commitments	-	Reserve for financing commitments	(116,847)
Subtotal	(78,890)	Subtotal	(195,737)
Total	$8,191,054,803	Total	$8,233,879,433

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(C) The transition adjustments from IAS 39 *"Financial Instruments: Recognition and Measurement"* to IFRS 9 *"Financial Instruments"* for the classifications of financial assets and financial liabilities as at 1 January 2018 are as follows:

IAS 39 Items	IAS 39 Carrying amounts	IFRS 9 Items	IFRS 9 Carrying amounts	Differences	Retained earnings adjustments	Other equity adjustments
Financial assets at fair value through profit or loss						
Designated at fair value through profit or loss	$239,368	Financial assets mandatorily measured at fair value through profit or loss	$362,753,438	$(141)	$(141)	$-
Held for trading	365,568,790	Debt instruments at fair value through other comprehensive income	3,054,578	(1)	(21,366)	21,365
Subtotal	365,808,158	Subtotal	365,808,016	(142)	(21,507)	21,365
Derivative financial assets for hedging	246,444	Financial assets for hedging	246,444	-	-	-
Available-for-sale financial assets						
		Financial assets at fair value through profit or loss	1,072,283,997	(583,595)	(2,574,091)	1,990,496
		Equity instruments at fair value through other comprehensive income	83,353,521	1,731,099	40,446	1,690,653
		Debt instruments at fair value through other comprehensive income	441,712,358	-	(195,295)	195,295
		Financial assets measured at amortized cost	82,310,738	(2,612,628)	(24,241)	(2,588,387)
Subtotal	1,681,125,738	Subtotal	1,679,660,614	(1,465,124)	(2,753,181)	1,288,057
Debt instrument investments for which no active market exists						
		Financial assets at fair value through profit or loss	72,256,152	1,185,080	9,988	1,175,092
		Equity instruments at fair value through other comprehensive income	3,537	531	-	531
		Debt instruments at fair value through other comprehensive income	652,467,428	41,498,552	(376,440)	41,874,992
		Financial assets measured at amortized cost	2,099,818,823	(1,444,981)	(1,444,981)	-
Subtotal	2,783,306,758	Subtotal	2,824,545,940	41,239,182	(1,811,433)	43,050,615
Held-to-maturity financial assets						
		Financial assets at fair value through profit or loss	10,542,694	(168,018)	(168,018)	-
		Debt instruments at fair value through other comprehensive income	28,138,297	2,492,201	(4,588)	2,496,789
		Financial assets measured at amortized cost	62,394,379	(7,923)	(7,923)	-
Subtotal	98,759,110	Subtotal	101,075,370	2,316,260	(180,529)	2,496,789
Other financial assets						
		Financial assets at fair value through profit or loss	986,743	(13,257)	-	(13,257)
		Equity instruments at fair value through other comprehensive income	10,252	(3,734)	-	(3,734)
		Other financial assets	563,585,656	(901)	(901)	-
Subtotal	564,600,543	Subtotal	564,582,651	(17,892)	(901)	(16,991)
Cash and cash equivalents (petty cash and cash on hand excluded)	227,032,625	Cash and cash equivalents (petty cash and cash on hand excluded)	227,030,124	(2,501)	(2,501)	-
Due from the Central Bank and call loans to banks	125,163,780	Due from the Central Bank and call loans to banks	125,154,825	(8,955)	(8,955)	-
Securities purchased under agreements to resell	99,703,578	Securities purchased under agreements to resell	99,697,303	(6,275)	(6,275)	-
Receivables - net	169,202,260	Receivables - net	169,369,984	167,724	167,724	-
Loans - net	2,038,528,190	Loans - net	2,038,528,190	-	-	-
Other assets	37,656,509	Other assets	38,375,709	719,200	582,469	136,731
Allowance for impairment of off Balance Sheet items		Allowance for impairment of off Balance Sheet items				
Reserve for losses on guarantees	(72,897)	Reserve for losses on guarantees	(72,897)	-	-	-
The letters of credit receivables	(5,993)	The letters of credit receivables	(5,993)	-	-	-
Reserve for financing commitments	-	Reserve for financing commitments	(116,847)	(116,847)	(116,847)	-
Subtotal	(78,890)	Subtotal	(195,737)	(116,847)	(116,847)	-
Total	$8,191,054,803	Total	$8,233,879,433	$42,824,630	$(4,151,936)	$46,976,566

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(D) The transition adjustments from IAS 39 *"Financial Instruments: Recognition and Measurement"* to IFRS 9 *"Financial Instruments"* for the balance of loss allowance under expected credit loss model as at 1 January 2018 are as follows:

Items and measurement categories	Balance of impairment provision under IAS 39	Reclassifications	Remeasurements	Balance of loss allowance under IFRS 9
Due from the Central Bank and call loans to banks	$-	$-	$8,955	$8,955
Receivables	2,631,722	-	(167,541)	2,464,181
Loans	29,392,495	-	-	29,392,495
Financial assets at fair value through profit or loss (Note 1)				
Classified to financial assets at fair value through other comprehensive income (Note 2)	-	-	37	37
Available-for-sale financial assets (Note 1)				
Classified to financial assets at fair value through profit or loss (Note 2)	185,987	(185,987)	-	-
Classified to financial assets at fair value through other comprehensive income (Note 2)	146,379	(146,379)	196,039	196,039
Classified to financial assets measured at amortized cost (Note 2)	-	-	24,309	24,309
Debt instrument investments for which no active market exists (Note 1)				
Classified to financial assets at fair value through profit or loss (Note 2)	388,024	(388,024)	-	-
Classified to financial assets at fair value through other comprehensive income (Note 2)	-	-	376,441	376,441
Classified to financial assets measured at amortized cost (Note 2)	-	-	1,446,117	1,446,117
Held-to-maturity financial assets (Note 1)				
Classified to financial assets at fair value through profit or loss (Note 2)	15,932	(15,932)	-	-
Classified to financial assets at fair value through other comprehensive income (Note 2)	-	-	4,588	4,588
Classified to financial assets measured at amortized cost (Note 2)	-	-	7,923	7,923
Other financial assets	-	-	901	901
Reserve for financing commitments	-	-	116,847	116,847
Other (Note 3)	13	-	10,069	10,082
Total	$32,760,552	$(736,322)	$2,024,685	$34,048,915

Note 1: Items under IAS 39 *"Financial Instruments: Recognition and Measurement"*.

Note 2: Items under IFRS 9 *"Financial Instruments"*.

Note 3: Items include that cash and cash equivalents, securities purchased under agreements to resell, other financial assets and other assets.

(E) Effects on the date of initial application

In accordance with classification and measurement of financial assets and impairment assessment in IFRS 9 *"Financial Instruments"*, the Group's assets increased by $43,184,723 thousand, liabilities increased by $7,345,149 thousand, retained earnings decreased by $3,661,800 thousand, other equity increased by $39,495,453 thousand and non-controlling interests increased by $5,921 thousand on the date of initial application (1 January 2018). The related explanation is as follows:

a. Classification and measurement of financial assets

Some of debt instrument investments for which no active market exists are reclassified as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income and thus reflected the adjustments to unrealized gains of debt instrument investments for which no active market exists. The assets increased by $44,270,129 thousand; the liabilities increased by $7,153,151 thousand; retained earnings decreased by $1,898,911 thousand, other equity increased by $39,009,968 thousand and non-controlling interests increased by $5,921 thousand. The explanation for classification and measurement is as follows:

<u>Financial assets at fair value through profit or loss</u>

Financial assets which are classified as held-for-trading derivative instruments in financial assets at fair value through profit or loss and mixed instruments designated at fair value through profit or loss in accordance with IAS 39 *"Financial Instruments: Recognition and Measurement"* are classified as financial assets at fair value through profit or loss under IFRS 9 *"Financial Instruments"*.

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

Classified as available-for-sale financial assets according to IAS 39 *"Financial Instruments: Recognition and Measurement"*, including beneficiary certificates, stocks and bonds. The related explanation of change in classification is as follows:

(a) Beneficiary certificates

As the cash flow characteristics for beneficiary certificates are not solely payments of principal and interest on the principal amount outstanding, beneficiary certificates are classified as financial assets measured at fair value through profit or loss in accordance with IFRS 9 *"Financial Instruments"*. As at the date of initial application, the Group will reclassify available-for-sale financial assets to financial assets measured at fair value through profit or loss.

(b) Stocks

Upon de-recognition of equity investments currently classified as available-for-sale measured at fair value, the accumulated gains or losses previously recognized in other comprehensive income was recycled to profit or loss from equity. However, under IFRS 9 *"Financial Instruments"*, subsequent fair value changes of the aforementioned equity investments are recognized in other comprehensive income and cannot be recycled to profit or loss. Upon de-recognition, the accumulated amounts in other component of equity is reclassified to retained earnings (reclassification to profit or loss is not allowed).

Based on the facts and circumstances that existed as on 1 January 2018, aside from part of the financial assets which are not held-for-trading investments designated to measure at fair value through other comprehensive income, the others should be reclassified as financial assets at fair value through profit or loss. No difference from carrying amount exists when stocks are measured at fair value.

(c) Bonds

As the cash flow characteristics for bonds are solely payments of principal and interest on the principal amount outstanding, based on the facts and circumstances that existed as on 1 January 2018, bonds should be reclassified from available-for-sale financial assets to financial assets measured at amortized cost in accordance with IFRS 9 *"Financial Instruments"* if the financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. The difference between fair value and amortized cost previously recognized will be adjusted to other equity and the carrying amount of the reclassified financial assets. The financial assets should also be assessed for impairment in accordance with IFRS 9 *"Financial Instruments"*.

Bond investments held within a business model whose objective is to hold financial assets in order to collect contractual cash flows should be classified as financial assets at fair value through other comprehensive income under IFRS 9 *"Financial Instruments"*. No difference from carrying amount exists, and the aforementioned assets should be assessed for impairment in accordance with IFRS 9 *"Financial Instruments"*.

Bond investments whose cash flow characteristics for beneficiary certificates are not solely payments of principal and interest on the principal amount outstanding should be classified as financial assets at fair value through profit or loss under IFRS 9 *"Financial Instruments"*. The reclassification doesn't result in any difference from carrying amount.

The Group chose to express profit or loss of the designated financial assets in overlay approach under IFRS 4 *"Insurance Contracts"* since their application of IFRS 9 *"Financial Instruments"*. The reclassification of available-for-sale financial assets to financial assets at fair value through profit or loss and designated to apply overlay approach did not result in any difference in carrying amount.

Held-to-maturity financial assets and debt instrument investments for which no active market exists

Bond investments classified as held-to-maturity financial assets and loans and receivables (placed in debt instrument investments for which no active market exists) according to IAS 39 *"Financial Instruments: Recognition and Measurement"* and whose cash flow characteristics are solely payments of principal and interest on the principal amount outstanding, based on the facts and circumstances that existed as at the date of initial application, should be reclassified from held-to-maturity financial assets and debt instrument investments for which no active market exists to financial assets measured at amortized cost in accordance with IFRS 9 *"Financial Instruments"* if the financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. No difference from carrying amount exists, and the aforementioned assets should be assessed for impairment in accordance with IFRS 9 *"Financial Instruments"*.

Held-to-maturity financial assets and debt instrument investments for which no active market exists held within a business model whose objective is to hold financial assets in order to collect contractual cash flows should be reclassified as financial assets at fair value through other comprehensive income under IFRS 9 *"Financial Instruments"*. The reclassification of business model will increase other equity and the carrying amount of the reclassified financial assets. The aforementioned assets should also be assessed for impairment in accordance with IFRS 9 *"Financial Instruments"*.

Bond investments classified as loans and receivables (placed in debt instrument investments for which no active market exists) according to IAS 39 *"Financial Instruments: Recognition and Measurement"* and whose cash flow characteristics are not solely payments of principal and interest on the principal amount outstanding should be classified as financial assets at fair value through profit or loss.

The Group chose to express profit or loss of the designated financial assets in overlay approach under IFRS 4 *"Insurance Contracts"* since its application of IFRS 9 *"Financial Instruments"* and thus, the abovementioned reclassification results in an increase in other equity reclassified.

b. Impairment assessment of financial assets

The Group recognized adjustments of expected credit losses of debt instruments, which decreased assets by $1,085,406 thousand, increased liabilities by $191,998 thousand, decreased retained earnings by $1,762,889 thousand and increased other equity by $485,485 thousand.

As for financial assets that are not measured at fair value through profit or loss, the impairment of debt instruments is evaluated by applying expected credit risk model in accordance with IFRS 9. If the credit risk of the financial assets doesn't increase significantly after the initial recognition, the allowance for losses will be measured at 12-month expected credit losses. If the credit risk of the financial assets increases significantly after the initial recognition and is not low credit risk, the allowance for losses will be measured at credit losses during remaining term to maturity. For receivables and contractual assets arose from the transactions in the scope of IFRS 15, credit losses are evaluated by simplified method. The aforementioned rule of impairment assessment is different from incurred losses model applied currently.

c. Hedge Accounting

The applicable conditions of hedge accounting under IFRS 9 *"Financial Instruments"* are amended in order to better reflect the business's actual risk management activities on financial reports applicable to hedge accounting. However, when an entity first applies IFRS 9, it may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 *"Financial Instruments: Recognition and Measurement"* or apply hedge accounting policy of IFRS 9 *"Financial Instruments"* prospectively. The Group choses to apply hedge accounting policy of IFRS 9 *"Financial Instruments"* prospectively when applying IFRS 9 for the first time.

(F) Please refer to Notes 4, 5, 6 and 12 for the related disclosures required by IFRS 7 *"Financial Instruments: Disclosures"* and IFRS 9 *"Financial Instruments"*.

B. Prepayment Features with Negative Compensation – Amendments to IFRS 9 *"Financial Instruments"*

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income. The amendment has been issued by International Accounting Standards Board ("IASB") but not yet endorsed by FSC (the effective date issued by IASB is beginning on or after 1 January 2019). In accordance with the question and answer set issued on 12 December 2017 by the FSC, the Group elected to early apply the amendment on 1 January 2018 after considering that it was necessary.

The Group assessed that the application of this standard had no significant impact.

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C. The explanation related to the application of IFRS 15 *"Revenue from Contracts with Customers"* (including Amendments to IFRS 15 Clarifications to IFRS 15 *"Revenue from Contracts with Customers"*) is as follows:

IFRS 15 *"Revenue from Contracts with Customers"* supersedes IAS 11 *"Construction Contracts"*, IAS 18 *"Revenue"* and the related interpretations. The Group elected to recognize the cumulative effect of initially applying IFRS 15 *"Revenue from Contracts with Customers"* at the date of initial application (1 January 2018). The Group also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

In accordance with IFRS 15 *"Revenue from Contracts for Customers"*, the Group's assets on the initial application date (1 January 1 2018) increased by $16,619 thousand, liabilities increased by $4,874 thousand, retained earnings increased by $8,762 thousand and non-controlling interests increased by $2,983 thousand.

The Group assessed that the application of this standard had no material impact.

Please refer to Notes 4, 5 and 6 for the related disclosures required by IFRS 15 *"Revenue from Contracts for Customers"*.

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

Items	Newly issued revised or amended standards and interpretations	Effective date issued by IASB
A.	IFRS 16 *"Leases"*	1 January 2019
B.	IFRIC 23 *"Uncertainty Over Income Tax Treatments"*	1 January 2019
C.	IAS 28 *"Investment in Associates and Joint Ventures"* - Amendments to IAS 28	1 January 2019
D.	Improvements to International Financial Reporting Standards (2015-2017 cycle)	1 January 2019
E.	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019

A. IFRS 16 *"Leases"*

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease.

B. IFRIC 23 "*Uncertainty Over Income Tax Treatments*"

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 *"Income Taxes"* when there is uncertainty over income tax treatments.

C. IAS 28 *"Investment in Associates and Joint Ventures" — Amendments to IAS 28*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28.

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

IFRS 3 *"Business Combinations"*

The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business.

IFRS 11 *"Joint Arrangements"*

The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

IAS 12 *"Income Taxes"*

The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

IAS 23 *"Borrowing Costs"*

The amendments clarify that an entity should treats as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale.

E. *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset.

The abovementioned standards and interpretations issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after 1 January 2019. The Company and Subsidiaries are currently determining the potential impact of the standards and interpretations.

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(3) Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Group's financial statements are listed below.

Items	Newly issued revised or amended standards and interpretations	Effective date issued by IASB
A.	Amendments to IFRS 10 "*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	To be determined by IASB
B.	IFRS 17 *"Insurance Contracts"*	1 January 2021

A. Amendments to IFRS 10 *"Consolidated Financial Statements"* and IAS 28 *"Investments in Associates and Joint Ventures"* - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

The amendments address the inconsistency between the requirements in IFRS 10 *"Consolidated Financial Statements"* and IAS 28 *"Investments in Associates and Joint Ventures"*, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 *"Investments in Associates and Joint Ventures"* restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 *"Consolidated Financial Statements"* requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 *"Investments in Associates and Joint Ventures"* was amended so that the gains or losses resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

IFRS 10 *"Consolidated Financial Statements"* was also amended so that the gains or losses resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture. The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

B. IFRS 17 "*Insurance Contracts*"

IFRS 17 supersedes IFRS 4 and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued, reinsurance contracts held and investment contracts with discretionary participation features issued. IFRS 17 requires an entity to divide a portfolio of insurance contracts issued into a minimum of a group of contracts that are onerous at initial recognition, a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, and a group of the remaining contracts in the portfolio. An entity shall recognize a group of insurance contracts it issues from the earliest of the following: the beginning of the coverage period of the group of contracts, the date when the first payment from a policyholder in the group becomes due, and for a group of onerous contracts, when the group becomes onerous.

On initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

(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.

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.

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Group for the six-month periods ended 30 June 2018 and 2017 have been prepared in accordance with the *"Regulations Governing the Preparation of Financial Reports by Financial Holding Companies"*, the *"Regulations Governing the Preparation of Financial Reports by Securities Issuers"*, and IAS 34 *"Interim Financial Reporting"* as endorsed by FSC of the Republic of China.

(2) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments and investment properties that have been measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars ("NT$") unless otherwise stated.

(3) Basis of consolidation

Preparation principle of consolidated financial statement

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

A. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
B. exposure, or rights, to variable returns from its involvement with the investee, and
C. the ability to use its power over the investee to affect its returns

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

A. the contractual arrangement with the other vote holders of the investee
B. rights arising from other contractual arrangements
C. the Group's voting rights and potential voting rights

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

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.

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If the Group loses control of a subsidiary, it:

A. Derecognizes the assets (including goodwill) and liabilities of the subsidiary
B. Derecognizes the carrying amount of any non-controlling interest
C. Recognizes the fair value of the consideration received
D. Recognizes the fair value of any investment retained
E. Recognizes any surplus or deficit in profit or loss
F. Reclassifies the Company's share of components previously recognized in other comprehensive income to profit or loss

The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	2018.6.30	2017.12.31	2017.6.30	Notes
The Company	Cathay Life Insurance Co., Ltd. ("Cathay Life")	Life insurance	100.00	100.00	100.00	Cathay Life was incorporated in Taiwan on 23 October 1962, under the ROC Company Act (the "Company Act").
The Company	Cathay United Bank Co., Ltd. ("Cathay United Bank")	Commercial banking operations	100.00	100.00	100.00	UWCCB was enfranchised by the ROC government on 4 January 1975. On 27 October 2003, UWCCB was merged with the former Cathay United Bank which was dissolved after the merger; the merged entity was renamed Cathay United Bank. The new Cathay United Bank merged with Lucky Bank on 1 January 2007.
The Company	Cathay Century Insurance Co., Ltd. ("Cathay Century")	Property and casualty insurance	100.00	100.00	100.00	Cathay Century was incorporated in Taiwan on 19 July 1993, under the Company Act. Cathay Century changed its name from "Tong Tai Insurance Co., Ltd." to "Cathay Century Insurance Co., Ltd." on 2 August 2002.
The Company	Cathay Securities Corporation ("Cathay Securities")	Securities	100.00	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.

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Investor	Subsidiary	Business nature	2018.6.30	2017.12.31	2017.6.30	Notes
The Company	Cathay Venture Inc. ("Cathay Venture")	Venture capital investment	100.00	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	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	50.00	Cathay Lujiazui Life was incorporated on 29 December 2004. Cathay Life and Shanghai Lujiazui Finance Trade Zone Development Co., Ltd. each owns 50% interest in Cathay Lujiazui Life.
Cathay Life	Cathay Life Insurance (Vietnam) Co., Ltd. ("Cathay Life (Vietnam)")	Life insurance	100.00	100.00	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	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	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	100.00	Cathay Woolgate Exchange Holding 2 Limited was incorporated on 30 July 2014.
Cathay Life	Cathay Walbrook Holding 1 Limited	Real estate investment and management	100.00	100.00	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	100.00	Cathay Walbrook Holding 2 Limited was incorporated on 31 March 2015.
Cathay Life	Conning Holdings Limited	Holding company	100.00	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	100.00	Conning U.S. Holdings, Inc. was incorporated on 10 June 2015.
Conning	Conning Asset	Wealth	100.00	100.00	100.00	Conning Asset Management Ltd. was

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Investor	Subsidiary	Business nature	2018.6.30	2017.12.31	2017.6.30	Notes
Holdings Limited	Management Ltd.	Management				incorporated on 16 October 1998.
Conning Holdings Limited	Conning Japan Ltd.	Wealth Management	100.00	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	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	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	100.00	Conning Holdings Corp. was incorporated on 5 June 2009.
Conning Holdings Corp.	Conning & Company	Holding company	100.00	100.00	100.00	Conning & Company was incorporated on 10 July 1986.
Conning & Company	Conning Inc.	Wealth Management	100.00	100.00	100.00	Conning Inc. was incorporated on 25 March 2007.
Conning & Company	Goodwin Capital Advisors, Inc.	Wealth Management	100.00	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	100.00	Conning Investments Products, Inc. was incorporated on 13 February 2012.
Conning & Company	Octagon Credit Investors, LLC	Investment consulting services	81.89	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	100.00	Octagon Multi-Strategy Corporate Credit GP, LLC was incorporated on 26 November 2014.
Octagon Credit Investors, LLC	Octagon Funds GP LLC	Fund management services	100.00	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	100.00	Octagon Funds GP II LLC was incorporated on 26 November 2014.
Octagon	Octagon Funding I, LLC	Fund	100.00	100.00	100.00	Octagon Funding I, LLC was

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Investor	Subsidiary	Business nature	2018.6.30	2017.12.31	2017.6.30	Notes
Credit Investors, LLC		management services				incorporated on 17 January 2017.
Octagon Credit Investors, LLC	Octagon Funding II, LLC	Fund management services	100.00	100.00	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	100.00	-	Octagon Funding III, LLC was incorporated on 19 December 2017.
Cathy Century	Cathay Insurance (Vietnam) Co., Ltd. (“Cathay Century (Vietnam)”)	Property and casualty insurance	100.00	100.00	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	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	100.00	SBC Bank was incorporated in Cambodia on 25 July 1993 and renamed CUBC Bank on 14 January 2014.
Cathay Securities	Cathay Futures Co., Ltd. (“Cathay Futures”)	Futures related business	99.99	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	100.00	Cathay Securities (Hong Kong), formerly Horizon Securities (Hong Kong) Co., Ltd., was incorporated on 22 March 1997 and was renamed as Cathay Securities (Hong Kong) Co., Ltd. after the acquisition.
Cathay Securities Investment Trust	Cathay Private Equity Co., Ltd. (“Cathay Private Equity”)	Private equity	100.00	100.00	-	Cathay Private Equity was incorporated on 15 November 2017.

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The consolidated financial statements excluded the following subsidiaries as the respective total assets and operating revenues were considered immaterial to the Group.

Investor	Investee	Business	2018.6.30 Ownership interest	2017.12.31 Ownership interest	2017.6.30 Ownership interest	Notes
Cathay Life	Cathay Insurance (Bermuda) Co., Ltd. (Note 1) ("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	100.00	Cathay Securities Investment Consulting was incorporated on 25 November 2002.
Cathay United Bank	Seaward Card Co., Ltd. (Note 2) ("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	100.00	Cathy Investment Consulting (Shanghai) Co., Ltd. was incorporated on 11 June 2014.

Note 1: Cathay Insurance (Bermuda) Co., Ltd. has obtained the competent authorities' approval on 29 January 2018 that it is no longer a Class 3 general business insurer and Class C long-term insurer.

Note 2: Cathay United Bank sold Seaward Card Co., Ltd. to Symphox Information Co., Ltd, a related party, on 21 July 2017. Please refer to Note 6.(9) 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.

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. When the partial disposal involves the loss of control of a subsidiary that includes a foreign operation, and the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or joint arrangement that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(6) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid time deposits or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Group classifies time deposits as cash equivalents when they have maturities of less than 12 months and can be readily convertible to known amounts of cash and be subject to an insignificant risk of changes in value.

(7) The transaction of Repo notes and bonds

The transaction of notes and bonds with repurchase or reverse repurchase is recognized as liabilities of notes and bonds with repurchase agreement and investment of notes and bonds with reverse repurchase agreement according to the law of financing; the difference between book value and strike price is recognized as interest revenue or interest expense.

(8) Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities within the scope of IFRS 9 *"Financial Instruments"* (Before 1 January 2018: IAS 39 *"Financial Instruments: Recognition and Measurement"*) are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable to transaction costs.

A. Financial assets: Recognition and Measurement

The accounting policy from 1 January 2018 is as follows:

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

The Group classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

(A) the Group's business model for managing the financial assets and
(B) the contractual cash flow characteristics of the financial asset

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, trade receivables financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

(A) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows
(B) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

(A) purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition
(B) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods

Financial asset measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

(A) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
(B) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

(A) A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
(B) When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
(C) Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

a. Purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
b. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

In addition, for the equity instruments within the scope of application in IFRS 9 *"Financial Instruments"* but neither held for trading nor applicable to the contingent consideration recognized by the acquirer in IFRS 3 *"Business Combinations"*, an irrevocable election can be made at initial recognition to recognize subsequent changes in fair value in other comprehensive income. The amount recognized in other comprehensive income should not be subsequently transferred to profit or loss (the accumulated amount included in the other equity items should be transferred to retained earnings directly upon the disposal of such equity instruments), but should be presented as financial assets at fair value through other comprehensive income in the balance sheet. Dividends on investments are recognized in profit or loss unless the dividends clearly represent a recovery of part of the investment costs.

<u>Financial assets at fair value through profit or loss</u>

All financial assets are measured at fair value through profit or loss except that the aforementioned ones that meet specific criteria are measured at amortized cost or at fair value through other comprehensive income, and presented as financial assets at fair value through profit or loss in the balance sheet.

Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss.

In addition, to reduce the fluctuation in profit or loss due to applying IFRS 9 *"Financial Instruments"* earlier than IFRS 17 *"Insurance Contracts"*, the Company and Subsidiaries elected to remove profit or loss arising from changes in fair value in subsequent measurement and placed it in other comprehensive income based on overlay approach under IFRS 4 *"Insurance Contracts"*. Overlay approach is applied to financial assets if all of the following conditions are met:

(A) the financial assets are held in respect of activities related to IFRS 4 *"Insurance Contracts"*.
(B) the financial assets are measured at fair value through profit or loss applying IFRS 9 "*Financial Instruments"*, but would not have been measured at fair value through profit or loss in its entirely applying under IAS 39 *"Financial Instruments: Recognition and Measurement"*.
(C) the financial assets designated to apply overlay approach at initial recognition when an entity first applies IFRS 9 "*Financial Instruments"* or when a new financial asset is initially recognized or when a financial asset newly meets the criteria having previously not met.

The accounting policy before 1 January 2018 is as follows:

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

Financial assets of the Group are classified as financial assets at fair value through profit or loss, held-to-maturity investments, investments in debt securities with no active market, available-for-sale financial assets, derivative financial assets for hedging and loans and receivables. The Group determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

(A) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term.
(B) On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.
(C) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

(A) it eliminates or significantly reduces a measurement or recognition inconsistency; or
(B) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Group is provided internally on that basis to the key management personnel.

Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

If financial assets do not have quoted prices in an active market and their far value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

If equity instrument investments do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity, other than those that are designated as available-for-sale, classified as financial assets at fair value through profit or loss, or meet the definition of loans and receivables.

After initial measurement held-to-maturity financial assets are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or debt instrument investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Derivative financial assets for hedging

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

Investments in debt securities with no active market

Investment in debt securities with no active market are non-derivative financial assets with fixed or determinable collections that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized when these investments are derecognized or impaired, as well as through the amortization process.

B. Impairment of financial assets

The accounting policy from 1 January 2018 is as follows:

The Group recognizes a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and not reduce the carrying amount in the statement of financial position.

The Group measures expected credit losses of a financial instrument in a way that reflects:

(A) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
(B) the time value of money
(C) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions

The loss allowance is measured as follows:

(A) At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Group measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.
(B) At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
(C) For trade receivables or contract assets arising from transactions within the scope of IFRS 15 *"Revenue from Contracts with Customers"*, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Group needs to assess whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

The accounting policy before 1 January 2018 is as follows:

The Group assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

(A) significant financial difficulty of the issuer or counterparty
(B) a breach of contract, such as a default or delinquency in interest or principal payments
(C) it becoming probable that the debtor will enter bankruptcy or other financial reorganization
(D) the disappearance of an active market for that financial asset because of financial difficulties

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exits 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.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in Equity.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

C. Derecognition of financial assets

A financial asset is derecognized when:

(A) The rights to receive cash flows from the asset have expired
(B) The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred
(C) The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

D. Reclassification of financial assets

The accounting policies from 1 January 2018 are as follows:

Financial instruments of the Group are reclassified in accordance with IFRS 9 "*Financial Instruments*":

(A) When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets.
(B) An entity shall not reclassify any liability.

The accounting policies before 1 January 2018 are as follows:

In accordance with IAS 39 *"Financial Instruments: Recognition and Measurement"*:

(A) The Group shall not reclassify a derivative out of the fair value through profit or loss category while it is held or issued.
(B) The Group shall not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated by the Group as at fair value through profit or loss.
(C) The Group shall not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.
(D) If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and remeasured at fair value, and the difference between its carrying amount and fair value shall be recognized in other comprehensive income.
(E) If, during the current financial year or during the two preceding financial years, there have been sales or reclassification of more than an insignificant amount of held-to-maturity investments, any remaining held-to-maturity investments shall be reclassified as available for sale.

E. Financial liabilities and equity

Classification between liabilities or equity

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Compound instruments

The Group evaluates the terms of the convertible bonds issued to determine whether it contains both a liability and an equity component. Furthermore, the Group assesses if the economic characteristics and risks of the put and call options contained in the convertible bonds are closely related to the economic characteristics and risk of the host contract before separating the equity element.

For the liability component excluding the derivatives, its fair value is determined based on the rate of interest applied at that time by the market to instruments of comparable credit status. The liability component is classified as a financial liability measured at amortized cost before the instrument is converted or settled.

For the embedded derivative that is not closely related to the host contract (for example, if the exercise price of the embedded call or put option is not approximately equal on each exercise date to the amortized cost of the host debt instrument), it is classified as a liability component and subsequently measured at fair value through profit or loss unless it qualifies for an equity component. The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. Its carrying amount is not remeasured in the subsequent accounting periods. If the convertible bond issued does not have an equity component, it is accounted for as a hybrid instrument in accordance with the requirements under IFRS 9 *"Financial Instruments"* (before 1 January 2018: IAS 39 *"Financial Instruments: Recognition and Measurement"*).

Transaction costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized.

On conversion of a convertible bond before maturity, the carrying amount of the liability component being the amortized cost at the date of conversion is transferred to equity.

Financial liabilities

Financial liabilities within the scope of IFRS 9 *"Financial Instruments"* (before 1 January 2018: IAS 39 *"Financial Instruments: Recognition and Measurement"*) are classified as financial liabilities at fair value through profit or loss, derivative financial liabilities or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

(A) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
(B) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
(C) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

(A) it eliminates or significantly reduces a measurement or recognition inconsistency; or
(B) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

For financial liabilities designated as at fair value through profit and loss, the recognition of the full amount of change in the fair value in profit or loss only if the presentation of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Before 1 January 2018, if the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their far value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

F. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(9) Derivative instrument

The Group uses derivative instruments to hedge its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as financial assets or liabilities at fair value through profit or loss (held for trading) except for derivatives that are designated effective hedging instruments which are classified as derivative financial assets or liabilities for hedging.

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in equity.

Before 1 January 2018, derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are separated from the host contract and accounted for as a derivative. The aforementioned policy is applicable to host contracts as financial liabilities or non-financial assets on 1 January 2018.

(10) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

A. In the principal market for the asset or liability, or
B. In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(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.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 28 *"Investments in Associates and Joint Ventures"* (before 1 January 2018: IAS 39 *"Financial Instruments: Recognition and Measurement"*). If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 *"Impairment of Assets"*. In determining the value in use of the investment, the Group estimates:

A. Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment
B. The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal

Because goodwill that forms part of the carrying amount of an investment in an associate or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 *Impairment of Assets*.

Upon loss of significant influence over the associate or joint venture, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

(12) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 *Property, plant and equipment*. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings	5～70 years
Computer equipment	3～8 years
Transportation equipment	3～7 years
Other equipment	2～15 years
Leasehold improvements	The shorter of lease terms or economic useful lives
Leased assets	3～5 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

(13) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured using fair value model, with changes in the fair value under the fair value model being recognized in profit or loss according to the requirements of IAS 40, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Assets are transferred to or from investment properties when there is a change in use.

Properties are transferred to or from investment properties when the properties meet, or cease to meet, the definition of investment property and there is evidence of the change in use.

(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.

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).

(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

<u>Insurance liabilities</u>

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:

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.

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.

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.

(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 30 June 2018, the amount set aside was $15,350,053 thousand.

(J) Liability adequacy test

Liability adequacy test is based on integrated insurance contract and related regulations following "ASP of IFRS 4 - Contract classification and liability adequacy test". This test compares reserve for insurance contract net with deferred acquisition cost and related intangible assets and anticipated present value of insurance contract cash flow at each reporting date. If net book value is insufficient, recognize all insufficient amounts as expense and loss at that period is applicable.

B. Cathay Century

Insurance liabilities are set aside in accordance with "Regulations for the Management of the Various Reserves by Insurance Enterprises", "Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance", " Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance" and "Regulations for the Management of the Various Reserves for Nuclear energy insurance" , "Regulations for the Management of the Various Reserves for Commercial Earthquake and Typhoons Flood Insurance by Property and Casualty Insurance Enterprises" and "Precautions of strengthening disaster insurance of property insurance industry (commercial earthquake and typhoons flood insurance)".Also, the booked reserves shall be validated by the certified actuarial professionals approved by FSC.

(A) Unearned premium reserve

The reserve for unearned premiums represents the portion of premiums written related to the unexpired terms of coverage, which shall be set aside based on each unexpired underlying risk.

(B) Claims reserve

It is mainly for the unpaid claim reserve and incurred but not reported (IBNR) claim reserves, which is calculated and deposited based upon the past indemnity experiences and expenses occurred to meet the actuarial principle. The notified but unpaid claim reserve is assessed case by case as well as its relevant information obtained and deposited by each type of insurance.

(C) Special reserve

The special reserve is classified into two categories, "Special reserve for major incident" and "Special reserve for fluctuation of risks". For the special reserves set aside by the Company before 1 January 2011, they should be shown as a liability item on the balance sheet. Since 1 January 2011, the after-tax addressed amount of the special reserve should be placed in the special reserve under stock holder's equity. The recovery of special reserve can be charged against the special reserve under liabilities if sufficient. If the recovery amount exceeds the balance of the special reserve under liabilities, the after-tax excess amount can be recovered from the special reserve under stock holder's equity.

According to the "Precautions of Strengthening Natural Disaster Insurance Reserve of Property Insurance Industry (Commercial Earthquake and Typhoon Flood Insurance)", the industry that offers these insurance products shall, from 1 January 2013, set aside special reserve recognized under liability prior to 31 December 2012 for the Company's commercial earthquake insurance and typhoons flood insurance, excluding compulsory automobile liability insurance, nuclear energy insurance, government-directed housing earthquake insurance, commercial earthquake insurance and typhoons flood insurance. The decrease or withdrawal of special reserve for major incident and special reserve for fluctuation of risks of commercial earthquake insurance and typhoons flood insurance should follow the Precautions.

a. Special reserve for major incident

All types of insurance shall follow the special reserve for major incident rates set by the authorities.

Upon occurrence of catastrophic events, the actual retained claims in excess of $30,000 thousand individually and the aggregate payment of loss of the whole property and casualty insurers in excess of $2,000 million, the fund of the claims can be withdrawn from the special reserve.

If the reserve has been set aside for over 15 years, the Company could have its plan of recovering process of the reserve accessed by certified actuaries and submit the plan to the authority for reference.

b. Special reserve for fluctuation of risks

When the actual claim paid for each insurance product categories minus the offsetting amount from special reserve of major incidents is less than the anticipated loss, 15% of this difference shall be reserved in special reserve for fluctuation of risks.

When the actual claim paid for each insurance product categories minus the offsetting amount from special reserve of major incidents is greater than the anticipated loss, the excessive amount can be used for writing down the special reserve for fluctuation of risks. If the total amount of the special reserve is not enough to be written down, special reserve for fluctuation of risks of other insurance product categories can be used. Additionally, the type of insurance and total dollar amount written-down shall be reported to the authority for inspection purposes.

When accumulative dollar amount of the special reserve for fluctuation of risks exceeds 60% of its retained earned premium, the excess shall be recalled and recognized as income for the current year.

(D) Premiums deficiency reserve

If the probable claims and expenses of the unexpired insurance contracts are greater than the aggregate amount of unearned premium reserves and collectable premiums in the future, the premium deficiency reserve should be set aside based on the difference thereof.

(E) Liability reserve

The minimum liability reserve for health insurance that the insurance period is greater than one year is set aside using full preliminary term reserving method. However, the method of setting aside minimum liability reserve for health insurance with special nature shall be approved by the competent authority.

C. Cathay Lujiazui Life

In accordance with the Insurance Act of the People’s Republic of China, the insurance liabilities (including unearned premium reserves, claim reserves and life policy reserves) are required and are calculated based on the actuarial reports.

D. Cathay Life (Vietnam)

In accordance with the Insurance Act of Vietnam, the insurance liabilities (including unearned premium reserves, claim reserves and life policy reserves) are required and are calculated based on the actuarial reports.

Other provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

(18) Treasury stocks

Own equity instruments which are reacquired (treasury stocks) are recognized at cost and deducted from equity. Any difference between the carrying amount and the consideration is recognized in equity.

(19) Post-employment benefits

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries. Therefore fund assets are not included in the Group's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

Defined contribution plan

For the defined contribution plan, the Company and domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. The oversea 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.

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

Cathay Life and its subsidiaries

A. Cathay Life

For Cathay Life's insurance contracts and financial instruments with discretionary participation features, the initial and renewal premium are only recognized as revenue after completing collection and underwriting procedures, and completing subsequent session of collection, respectively. In terms of the acquisition cost such as commission expenses and brokerage expenses, the related expenses will be recognized in that period after commencement of the insurance contract.

For non-separate account insurance product that is also classified as financial products without discretionary participation features, the insurance revenue collected is recognized on the balance sheet as "reserves for insurance contract with feature of financial instruments".

For separate account insurance product that is also classified as financial products without discretionary participation features, the balance of insurance revenue collected less preprocess expense or investment management fee, etc., is fully recognized on the balance sheet as separate account product liabilities. In terms of the investment management related deferred acquisition costs such as commissions and incremental costs directly attributable to the issue of new type of contracts, the amount is recognized on the balance sheet as "deferred acquisition costs" and amortized on a straight-line basis over the service period. The amortization is recognized as an expense under "other operating costs".

B. Cathay Lujiazui Life

In accordance with "The General Accounting System for Insurance Companies" issued by local government, Cathay Lujiazui Life records direct premiums as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on an accrual basis.

C. Cathay Life (Vietnam)

In accordance with the local government's accounting guidance applicable to insurance companies, Cathay Life (Vietnam) records direct premiums as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on accrual basis.

Cathay United Bank and its subsidiaries

Interest income

Interest income is recognized over the period by applying the interest rate method and measured except for delinquent accounts and troubled accounts whose interest is recognized when received.

Handling fee revenue

The revenues from contracts between Cathay United Bank and its subsidiaries and customers mainly include the service fee and award credits and deferred income.

Cathay United Bank and its subsidiaries charge customers by providing a variety of services.

The award credits and deferred income represents the award credits granted to the credit card holders by Cathay United Bank and its subsidiaries. The accounting treatments are described respectively as follows:

The accounting treatments from 1 January 2018 are as follows:

Cathay United Bank and its subsidiaries earn service fee and award credits and deferred income from services provided at a specific time point or over a period of time or from transaction services provided, and recognizes them as revenue. A contract asset is recognized where it has transferred services to customers but has not yet obtained the right to receive the consideration unconditionally. While, in some cases, Cathay United Bank and its subsidiaries has received part of consideration from customers when signing contracts, Cathay United Bank and its subsidiaries shall bear the obligation to provide services subsquently, then contract liability is recognized.

Generally, the aforementioned contract liability of Cathay United Bank and its subsidiaries should be transferred into income within one year, so there is no significant financial component resulted.

The accounting treatments before 1 January 2018 are as follows:

Cathay United Bank and its subsidiaries earn service fee from services provided at a specific time point or over a period of time or from transaction services provided, and recognizes them as revenue. Award credits and deferred income is recognized as deferred income at its fair value. The related part of redeemed or expired award credits in deferred income are re-recognized as income when the award credits are redeemed or expired.

Cathay Century's and its subsidiaries

Direct premiums are recognized on the date when the policies became effective. Policy related expenses are recognized when incurred. Reinsurance premiums and reinsurance commission expenses are recognized upon the assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized upon notification that claim payments are due.

The reserve for unearned premiums represents the portion of premiums written related to the unexpired terms of coverage, which shall be set aside based on each unexpired underlying risk.

The amount of unearned premium reserve for compulsory automobile liability insurance is set aside pursuant to "Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance".

The amount of unearned premium reserve for the residential earthquake insurance is set aside pursuant to "Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance".

The amount of unearned premium reserve for the nuclear insurance is set aside pursuant to "Regulations for the Management of the Various Reserves for the Nuclear Insurance".

Calculation of unearned premium reserve is determined by actuaries based on characteristics of insurances and cannot be changed without the authority's approval unless otherwise regulated by law. The amount of unearned premium reserve should be audited by a certified actuary.

Taxes related to the insurance premium revenues are recognized pursuant to "Value-added and Non-value-added Business Tax Act" and "Stamp Tax Act" on an accrual basis.

Cathay Securities and its subsidiaries

The accounting treatments from 1 January 2018 are as follows:

Revenue from Contracts with Customers of Cathay Securities and its subsidiaries was mainly from rendering of services, and the accounting treatments are as follows:

The services provided by Cathay Securities its subsidiaries are mainly made from providing brokerage, underwriting and advisor services. The services that are stand-alone price or negotiated are provided based on time of services belonging to satisfy performance obligations at a point in time, therefore the revenue is recognized while satisfying performance obligations.

The accounting treatments before 1 January 2018 are as follows:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to Cathay Securities and its subsidiaries, and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

Revenue from services of Cathay Securities and its subsidiaries is recognized when rendering of service was most completed and the revenue was already realized or realizable. The major service revenues are brokerage fee revenue, underwriting fee revenue and future commission revenue.

Related interest income/expense on margin loans and short sales of securities and bonds purchased under resale agreements, bonds sold under repurchase agreements are recognized respectively over the loan period on an accrual basis.

Dividends income is recognized when Cathay Securities and its subsidiaries have right to receive the payment is established

(21) Share-based payment transactions

The cost of equity-settled share-based payment transactions between the Group and its employee is recognized based on the fair value of the equity instruments granted. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled share-based payment transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

The cost of restricted stocks issued is recognized as salary expense based on the fair value of the equity instruments on the grant date, together with a corresponding increase in other capital reserves in equity, over the vesting period. The Group recognized unearned employee salary which is a transitional contra equity account; the balance in the account will be recognized as salary expense over the passage of vesting period.

(22) Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

A. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
B. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

A. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
B. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The recognition and measurement of deferred tax follows annual financial reporting requirements in accordance with IAS 12 *Income Taxes*. The Company and Subsidiaries recognize the effect of change in tax rate for deferred taxes in full if the new tax rate is enacted by the end of the interim reporting period, by charging to profit or loss, other comprehensive income, or directly to equity.

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.

(23) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred, the identifiable assets acquired and liabilities assumed are measured at acquisition date fair value. For each business combination, the acquirer measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred and are classified under administrative expenses.

When the Group acquires business, it will assess the adequacy of classification and appointment of assets and liabilities according to the contract terms, the economic situation and other relevant factors. The evaluation includes whether to separate the embedded derivatives contained in the master contract.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

The transfer price of acquirer will be measured by fair value on the transaction date. After transaction date, the transfer price, classified as asset or liability, will be revaluated through profit or loss, or other comprehensive income, according to IFRS 9 *"Financial Instruments"* (before 1 January 2018: IAS 39 *"Financial Instruments: Recognition and Measurement"*). If the transaction price is classified as equity, it will not be remeasured until it is settled in equity.

The initial recognition of goodwill is the sum of transfer price and non-controlling interest, in excess of the fair value of identified assets and liabilities acquired by the Group. If the initial recognition is less than the fair value of net assets, the difference will be recognized through profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purpose and is not larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation. Goodwill disposed of in this circumstance is measured based on the relative recoverable amounts of the operation disposed of and the portion of the cash-generating unit retained.

(24) Earnings per share

Basic earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding plus dilutive potential ordinary shares during the year. The employees' bonuses are regarded as potential common stock. If the potential common stock has dilutive effect, both basic earnings per share and diluted earnings per share are presented; otherwise, only basic earnings per share is disclosed.

5. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(1) Judgment

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

A. The classification of financial assets

The management must make judgment for the classification of financial assets which would affect the method of accounting, the financial position of the Company and the outcome of operation.

B. Investment properties

Certain properties of the Group comprise a portion that is held to earn rentals or for capital appreciation and another portion that is owner-occupied. If these portions could be sold separately, the Group accounts for the portions separately as investment properties and property, plant and equipment. If the portions could not be sold separately, the property is classified as investment property in its entirety only if the portion that is owner-occupied is under 5% of the total property.

C. Operating lease commitment－Group as the lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, retaining all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

D. The significant degree of risk transform measured by the risk ratio of Cathay Century's insurance policy

The risk ratio of insurance policy＝(amount to insurance company's payment when insurance accident occur/amount to insurance company's payment when insurance accident do not occur－1)×100%

The insurance policies which meet one of the following conditions are defined as insurance contracts:

(A) The insurance period is greater than or equal to 5 years, and at least 5 more policy year meet insurance risk ratio is greater than 10% (or 5%);
(B) The insurance period is less than 5 years, and more than half of the policy year meet insurance risk ratio is greater than 10% (or 5%).

According to the calculation formula of insurance risk ratio, insurance policies often obviously satisfy the conditions of significant risk transfer. Therefore insurers do not have to calculate the risk ratio and can define property insurance policy as insurance contracts.

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＝(Σ PV amount to assumed re-insurer occur net loss × the ratio of occurrence / PV of premium that assumed re-insurer expected) × 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 loss estimation on debt instruments investments

The accounting treatments from 1 January 2018 are as follows:

Estimation of the impairment loss on debt instrument investments is measured at the amount of expected credit losses. The present value of the difference between the contractual cash flows that are due to an entity in accordance with the contract (carrying amount) and the cash flows that the entity expects to receive (after considering the forward-looking information) is recognized as credit losses. The Group takes the historic experience, current market conditions and forward-looking information into consideration, and thus, make assumptions on the default rate and expected loss ratio and select the impairment assessment inputs. If actual future cash flows are less than expected, material impairment loss may occur.

The accounting treatments before 1 January 2018 are as follows:

When there are objective evidences identified showing impairment indicators, the Group takes the estimation of future cash flows into consideration. The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses which have not been incurred) discounted at the financial asset's original effective interest rate. If actual future cash flows are less than expected, material impairment loss may occur.

B. Fair value of financial instruments

Where the fair value of financial instruments cannot be derived from an active market or a quoted price, it is determined using a valuation technique. Observable market data for similar financial instruments is utilized as inputs to measure fair value. If observable inputs are not available, prudent assumptions are used for estimating fair value. In applying valuation techniques, the Group adopts pricing models in accordance with its procedure for valuation. All models are adjusted to ensure that their results reflect actual data and market prices.

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.

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

Cathay Life

The liability for insurance contracts and investment contracts with discretionary participation feature of financial instruments is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time. All contracts are subject to a liability adequacy test, which reflects management's best current estimate of future cash flows. The main assumptions used relate to mortality, morbidity, investment returns, expenses and surrender rates. Cathay Life bases its assumptions on the standards published by the Actuarial Institute of the Republic of China, adjusted when appropriate to reflect Cathay Life's unique risk exposure, product characteristics and own experiences from target markets.

Best estimates of future investment income from the assets backing such contracts are based on current market returns, as well as expectations about future economic developments. Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation, if appropriate. Surrender rates are based on Cathay Life's historical experience.

Cathay Century's and its subsidiaries

Insurance contract liabilities are based on assumptions of current period or the assumptions established in contract to reflect the best estimate at that time. All contracts were through liability adequacy tests do holistic assessment and assumptions to reflect the current period best estimate of cash flows in the future. The main assumptions are expected ultimate loss ratio, the maintaining cost ratio, persistency rates, discount ratio and reimbursement ratio.

G. Award credits and deferred income

The accounting policy after 1 January 2018 is as follows:

As to customer loyalty program, Cathay United Bank recognizes the fair values of all the related consideration received and receivable, and also evaluates the cost and the liabilities that might derive from bonus points and other consideration. The income that is derived from points would be deferred and recognized as contract liabilities. It would be recognized as income only when the obligation of Cathay United Bank is performed. During the period when the points issued are still valid, there is major uncertainty concerning this evaluation.

The accounting policy before 1 January 2018 is as follows:

Cathay United Bank recognizes the fair value of all considerations received or receivable as revenue at the time of sale, and estimates the cost and related liabilities resulting from the awards given. The consideration allocated to the award credits should be deferred and only recognized as revenue when award credits are redeemed and Cathay United Bank fulfils its obligations to supply awards. As points issued under the program do not expire, such estimates are subject to significant uncertainty.

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 counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company’s domicile.

Deferred tax assets are recognized for all carry forward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

6. Contents of significant accounts

(1) Cash and cash equivalents

	2018.6.30	2017.12.31	2017.6.30
Petty cash and cash on hand	$18,586,361	$18,322,143	$16,135,579
Cash in banks	95,403,158	98,762,675	91,417,129
Time deposits	77,494,302	74,298,091	176,726,106
Cash equivalents	22,656,795	6,119,932	31,460,953
Checks for clearance	8,188,053	7,025,587	3,207,665
Due from commercial banks	87,335,745	40,826,340	35,881,765
Less: allowance for doubtful accounts	(8,519)	(Note)	(Note)
Total	$309,655,895	$245,354,768	$354,829,197

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Time deposits include deposits that have maturities of 12 months from the date of acquisition and can be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value.

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

	2018.6.30	2017.12.31 (Note)	2017.6.30 (Note)
Mandatorily measured at fair value through profit or loss:			
Common stock	$687,367,571		
Funds and beneficiary certificates	290,583,450		
Government bonds	24,518,051		
Corporate bonds	16,309,283		
Financial debentures	58,039,283		
Overseas debentures	141,723,037		
Short-term notes	135,237,364		
Margin for futures trading-own funds	838,062		
Derivative financial instruments	68,809,935		
Total	$1,423,426,036		

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2018.6.30 (Note)	2017.12.31	2017.6.30
Designated financial assets at fair value through profit or loss at initial recognition:			
Beneficiary certificates		$155,197	$155,933
Overseas stocks		84,171	-
Subtotal		239,368	155,933
Held for trading:			
Common stock		17,846,019	12,794,718
Funds and beneficiary certificates		17,703,649	27,713,121
Government bonds		39,912,927	32,483,513
Corporate bonds		32,125,221	26,343,038
Financial debentures		37,411,528	30,068,314
Overseas debentures		98,240	332,724
Structured time deposits		-	2,275,184
Short-term notes		170,563,632	98,828,537
Margin for futures trading-own funds		538,593	695,582
Derivative financial instruments		49,368,981	46,326,025
Subtotal		365,568,790	277,860,756
Total		$365,808,158	$278,016,689

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

A. At the same time, the Group chose to express profit or loss of the designated financial assets in overlay approach under IFRS 4 *"Insurance Contracts"* on its application of IFRS 9 on 1 January 2018. Financial assets designated to apply overlay approach by the Group for investment activities relating to insurance contracts issued by the Group are as follows:

	2018.6.30
Mandatorily measured at fair value through profit or loss	
Common stock	$675,011,556
Funds and beneficiary certificates	254,807,025
Financial debentures	17,806,280
Overseas debentures	138,619,826
Total	$1,086,244,687

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Reclassification from profit or loss to other comprehensive income of the financial assets designated to apply overlay approach for the six-month period ended 30 June 2018 is addressed below:

	107.4.1~107.6.30	107.1.1~107.6.30
Gains due to applying IFRS 9 to profit or loss	$11,867,903	$14,922,503
Less: Gains if applying IAS 39 to profit or loss	(22,068,861)	(51,309,778)
Gains from reclassification due to the application of overlay approach	$(10,200,958)	$(36,387,275)

Loss from financial assets at fair value through profit or loss was $72,558,295 thousand for the three-month period ended 30 June 2018; gains from reclassification due to the application of overlay approach was $10,200,958 thousand for the three-month period ended 30 June 2018. Loss from financial assets at fair value through profit or loss was $40,787,307 thousand for the six-month period ended 30 June 2018; gains from reclassification due to the application of overlay approach was $36,387,275 thousand for the six-month period ended 30 June 2018.

B. As of 30 June 2018, 31 December 2017 and 30 June 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 $39,684,172 thousand, $46,143,100 thousand, and $15,146,894 thousand, respectively. Such repurchase agreements amounting to $37,144,456 thousand, $43,634,657 thousand and $14,557,812 thousand, were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements are settled at $37,275,325 thousand, $43,732,175 thousand and $14,576,335 thousand, prior to 30 September 2018, 28 February 2018, and 31 July 2017, respectively.

C. As of 30 June 2018, 31 December 2017 and 30 June 2017, Cathay Securities and its subsidiaries sold certain financial assets at fair value through profit or loss under repurchase agreements with notional amounts of $3,200,000 thousand, $2,700,000 thousand, and $3,000,000 thousand, respectively.

D. Please refer to Note 8 for related information on the above financial assets at fair value through profit or loss being pledged as collaterals as of 30 June 2018, 31 December 2017 and 30 June 2017.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(3) Available-for-sale financial assets

	2018.6.30 (Note)	2017.12.31	2017.6.30
Common stock		$714,122,499	$627,957,657
Beneficiary certificates		351,825,972	301,171,278
Funds and beneficiary Securities		541,355	214,879
Real Estate Investment Trust		12,136,777	12,485,466
Government bonds		164,531,144	170,021,121
Corporate bonds		43,332,216	48,593,540
Financial debentures		105,872,531	110,217,960
Asset-backed securities		581,533	693,199
Overseas debentures		289,856,391	261,128,170
Subtotal		1,682,800,418	1,532,483,270
Less: Litigation deposits		(57,075)	(64,071)
Less: Securities serving as deposits paid-bonds		(1,617,605)	(1,568,863)
Total		$1,681,125,738	$1,530,850,336

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

A. As of 31 December 2017 and 30 June 2017, 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 $25,707,485 thousand, respectively. Such repurchase agreements amounting to $29,338,529 thousand and $25,110,943 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 $25,131,403 thousand, as of 30 June 2018 and 30 September 2017 respectively.
B. Cathay Life and its subsidiaries adopted IAS 39 for impairment assessment before 1 January 2018. An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with domestic stocks and beneficiary certificates held by Cathay Life and its Subsidiaries. As of 31 December 2017 and 30 June 2017, Cathay Life and its subsidiaries have recognized impairment losses amounting to $185,987 thousand and $185,998 thousand, respectively.
C. Cathay United Bank and its subsidiaries adopted IAS 39 for impairment assessment before 1 January 2018. An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with certain available-for-sale financial assets held by Cathay United Bank and its subsidiaries. As of 31 December 2017 and 30 June 2017, Cathay United Bank and its subsidiaries have recognized impairment losses amounting to $146,379 thousand respectively.
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 30 June 2017.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(4) Financial assets at fair value through other comprehensive income

	2018.6.30	2017.12.31 (Note)	2017.6.30 (Note)
Equity instrument investments at fair value through other comprehensive income			
Common stock	$58,780,887		
Debt instrument investments at fair value through other comprehensive income			
Government bonds	183,174,734		
Corporate bonds	37,916,619		
Financial debentures	73,722,227		
Asset-backed securities	2,714,099		
Overseas debentures	797,406,582		
Subtotal	1,094,934,261		
Less: Litigation deposits	(83,628)		
Less: Securities serving as deposits	(2,102,711)		
Less: Derivative instruments collateral	(2,054,148)		
Total	$1,149,474,661		

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

A. Some of the investments in equity instruments held by the Group are not held for trading, and thus were designated as financial assets at fair value through other comprehensive income.

B. For equity instrument investments measured at fair value through other comprehensive income, the Group recognized dividends in the amount of $545,738 thousand for the three-months ended 30 June 2018, of which $409,668 thousand related to investments held at the end of the reporting period and the remaining amount related to investments derecognized during the reporting period. The Group recognized dividends in the amount of $590,536 thousand for the six-months ended 30 June 2018, of which $427,638 thousand related to investments held at the end of the reporting period and the remaining amount related to investments derecognized during the reporting period.

In consideration of the Group’s investment strategy, the Group disposed the investments which were reported under equity instrument investments measured at fair value through other comprehensive income during the period. Upon derecognition, the fair value of the investments was $15,888,886 thousand, and transferred the cumulative disposal gain or loss of $1,779,359 thousand from other components of equity to retained earnings for the three-month period ended 30 June 2018. The fair value of the investments was $36,183,005 thousand, and transferred the cumulative disposal gain or loss of $5,862,293 thousand from other components of equity to retained earnings for the six-month period ended 30 June 2018.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

C. As of 30 June 2018, Cathay United Bank and its subsidiaries sold certain financial assets at fair value through other comprehensive income under repurchase agreements with notional amounts of $51,789,440 thousand. Such repurchase agreements amounting to $45,367,142 thousand was recorded in the account "Securities sold under agreements to repurchase" on the balance sheets. Repurchase agreements were settled at $45,519,701 thousand, as of 30 September 2018.

D. As of 30 June 2018, Cathay Securities and its subsidiaries sold certain financial assets at fair value through other comprehensive income under repurchase agreements with notional amounts of $3,200,000 thousand.

E. Please refer to Note 8 for related information on the above financial assets at fair value through other comprehensive income pledged as collaterals as of and 30 June 2018.

F. Please refer to Note 12.(7) for more details on loss allowance and credit risk of the debt instrument investments at fair value through other comprehensive income.

(5) Financial assets measured at amortized cost

	2018.6.30	2017.12.31 (Note1)	2017.6.30 (Note1)
Time deposits	$365,488		
Beneficiary certificates	1,579,802		
Government bonds	53,459,427		
Corporate bonds	36,457,581		
Financial debentures	75,966,510		
Overseas debentures	2,034,482,622		
Asset-backed securities	42,035,793		
Short-term notes	272,032,299		
Subtotal	2,516,379,522		
Less: Litigation deposits	(1,346,470)		
Less: Securities serving as deposits	(7,033,263)		
Less: Derivative instruments collateral	(10,168,313)		
Less: Loss allowance (Note 2)	(1,667,159)		
Total	$2,496,164,317		

Note 1: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Note 2: Loss allowance for guarantee deposits paid in bonds amounting to $1,383 thousand is not included.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

A. As of 30 June 2018, Cathay United Bank and its subsidiaries sold certain available-for-sale financial assets under repurchase agreements with notional amounts of $28,943,681 thousand. Such repurchase agreements amounting to $19,282,820 thousand was recorded in the account "Securities sold under agreements to repurchase" on the balance sheets. Repurchase agreements was settled at $19,389,074 thousand as of 31 October 2018.

B. The Group early disposed of bonds and losses on the disposal amounting to $58,690 thousand were incurred due to the increase in credit risk for the three-month period ended 30 June 2018; bonds early disposed of because more than an infrequent number of such sales were made out of a portfolio and those sales were more than insignificant in value (either individually or in aggregate) resulted in gains on disposal amounting to $1,007,948 thousand; bonds disposed of stemming from repayments due or other situations resulted in loss on disposal amounting to $52,850 thousand. The Group early disposed of bonds and losses on the disposal amounting to $68,136 thousand were incurred due to the increase in credit risk for the six-month period ended 30 June 2018; bonds early disposed of because more than an infrequent number of such sales were made out of a portfolio and those sales were more than insignificant in value (either individually or in aggregate) resulted in gains on disposal amounting to $3,021,690 thousand; bonds disposed of stemming from repayments due or other situations resulted in loss on disposal amounting to $13,275 thousand.

C. Please refer to Note 8 for related information on the above financial assets measured at amortized cost pledged as collaterals as of and 30 June 2018.

D. Please refer to Note 12. (7) For more details on loss allowance and credit risk of the financial assets measured at amortized cost.

(6) Receivable – net

	2018.6.30	2017.12.31	2017.6.30
Notes receivable	$665,879	$755,878	$1,464,222
Accounts receivable	81,486,328	72,261,539	75,193,732
Interest receivable	46,560,254	49,248,421	49,299,527
Acceptances	1,231,842	785,112	1,137,155
Factoring receivable	4,317,351	2,248,622	1,721,235
Others	57,211,616	46,544,711	37,411,252
Total	191,473,270	171,844,283	166,227,123
Adjustment for discounts and premiums	(9,894)	(10,301)	(13,166)
Less: Allowance for bad debts	(2,243,049)	(2,631,722)	(2,933,623)
Net amount	$189,220,327	$169,202,260	$163,280,334

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

A. the Group adopted IFRS 9 to assess impairments on 1 January 2018. The information on bad and doubtful accounts from 1 January 2018 to 30 June 2018 is as follows:

	Stage 1	Stage 2		Stage 3		Subtotal		
	12-month expected credit losses	Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)	Lifetime expected credit losses (Not purchased or originated credit-impaired financial asset)	Lifetime expected credit losses (Purchased or originated credit-impaired financial assets)	Impairment charged in accordance with IFRS 9	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	Total
Beginning balance	$78,157	$63,923	$-	$2,106,749	$-	$2,248,829	$14,830	$2,263,659
Changes due to financial instruments recognized as at 1 January								
Transfer to lifetime expected credit losses	(2,127)	76,037	-	(2,867)	-	71,043	-	71,043
Transfer to credit-impaired financial assets	(434)	(1,038)	-	62,720	-	61,248	-	61,248
Transfer to 12-month expected credit losses	1,534	(19,961)	-	(3,163)	-	(21,590)	-	(21,590)
Financial assets that have been derecognized during the period	(45,585)	(31,059)	-	(405,744)	-	(482,388)	-	(482,388)
New financial assets originated or purchased	75,007	28,012	-	128,844	-	231,863	-	231,863
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	-	22,474	22,474
Bad Loans Write-offs	-	-	-	(215,081)	-	(215,081)	-	(215,081)
Foreign exchange and other movements	22,124	(17,058)	-	56,029	-	61,095	(491)	60,604
Ending balance	$128,676	$98,856	$-	$1,727,487	$-	$1,955,019	$36,813	$1,991,832

In addition, the Group measures the loss allowance of certain receivables based upon simplified approach. The information on bad and doubtful accounts from 1 January 2018 to 30 June 2018 is as follows:

	2018.1.1~ 2018.6.30
Balance, beginning of the period (under IAS 39)	$200,258
Adjustment of beginning retained earnings balance	264
Balance, beginning of the period (under IFRS 39)	200,522
Change for the current period	56,324
Write off	(5,629)
Balance, end of the period	$251,217

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

B. Information on bad and doubtful accounts from 1 January 2017 to 30 June 2017 is as follows:

	2017.1.1~ 2017.6.30
Balance, beginning of the period	$3,932,424
Provision of doubtful accounts	23,013
Write-offs	(1,065,576)
Debt counseling recoveries	56,299
Recoveries	221,858
Reclassification	(56,406)
Effect of exchange rates change	(177,989)
Balance, end of the period	$2,933,623

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

Items		Accounts Receivable	
		2017.12.31	2017.6.30
Objective evidence of impairment exists individually	Individual assessment of impairment	$756,846	$767,744
	Collective assessment of impairment	191,529	198,501
Objective evidence of impairment does not exist individually	Collective assessment of impairment	170,895,908	165,260,878

Items		Allowance for doubtful account	
		2017.12.31	2017.6.30
Objective evidence of impairment exists individually	Individual assessment of impairment	$144,573	$66,747
	Collective assessment of impairment	137,996	144,183
Objective evidence of impairment does not exist individually	Collective assessment of impairment	2,349,153	2,722,693

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

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(7) Loans - net

	2018.6.30	2017.12.31	2017.6.30
Inward-outward documentary bills	$1,843,311	$1,339,549	$1,387,660
Loans	2,141,410,257	2,060,873,608	2,040,331,118
Overdrafts	2,763,854	2,191,344	2,861,394
Delinquent accounts	3,984,471	3,126,604	2,680,189
Total	2,150,001,893	2,067,531,105	2,047,260,361
Adjustment for discounts and premiums	305,903	389,580	471,779
Less: Allowance for bad debts	(30,657,887)	(29,392,495)	(27,687,709)
Net amount	$2,119,649,909	$2,038,528,190	$2,020,044,431

A. The Group adopted IFRS 9 to assess impairments on 1 January 2018. The information on bad and doubtful accounts from 1 January 2018 to 30 June 2018 is as follow:

	Stage 1	Stage 2		Stage 3		Subtotal		
	12-month expected credit losses	Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)	Lifetime expected credit losses (Not purchased or originated credit-impaired financial asset)	Lifetime expected credit losses (Purchased or originated credit-impaired financial assets)	Impairment charged in accordance with IFRS 9	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	Total
Beginning balance	$3,833,569	$1,037,720	$-	$5,291,811	$-	$10,163,100	$19,229,395	$29,392,495
Changes due to financial instruments recognized as at 1 January								
Transfer to lifetime expected credit losses	(104,973)	1,001,480	155	(18,506)	-	878,156	-	878,156
Transfer to credit-impaired financial assets	(4,477)	(17,764)	(27,669)	742,959	-	693,049	-	693,049
Transfer to 12-month expected credit losses	150,272	(422,588)	(8)	(67,098)	-	(339,422)	-	(339,422)
Financial assets that have been derecognized during the period	(714,840)	(109,136)	(8)	(126,290)	-	(950,274)	-	(950,274)
New financial assets originated or purchased	1,263,333	133,523	1	277,498	-	1,674,355	-	1,674,355
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	-	213,715	213,715
Bad Loans Write-offs	-	-	-	(556,070)	-	(556,070)	-	(556,070)
Foreign exchange and other movements	(36,379)	(7,268)	27,690	(347,930)	-	(363,887)	15,770	(348,117)
Ending balance	$4,386,505	$1,615,967	$161	$5,196,374	$-	$11,199,007	$19,458,880	$30,657,887

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

B. Information on bad and doubtful accounts from 1 January 2017 to 30 June 2017 is as follows:

	2017.1.1~ 2017.6.30
Balance, beginning of the period	$25,985,968
Provision of doubtful accounts	1,317,165
Write-offs	(257,003)
Debt counseling recoveries	52,196
Recoveries	678,926
Reclassification	56,406
Effect of exchange rates change	(145,949)
Balance, end of the period	$27,687,709

C. Assessment for loans are showed as followed:

Items		Total loans	
		2017.12.31	2017.6.30
Objective evidence of impairment exists individually	Individual assessment of impairment	$11,445,983	$9,975,872
	Collective assessment of impairment	11,050,334	11,448,739
Objective evidence of impairment does not exist individually	Collective assessment of impairment	$2,045,034,788	$2,025,835,750

Items		Allowance for bad debts	
		2017.12.31	2017.6.30
Objective evidence of impairment exists individually	Individual assessment of impairment	$3,300,196	$2,416,928
	Collective assessment of impairment	2,039,718	2,170,832
Objective evidence of impairment does not exist individually	Collective assessment of impairment	24,052,581	23,099,949

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

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(8) Held-to-maturity financial assets

	2018.6.30 (Note)	2017.12.31	2017.6.30
Government bonds		$48,098,511	$44,328,507
Corporate bonds		7,465,184	10,831,267
Financial debentures		12,588,995	15,002,710
Asset-backed securities		9,843,981	10,803,844
Overseas debentures		24,087,773	10,650,098
Short-term notes		5,221,668	7,726,583
Subtotal		107,306,112	99,343,009
Less: Court security deposit		(1,376,984)	(1,348,512)
Less: Securities serving as deposits paid-bonds		(7,170,018)	(7,169,144)
Less: Collateral		-	(351,353)
Total		$98,759,110	$90,474,000

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

A. As of 31 December 2017 and 30 June 2017, 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 $36,818,986 thousand, respectively. Such repurchase agreements amounting to $23,242,069 thousand and $27,287,415 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 $27,345,906 thousand as of 31 March 2018 and 31 July 2017, respectively.

B. Cathay Life and its subsidiaries adopted IAS 39 for impairment assessment before 1 January 2018. Cathay Life and its subsidiaries recognized impairment as there was objective evidence that the overseas debentures held by Cathay Life and its subsidiaries were showing signs of impairment. As of 31 December 2017 and 30 June 2017 Cathay Life and its subsidiaries recognized impairment losses amounting to $15,932 thousand and $20,901 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 30 June 2017, being pledged as collaterals.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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

	2018.6.30		2017.12.31		2017.6.30	
Investee	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Investments in subsidiaries exclude from consolidated:						
Cathay Securities Investment Consulting	$220,598	100.00	$257,159	100.00	$204,846	100.00
Seaward Card	-	-	-	-	38,904	100.00
Cathay Insurance (Bermuda)	-	-	121,671	100.00	127,990	100.00
Cathy Investment Consulting (Shanghai) Co., Ltd.	10,232	100.00	11,020	100.00	11,472	100.00
Subtotal	230,830		389,850		383,212	
Investments in associates:						
WK Technology Fund VI Co., Ltd	81,062	21.43	81,873	21.43	149,178	21.43
Taiwan Real-estate Management Corp.	101,372	30.15	101,936	30.15	98,570	30.15
Taiwan Finance Corp.	1,612,006	24.57	1,642,111	24.57	1,637,367	24.57
Tien-Tai Management Consulting Co., Ltd.	1,602	28.20	2,382	28.20	-	30.00
CDBS Cathay Asset Management Co., Ltd	504,842	33.30	513,502	33.30	249,207	33.30
Syphon Information Co., Ltd.	410,298	49.12	438,807	49.12	417,437	49.12
Da Sheng Venture Inc.	1,598,886	25.00	1,514,974	25.00	1,396,179	25.00
KHL IV Venture Capital Co., Ltd.	783,889	21.43	756,353	21.43	732,128	21.43
Dun-Yang Energy Corp.	46,440	32.20	44,668	32.20	48,286	32.20
Yong-Chang Energy Corp.	48,038	32.32	46,790	32.32	48,380	32.32
RI-Zhao Energy Corp.	51,305	32.32	49,160	32.32	50,205	32.32
Tien-Tai Optronics Corporation (Note)	139,028	33.64	132,945	33.64	133,590	33.02
Nan-Gang International 1 Corp.	675,798	45.00	675,812	45.00	675,353	45.00
Nan-Gang International 2 Corp.	675,042	45.00	675,232	45.00	674,880	45.00
CM Engery Co., Ltd.	274,828	45.00	272,256	45.00	54,362	45.00
Rizal Commercial Banking Corporation	15,403,967	23.35	13,749,705	23.35	13,106,015	22.71
PT Bank Mayapada Internasional Tbk	12,964,197	40.00	12,447,700	40.00	11,522,441	40.00
Hsin Jih Tai Corporation	683,264	45.00	673,599	45.00	671,271	45.00
Cathay Century (China)	2,418,138	49.00	2,469,714	49.00	2,652,467	49.00
Cathay Sunrise Corporation	686,270	45.00	676,284	45.00	675,923	45.00
Ding Teng Co., Ltd.	759,127	27.36	-	-	-	-
Global Evolution Holding ApS	2,679,234	45.00	-	-	-	-
Subtotal	42,598,633		36,965,803		34,993,239	
Total	$42,829,463		$37,355,653		$35,376,451	

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

The Group's investments in the associates were not significant. As of 30 June 2018, 31 December 2017 and 30 June 2017, the carrying amount of investments in associates accounted for using the equity method amounted to $42,598,633 thousand, $36,965,803 thousand and $34,993,239 thousand. The aggregate financial information of the Group's investments in the associates is as follows:

	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Profit or loss from continuing operations	$438,953	$193,817	$476,893	$636,227
Other comprehensive income (post-tax)	218,147	3,465	(744,531)	(1,109,187)
Total comprehensive income	$657,100	$197,282	$(267,638)	$(472,960)

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 $362,478 thousand and $199,844 thousand for the three-month periods ended 30 June 2018 and 2017, respectively. The share of the profits (losses) of these associates accounted for using the equity method in investees whose financial statements were unaudited amounted to $220,178 thousand and $(68,354) thousand for the three-month periods ended 30 June 2018 and 2017, respectively. The share of the profits (losses) of these associates accounted for using the equity method in investees whose financial statements were unaudited amounted to $448,212 thousand and $621,033 thousand for the six-month periods ended 30 June 2018 and 2017, respectively. The share of the other comprehensive (losses) income of these associates accounted for using the equity method amounted to $(747,297) thousand and $(1,113,744) thousand for six-month periods ended 30 June 2018 and 2017, respectively. The remaining balance of related investment amounted to $39,835,645 thousand and $29,572,892 thousand as of 30 June 2018 and 30 June 2017, respectively.

B. No investment in the associates was pledged.

On 29 June 2017, Cathay United Bank sold the shares of Seaward Card Co., Ltd. to Symphox Information Co., Ltd. as approved by the board of director. The board of Cathay United Bank authorized the chairman of the board to deal with the follow-up issues.

Cathay United Bank sold the shares of Seaward Card Co., Ltd. in the amount of $46,800 thousand, at $15.6 per share. The related gain on sale of investments amounted to $7,755 thousand on 21 July 2017.

Cathy Investment Consulting (Shanghai) Co., Ltd., an investee of Cathay Securities, has been making small contribution to its business and finance in the past three years. After considering that the chances of establishing a joint-venture full-licnese securities firm were very low, the directors of Cathay Securities resolved at its board meeting to dissolve Cathy Investment Consulting (Shanghai) Co., Ltd.

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(10) Other financial assets

	2018.6.30	2017.12.31	2017.6.30
Separate account product assets	$573,713,591	$555,269,179	$533,049,233
Structured time deposits	3,500,000	4,500,000	4,500,000
Financial assets carried at cost	(Note)	13,986	5,745
Investments in debt securities with no active market	(Note)	2,783,306,758	2,599,427,914
Other miscellaneous financial assets	6,235,415	4,817,378	3,904,518
Less: Loss allowance	(2,231)	(Note)	(Note)
Total	$583,446,775	$3,347,907,301	$3,140,887,410

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Please refer to Note 12.(7) for more details on loss allowance and credit risk of the other financial assets.

Investments in debt securities with no active market

	2018.6.30(Note)	2017.12.31	2017.6.30
Common stocks		$1,898,721	$2,193,780
Government bonds		82,687	54,759
Corporate bonds		19,727,333	18,733,530
Financial debentures		73,380,080	77,314,901
Structured debentures		2,984,800	3,043,600
Asset-backed securities		27,141,758	32,223,845
Overseas debentures		2,337,169,955	2,144,022,126
Time deposit		318,956,977	319,012,142
Beneficial right of real estate		-	300,000
Beneficiary Securities		1,964,447	2,529,231
Total		$2,783,306,758	$2,599,427,914

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

A. The Group adopted IAS 39 before 1 January 2018. An impairment provision is recognized as some objective evidences were identified showing impairment indications associated with overseas debentures held by Cathay Life and its subsidiaries. As of 31 December 2017 and 30 June 2017, Cathay Life and its subsidiaries recognized impairment losses amounting to $388,024 thousand and $395,668 thousand, respectively.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

B. The Group adopted IAS 39 before 1 January 2018. 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 $394,598 thousand as of 31 December 2017 and 30 June 2017, 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 30 June 2017, respectively, due to the default on the convertible bonds.

C. As of 31 December 2017 and 30 June 2017, 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 $8,826,463 thousand, respectively. Such repurchase agreements amounting to $13,726,170 thousand and $4,345,799 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 $4,356,519 thousand as of 31 January 2018 and 31 July 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 30 June 2017.

(11) Investment property

	Land	Buildings	Construction	Prepayments for buildings	Total
1 January 2018	$226,503,504	$87,366,614	$3,546,004	$690,203	$318,106,325
Additions from acquisitions	38,074	6,926	1,713,011	318	1,758,329
Additions from subsequent expenditure	-	-	43,774	-	43,774
Transfers from property and equipment	-	(16,222)	-	-	(16,222)
Transfers to (from) investment property under construction and prepayments for buildings and land	342,906	82,216	(18,417)	(406,746)	(41)
Losses generated from fair value adjustments	55,169	(711,805)	-	-	(656,636)
Disposals	(85,977)	-	-	-	(85,977)
Exchange differences	(65,209)	(78,678)	-	-	(143,887)
30 June 2018	$226,788,467	$86,649,051	$5,284,372	$283,775	$319,005,665

	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	-	-	1,268,970	3,283,052	4,552,022
Additions from subsequent expenditure	-	-	61,438	-	61,438
Transfers from property and equipment	204,284	162,908	-	-	367,192
Transfers to (from) investment property under construction and prepayments for buildings and land	3,381,908	1,588,181	(1,587,092)	(3,382,997)	-
Losses generated from fair value adjustments	1,815,133	(2,144,188)	-	-	(329,055)
Disposals	(87,762)	-	-	-	(87,762)
Exchange differences	(6,331)	(208,147)	-	-	(214,478)
30 June 2017	$225,245,340	$86,781,717	$3,052,468	$283,959	$315,363,484

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Rental income from investment properties	$2,583,296	$2,375,573	$5,405,899	$5,067,123
Less: direct operating expense from investment properties generating rental income	(217,168)	(222,325)	(324,268)	(357,796)
direct operating expense from investment properties not generating rental income	(43,724)	(47,774)	(65,513)	(76,028)
Total	$2,322,404	$2,105,474	$5,016,118	$4,633,299

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 are 31 December 2017 and 2016. The appraisers have reviewed the original valuation reports issued on 31 December 2017 and 2016 and clarified that the valuation reports are in effect on 30 June 2018 and 2017. Please refer to 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:

	2018.6.30	2017.12.31	2017.6.30
Direct capitalization rate (net)	0.46%~4.39%	0.73%~4.39%	0.22%~6.74%
Discount rate	3.14%~4.23%	3.14%~4.23%	3.14%~5.58%

External appraisers use market extraction method, search several comparable properties which are identical with or similar to the subject property, consider the liquidity risk and risk premium when disposed of in the future, and then decide the direct capitalization rate and discount rate.

Cathay Life and its subsidiaries recognized its investment property at fair value subsequent to initial recognition and related fair value is categorized as 3rd level of fair value hierarchy. The fair value of investment property will decrease as either one of the main input, direct capitalization rate and discount rate, of direct capitalization method increases. On the contrary, the fair value of investment property will increase if either of the main input decreases.

B. Cathay United Bank appointed appraisers from China Real Estate Appraising Firm to evaluate the fair value of investment property based on the "Regulations on Real Estate Appraisal" on 31 December 2017 and 31 December 2016. The appraisers have reviewed the original valuation reports issued on 31 December 2017 and 2016 and clarified that the valuation reports are in effect on 30 June 2018 and 2017. Please refer to original financial report for detail information of the appraisers and agencies.

Fair value has been supported by observable evidences in the market. The appraisal approaches used are mainly the income approach (such as discounted cash flow model and direct capitalization approach), sales comparison approach and cost approach, etc, and the fair value is categorized as 3rd level of fair value hierarchy.

(A) Office building has market liquidity and their rent level is more comparable with similar items from the same neighborhood. The fair value has been determined by sales comparison approach and income approach.

Net income is based on the current market practices, assuming an annual rent increase of between 0% to 1.5% to extrapolate the total income of the underlying property, excluding losses as a result of idle and other reasons and related operation costs.

According to the R.O.C. Real Estate Appraisers Association Gazette No.5, the house tax is determined based on the reference tables of current house values assessed for each city/county to estimate the total current house value assessed. House tax is calculated based on the tax rates provided by the House Tax Act and the actual payment date.

Land value tax is calculated by evaluating the announced land value in the future through changes in the announced land values of underlying property in the past few years and the actual land tax paid.

The replacement allowance is calculated renovation cost based on 15% construction cost, presume the useful life of 20 years, according to the R.O.C. Real Estate Appraisers Association Gazette No.5, the replacement allowance is based on 0.5% to 1.5% of construction or building cost.

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The main parameters are as follows:

	2018.6.30	2017.12.31	2017.6.30
Direct capitalization rate	2.05%~5.85%	2.03%~5.83%	1.60%~2.95%
Overall capital interest rate	0.76%~2.89%	0.76%~2.89%	0.84%~2.76%

(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.

	2018.6.30	2017.12.31	2017.6.30
Rate of return	15%	15%~20%	25%~30%
Overall capital interest rate	2.11%	1.63%~2.11%	4.99%~17.11%

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 appraisers have reviewed the original valuation reports issued on 31 December 2017 and 2016 and clarified that the valuation reports were in effect on 30 June 2018 and 2017.

The recognized fair value is supported by observable evidence in the market. The fair value has been determined by discounted cash flow (DCF) method.

Office buildings have market liquidity and their rent level is more comparable with similar items from the same neighborhood. The fair value has been determined by discounted cash flow method. Future cash inflows and outflows were estimated as follows:

	2018.6.30	2017.12.31	2017.6.30
Estimated future cash inflows	$437,150	$440,515	$434,351
Estimated future cash outflows	(18,322)	(32,000)	(20,885)
Estimated future net cash flows	$418,828	$408,515	$413,466

The abovementioned estimated future cash inflows mainly consist of reasonable income from investment property and the estimated future cash outflows consist of property tax, land tax and reset appropriation fee.

Net income is based on the current market practices, assuming an annual rent increase of 1.07%, 1.19% and 1.19% to extrapolate the total income of the underlying property, excluding losses as a result of idle and other reasons and related operation costs on 30 June 2018, 31 December 2017 and 31 December 2016, respectively.

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According to the R.O.C. Real Estate Appraisers Association Gazette No.5, the house tax has been determined based on the reference tables of current house values assessed for each city/county to estimate the total current house value assessed. House tax is calculated based on the tax rates provided by the House Tax Act.

Land value tax is based on the changes in the announced land values of the underlying property in the past few years, to further extrapolate the announced land value in the future.

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:

	2018.6.30	2017.12.31	2017.6.30
Direct Capitalization rate (net)	2.55%	2.60%	2.65%
Discount Rate	2.045%	2.045%	2.045%

Pursuant to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the discount rate is determined based on an interest rate not lower than the floating interest rate on a 2-year time deposit of petty cash as posted by the Chunghwa Post Co., Ltd., plus the risk premium.

External appraisers use market extraction method, search several comparable properties which are identical with or similar to the subject property, consider the liquidity risk and risk premium when disposed of in the future, and then decide the direct capitalization rate and discount rate.

D. The real estate investments are held mainly for leasing purposes.

E. All lease agreements of the Group’s lease business are operating leases. The primary terms of lease agreements are the same with general lease agreement.

F. Rents from real estate investment are received annually, semi-annually, quarterly, monthly or in lump sum.

G. Please refer to Note 4 for the property and equipment amounting more than $300 million which the Group acquire.

H. Please refer to Note 8 for related information on the above investment property being pledged as collaterals as of 30 June 2018, 31 December 2017 and 30 June 2017.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(12) Property and equipment

Cost:	Land	Building and construction	Computer equipment	Transport equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate	Total
1 January 2018	$123,888,389	$57,812,084	$6,885,863	$120,132	$12,439,403	$712,137	$276,131	$708,564	$202,842,703
Additions	84	-	537,681	3	180,292	145,558	-	492,353	1,355,971
Transfers	40	54,615	127,920	-	118,411	576	-	(300,597)	965
Disposal	(84)	-	(128,594)	(1,120)	(260,935)	-	-	-	(390,733)
Others (Note)	(1,200)	-	-	-	-	-	-	-	(1,200)
Exchange difference	2,827	13,220	19,174	2,276	5,044	13,225	5	2,508	58,279
30 June 2018	$123,890,056	$57,879,919	$7,442,044	$121,291	$12,482,215	$871,496	$276,136	$902,828	$203,865,985
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	-	-	197,937	2,374	193,156	29,160	-	2,162,428	2,585,055
Transfers	2,053,724	(198,248)	530	2,717	77,891	(50)	-	(2,179,576)	(243,012)
Disposal	-	-	(176,618)	(3,961)	(188,655)	(15,271)	-	-	(384,505)
Others	-	-	-	-	(45)	-	-	-	(45)
Exchange difference	(7,991)	(65,594)	(48,400)	(6,509)	(15,857)	16,234	(29)	(4,271)	(132,417)
30 June 2017	$124,089,834	$57,984,078	$6,464,956	$122,341	$12,085,739	$703,122	$276,140	$771,434	$202,497,644
Depreciation and impairment:									
1 January 2018	$103,134	$21,459,719	$5,252,487	$83,011	$10,154,500	$418,285	$275,877	$-	$37,747,013
Depreciation	-	589,107	304,371	4,532	325,045	49,421	38	-	1,272,514
Transfers	-	-	1	-	(1)	-	-	-	-
Disposal	-	-	(126,214)	(1,120)	(257,614)	-	-	-	(384,948)
Exchange difference	-	2,780	9,560	1,669	3,570	2,457	3	-	20,039
30 June 2018	$103,134	$22,051,606	$5,440,205	$88,092	$10,225,500	$470,163	$275,918	$-	$38,654,618
1 January 2017	$105,610	$20,480,174	$5,311,076	$86,447	$9,931,553	$367,695	$275,782	$-	$36,558,337
Depreciation	-	606,581	231,004	5,327	312,534	47,348	54	-	1,202,848
Transfers	-	(90,309)	(126)	-	-	(50)	-	-	(90,485)
Disposal	-	-	(166,488)	(3,860)	(174,818)	(14,842)	-	-	(360,008)
Exchange difference	-	(8,717)	(32,228)	(4,300)	(8,507)	(7,708)	(8)	-	(61,468)
30 June 2017	$105,610	$20,987,729	$5,343,238	$83,614	$10,060,762	$392,443	$275,828	$-	$37,249,224
30 June 2018	$123,786,922	$35,828,313	$2,001,839	$33,199	$2,256,715	$401,333	$218	$902,828	$165,211,367
31 December 2017	$123,785,255	$36,352,365	$1,633,376	$37,121	$2,284,903	$293,852	$254	$708,564	$165,095,690
30 June 2017	$123,984,224	$36,996,349	$1,121,718	$38,727	$2,024,977	$310,679	$312	$771,434	$165,248,420

Note: Items include arrange fees and compensation fees of relocation for urban renewal.

A. No property and equipment were pledged as collaterals.
B. Components of building that have different useful lives are the main building structures, air conditioning units and elevators, which are depreciated within 5 to 60 years.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(13) Intangible assets

	Franchise	Trademark	Goodwill	Customer relationship	Computer software	Others	Total
Cost:							
1 January 2018	$37,659,600	$391,576	$18,867,219	$3,518,004	$4,562,898	$230,114	$65,229,411
Addition-individual acquisition	-	-	-	-	169,578	10,644	180,222
Reduction	-	-	-	-	(40,430)	-	(40,430)
Transfers	-	-	-	-	79,248	-	79,248
Others	-	-	-	-	5,691	-	5,691
Exchange difference	-	8,554	167,695	76,847	(1,384)	4,993	256,705
30 June 2018	$37,659,600	$400,130	$19,034,914	$3,594,851	$4,775,601	$245,751	$65,710,847
1 January 2017	$37,659,600	$423,468	$18,919,544	$3,804,532	$4,160,538	$235,458	$65,203,140
Addition-individual acquisition	-	-	-	-	184,322	9,154	193,476
Reduction	-	-	-	-	(32,385)	-	(32,385)
Transfers	-	-	-	-	34,057	-	34,057
Others	-	-	597,618	-	3,645	-	601,263
Exchange difference	-	(24,178)	(498,710)	(217,223)	(20,488)	(13,435)	(774,034)
30 June 2017	$37,659,600	$399,290	$19,018,452	$3,587,309	$4,329,689	$231,177	$65,225,517
Depreciation and impairment:							
1 January 2018	$5,198,458	$-	$-	$795,546	$3,317,139	$115,292	$9,426,435
Amortization	1,039,692	-	-	192,233	251,174	25,064	1,508,163
Reduction	-	-	-	-	(40,430)	-	(40,430)
Exchange difference	-	-	-	23,002	(2,846)	3,252	23,408
30 June 2018	$6,238,150	$-	$-	$1,010,781	$3,525,037	$143,608	$10,917,576
1 January 2017	$3,119,075	$-	$-	$441,545	$2,975,200	$70,077	$6,605,897
Amortization	1,039,691	-	-	199,602	204,797	26,026	1,470,116
Reduction	-	-	-	-	(32,343)	-	(32,343)
Exchange difference	-	-	-	(27,370)	(14,435)	(4,284)	(46,089)
30 June 2017	$4,158,766	$-	$-	$613,777	$3,133,219	$91,819	$7,997,581
30 June 2018	$31,421,450	$400,130	$19,034,914	$2,584,070	$1,250,564	$102,143	$54,793,271
31 December 2017	$32,461,142	$391,576	$18,867,219	$2,722,458	$1,245,759	$114,822	$55,802,976
30 June 2017	$33,500,834	$399,290	$19,018,452	$2,973,532	$1,196,470	$139,358	$57,227,936

As of 30 June 2018, 31 December 2017 and 30 June 2017, the book value of goodwill was $10,440,617 thousand, $10,279,814 thousand and $10,424,832 thousand, respectively. The goodwill arose from the acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015. Cathay Life and its subsidiaries acquired 100% of Conning Holdings Limited on 18 September 2015 and 81.89% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of the Company on 1 February 2016.

An annual impairment test for goodwill is performed regularly. Cathay Life and its subsidiaries estimated the recoverable amount of the cash-generating unit that the goodwill is allocated to for the purpose of impairment test. The recoverable amount is calculated by applying a proper discount rate. Considering that the recoverable amount is higher than the book value of the cash-generating unit that the goodwill was allocated to, no impairment recognition is necessary for goodwill.

Cathay United Bank's impairment testing of goodwill:

A. Key assumptions used in value in use calculations:

The recoverable amount of the unit has been determined based on a value in use calculation, using cash flow projections based on financial budgets approved by the management of the Group covering a five-year period.

B. The calculation of value in use for the unit is most sensitive to the following assumptions:

(A) Discount rates:

Discount rates reflect the current market assessment of the risks specific to the unit. Discount rates are calculated by the Capital Assets Pricing Model (CAPM).

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

Assumptions are based on published industry research.

C. Sensitivity to changes in assumptions:

Cathay United Bank believes that any reasonable possible changes in the key assumptions used to determine the recoverable amount segments will not result in an impairment of goodwill.

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.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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

	2018.6.30	2017.12.31	2017.6.30
Designated financial liabilities at fair value through profit or loss at initial recognition:			
Bond Investment	$52,116,988	$53,639,010	$45,827,657
Held for trading:			
Bond Investment	-	49,945	302,262
Derivative financial instruments	113,870,627	35,000,877	43,782,497
Security lending payables hedging	86,868	202,671	88,046
Security lending payables non-hedging	1,622,147	1,621,765	917,598
Subtotal	115,579,642	36,875,258	45,090,403
Total	$167,696,630	$90,514,268	$90,918,060

A. Cathay United Bank was authorized to issue subordinated financial debentures amounting to US$990 million in September 2014, which were issued in amounts of US$660 million (perpetual) and US$330 million (fifteen-years) with a fixed interest rate of 5.10% and 4.00%, respectively on 8 October 2014 with interests paid annually. Cathay United Bank was approved by the competent authorities to redeem the US$660 million bonds at its book value upon maturity of 12 years.

B. Cathay United Bank was authorized to issue unsubordinated financial debentures amounting to US$180 million (maturity of thirty years) on 30 March 2015. In addition to redemption by exercising callable rights, the principal of the debentures was repaid in a lump sum on maturity in the form of zero-coupon bonds with an internal rate of return of 4.20%.

C. Cathay United Bank was authorized to issue unsubordinated financial debentures amounting to US$195 million (maturity of thirty years) on 11 April 2017. In addition to redemption by exercising callable rights, the principal of the debentures is repaid in a lump sum on maturity in the form of zero-coupon bonds with an internal rate of return of 4.30%.

D. Cathay United Bank was authorized to issue unsubordinated financial debentures amounting to US$300 million (maturity of thirty years) on 24 November 2017. In addition to redemption by exercising callable rights, the principal of the debentures is repaid in a lump sum on maturity in the form of zero-coupon bonds with an internal rate of return of 4.10%.

(15) Commercial paper payables

	2018.6.30	2017.12.31	2017.6.30
Commercial paper payable	$53,850,000	$51,470,000	$47,620,000
Less: Discount on commercial paper payable	(2,755)	(1,842)	(2,982)
Total	$53,847,245	$51,468,158	$47,617,018
Average interest rates	0.35%~0.69%	0.39%~0.52%	0.39%~0.52%

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(16) Deposits

	2018.6.30	2017.12.31	2017.6.30
Check deposits	$14,120,169	$15,129,766	$12,054,678
Demand deposits	480,484,446	453,949,795	453,307,854
Demand savings deposits	811,036,633	805,442,387	775,696,179
Time deposits	444,791,698	414,837,677	406,692,789
Negotiable Certificates of Deposit	3,334,500	3,310,000	3,407,000
fixed savings deposits	364,924,801	368,394,533	372,866,442
Remittances	3,268,060	1,888,854	1,873,818
Total	$2,121,960,307	$2,062,953,012	$2,025,898,760

(17) Bonds payable

	2018.6.30	2017.12.31	2017.6.30
Cumulative perpetual subordinated debts	$35,000,000	$35,000,000	$35,000,000
Subordinated financial debentures	55,600,000	63,350,000	63,350,000
Total	$90,600,000	$98,350,000	$98,350,000

A. Cathay United Bank issued a ten-year subordinated financial debenture totaling $1,500,000 thousand with a stated interest rate of 2.6% in July 2009, and the interest is payable quarterly.

B. Cathay United Bank issued a seven-year subordinated financial debenture totaling $3,850,000 thousand with a stated interest rate of 1.65% in March 2011 and the interest is payable quarterly. Cathay United Bank had bought back the debenture in full in March 2018.

C. 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.

D. Cathay United Bank issued a seven-year subordinated financial debenture totaling $3,900,000 thousand with a stated interest rate of 1.65% in June 2011, and the interest is payable quarterly. Cathay United Bank had bought back the debenture in full in June 2018.

E. 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.

F. 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.

G. 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.

H. 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.

I. 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.

J. 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.

K. 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.

L. 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.

M. 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.

N. 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.

O. 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.

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.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(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.

(H) Interest expense: Interest expense amounting to $287,980 thousand and $158,235 thousand for the three-month periods ended 30 June 2018 and 2017, respectively. Interest expense amounting to $572,775 thousand and $158,235 thousand for the six-month periods ended 30 June 2018 and 2017, respectively.

(18) Other financial liabilities

	2018.6.30	2017.12.31	2017.6.30
Separate account insurance products-liabilities	$573,713,591	$555,269,179	$533,049,233
Principle received from the sale of structured products	77,745,333	66,057,646	59,837,717
Other financial liabilities	3,490,686	2,200,487	1,722,950
Total	$654,949,610	$623,527,312	$594,609,900

(19) Provisions

	2018.6.30	2017.12.31	2017.6.30
Unearned premium reserve	$27,866,389	$27,480,991	$26,381,109
Reserve for insurance liabilities	5,062,552,741	4,861,153,723	4,639,987,956
Special reserve	14,319,713	14,472,530	14,538,656
Reserve for claims	16,449,830	15,658,481	16,007,432
Premium deficiency reserve	24,700,529	26,244,942	28,693,675
Reserve for insurance contracts with feature of financial instruments	9,120,577	8,761,609	8,113,943
Foreign exchange volatility reserve	15,350,053	11,589,138	7,017,280
Reserve for Guarantees	101,799	72,897	67,350
Finance commitment reserve	225,472	-	-
Reserve for employee benefits liabilities	3,684,613	3,731,382	3,462,319
Contingent liabilities reserve	1,068,311	1,316,319	1,277,968
Other operating reserve	30,333	28,674	29,322
Other reserve	1,904,570	1,916,570	1,926,792
Total	$5,177,374,930	$4,972,427,256	$4,747,503,802

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

A. Life insurance subsidiaries

As of 30 June 2018, 31 December 2017 and 30 June 2017 the details and changes of insurance contracts and financial instruments with discretionary participation feature are summarized below:

(A) Reserve for life insurance liabilities:

	2018.6.30			2017.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance (Note 1)	$4,403,579,065	$81,203	$4,403,660,268	$4,231,739,400	$954,240	$4,232,693,640
Injury insurance	7,457,583	-	7,457,583	7,613,529	-	7,613,529
Health insurance	620,480,889	-	620,480,889	586,985,448	-	586,985,448
Annuity insurance	1,387,569	28,837,376	30,224,945	1,381,493	31,964,758	33,346,251
Investment-linked insurance	462,232	-	462,232	514,800	-	514,800
Total (Note 2)	5,033,367,338	28,918,579	5,062,285,917	4,828,234,670	32,918,998	4,861,153,668
Less ceded reserve for life insurance liabilities :						
Life insurance	364,006	-	364,006	301,806	-	301,806
Net amount	$5,033,003,332	$28,918,579	$5,061,921,911	$4,827,932,864	$32,918,998	$4,860,851,862

	2017.6.30		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance (Note 1)	$4,042,172,768	$1,572,066	$4,043,744,834
Injury insurance	7,617,208	-	7,617,208
Health insurance	551,868,576	-	551,868,576
Annuity insurance	1,381,078	34,800,511	36,181,589
Investment-linked insurance	575,692	-	575,692
Subtotal	4,603,615,322	36,372,577	4,639,987,899
Less ceded reserve for life insurance liabilities :			
Life insurance	284,161	-	284,161
Total	$4,603,331,161	$36,372,577	$4,639,703,738

Note 1: Allowance for doubtful account pertinent to 3% of business tax cut and recovery from major incident reserve are included.

Note 2: Total reserve for life insurance liabilities after including reserve for life insurance liabilities – payables for the insured amounted to $5,062,552,692 thousand as of 30 June 2018.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Reserve for life insurance liabilities is summarized below:

	2018.1.1~2018.6.30			2017.1.1~2017.6.30		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$4,828,234,670	$32,918,998	$4,861,153,668	$4,438,878,359	$39,592,835	$4,478,471,194
Reserve	320,335,796	81,816	320,417,612	330,693,413	33,009	330,726,422
Recover	(136,295,946)	(4,056,880)	(140,352,826)	(114,430,834)	(3,254,095)	(117,684,929)
Losses (gains) on foreign exchange	21,092,818	(25,355)	21,067,463	(51,525,616)	828	(51,524,788)
Ending balance	5,033,367,338	28,918,579	5,062,285,917	4,603,615,322	36,372,577	4,639,987,899
Less ceded reserve for life insurance liabilities:						
Beginning balance - net	301,806	-	301,806	228,765	-	228,765
Increase	61,925	-	61,925	60,902	-	60,902
Gains (losses) on foreign exchange	275	-	275	(5,506)	-	(5,506)
Ending balance - net	364,006	-	364,006	284,161	-	284,161
Total	$5,033,003,332	$28,918,579	$5,061,921,911	$4,603,331,161	$36,372,577	$4,639,703,738

(B) Unearned premium reserve:

	2018.6.30			2017.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$131,674	$-	$131,674	$665,528	$-	$665,528
Individual injury insurance	6,051,418	-	6,051,418	5,652,009	-	5,652,009
Individual health insurance	8,193,157	-	8,193,157	8,344,463	-	8,344,463
Group insurance	1,482,590	-	1,482,590	1,208,703	-	1,208,703
Investment-linked insurance	109,526	-	109,526	107,496	-	107,496
Total	15,968,365	-	15,968,365	15,978,199	-	15,978,199
Less ceded unearned premium reserve:						
Individual life insurance	371,846	-	371,846	242,609	-	242,609
Individual injury insurance	9,155	-	9,155	6,152	-	6,152
Individual health insurance	121,325	-	121,325	51,807	-	51,807
Total	502,326	$-	502,326	300,568	-	300,568
Net	$15,466,039	$-	$15,466,039	$15,677,631	$-	$15,677,631

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2017.6.30		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$114,276	$-	$114,276
Individual injury insurance	5,786,801	-	5,786,801
Individual health insurance	7,793,260	-	7,793,260
Group insurance	1,196,234	-	1,196,234
Investment-linked insurance	106,706	-	106,706
Total	14,997,277	-	14,997,277
Less ceded unearned premium reserve:			
Individual life insurance	206,899	-	206,899
Individual injury insurance	3,728	-	3,728
Individual health insurance	47,633	-	47,633
Group insurance	3,873	-	3,873
Total	262,133	-	262,133
Net	$14,735,144	$-	$14,735,144

Unearned premium reserve is summarized below:

	2018.1.1~2018.6.30			2017.1.1~2017.6.30		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$15,978,199	$-	$15,978,199	$15,043,034	$-	$15,043,034
Reserve	15,961,900	-	15,961,900	14,989,681	-	14,989,681
Recover	(15,973,581)	-	(15,973,581)	(15,024,951)	-	(15,024,951)
Losses (gains) on foreign exchange	1,847	-	1,847	(10,487)	-	(10,487)
Ending balance	15,968,365	-	15,968,365	14,997,277	-	14,997,277
Less ceded unearned premium reserve:						
Beginning balance - Net	300,568	-	300,568	199,829	-	199,829
Increase	201,758	-	201,758	62,438	-	62,438
Gains (losses) on foreign exchange	-	-	-	(134)	-	(134)
Total	502,326	-	502,326	262,133	-	262,133
Ending balance - Net	$15,466,039	$-	$15,466,039	$14,735,144	$-	$14,735,144

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(C) Reserve for claims:

	2018.6.30			2017.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance						
－Reported but not paid claim	$875,570	$19,278	$894,848	$988,671	$2,678	$991,349
－Unreported claim	85,622	-	85,622	72,113	-	72,113
Individual injury insurance						
－Reported but not paid claim	48,831	-	48,831	93,382	-	93,382
－Unreported claim	1,834,836	-	1,834,836	1,578,252	-	1,578,252
Individual health insurance						
－Reported but not paid claim	849,239	-	849,239	913,492	-	913,492
－Unreported claim	2,808,636	-	2,808,636	2,521,553	-	2,521,553
Group insurance						
－Reported but not paid claim	61,687	-	61,687	71,934	-	71,934
－Unreported claim	1,507,477	-	1,507,477	1,200,534	-	1,200,534
Investment-linked insurance						
－Reported but not paid claim	105,543	-	105,543	129,722	-	129,722
－Unreported claim	980	-	980	3,566	-	3,566
Total	8,178,421	19,278	8,197,699	7,573,219	2,678	7,575,897
Less ceded reserve for claims:						
Individual life insurance	1,758	-	1,758	34	-	34
Individual health insurance	8,187	-	8,187	8,712	-	8,712
Group insurance	7	-	7	938	-	938
Total	9,952	-	9,952	9,684	-	9,684
Net	$8,168,469	$19,278	$8,187,747	$7,563,535	$2,678	$7,566,213

	2017.6.30		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance			
－Reported but not paid claim	$847,249	$3,131	$850,380
－Unreported claim	46,185	-	46,185
Individual injury insurance			
－Reported but not paid claim	76,759	-	76,759
－Unreported claim	1,530,617	-	1,530,617
Individual health insurance			
－Reported but not paid claim	702,474	-	702,474
－Unreported claim	2,482,687	-	2,482,687
Group insurance			
－Reported but not paid claim	48,161	-	48,161
－Unreported claim	1,101,144	-	1,101,144
Investment-linked insurance			
－Reported but not paid claim	37,691	-	37,691
－Unreported claim	1,077	-	1,077
Total	6,874,044	3,131	6,877,175
Less ceded reserve for claims:			
Individual life insurance	2,128	-	2,128
Group insurance	2,286	-	2,286
Total	4,414	-	4,414
Net	$6,869,630	$3,131	$6,872,761

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Reserve for claims is summarized below:

	2018.1.1~2018.6.30			2017.1.1~2017.6.30		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$7,573,219	$2,678	$7,575,897	$6,498,808	$1,056	$6,499,864
Reserve	8,075,577	19,278	8,094,855	6,796,501	3,131	6,799,632
Recover	(7,477,046)	(2,678)	(7,479,724)	(6,409,188)	(1,056)	(6,410,244)
Losses (gains) on foreign exchange	6,671	-	6,671	(12,077)	-	(12,077)
Ending balance	8,178,421	19,278	8,197,699	6,874,044	3,131	6,877,175
Less ceded reserve for claims:						
Beginning balance-Net	9,684	-	9,684	41,683	-	41,683
Increase	408	-	408	-	-	-
Decrease	(176)	-	(176)	(37,214)	-	(37,214)
Gains (losses) on foreign exchange	36	-	36	(55)	-	(55)
Total	9,952	-	9,952	4,414	-	4,414
Net	$8,168,469	$19,278	$8,187,747	$6,869,630	$3,131	$6,872,761

(D) Special reserve:

	2018.6.30				2017.12.31			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Participating policies dividends reserve	$(63,480)	$-	$-	(63,480)	$(59,358)	$-	$-	$(59,358)
Dividends reserve	64,263	-	-	64,263	60,247	-	-	60,247
Special reserve for revaluation increments of property	-	-	11,083,324	11,083,324	-	-	11,083,324	11,083,324
Total	$783	$-	$11,083,324	$11,084,107	$889	$-	$11,083,324	$11,084,213

	2017.6.30			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Participating policies dividends reserve	$(69,537)	$-	$-	$(69,537)
Dividends reserve	70,748	-	-	70,748
Special reserve for revaluation increments of property	-	-	11,083,324	11,083,324
Total	$1,211	$-	$11,083,324	$11,084,535

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Special reserve is summarized below:

	2018.1.1~2018.6.30				2017.1.1~2017.6.30			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	$889	$-	$11,083,324	$11,084,213	$1,639	$-	$15,416,619	$15,418,258
Effects on retrospective and restatement on IFRS 9	(395)	-	-	(395)	-	-	-	-
Reserves for participating policies dividends reserve	4,262	-	-	4,262	5,659	-	-	5,659
Participating policies dividends recover	(7,990)			(7,990)	(8,177)	-	-	(8,177)
Participating policies dividends recover	4,017	-	-	4,017	2,090	-	-	2,090
Recover from special reserve for revaluation increments of property (Note)	-	-	-	-	-	-	(4,333,295)	(4,333,295)
Ending balance	$783	$-	$11,083,324	$11,084,107	$1,211	$-	$11,083,324	$11,084,535

Note: Pursuant to Letter Jin-Guan-Bao-Shou-Zi No.10600400550 issued on 2 February 2017 by the FSC, Cathay Life may recover special reserve for revaluation increments of real property monthly, and the total recovered amount in 2017 was $4.33 billion.

(E) Premium deficiency reserve:

	2018.6.30			2017.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$23,051,306	$-	$23,051,306	$24,537,677	$-	$24,537,677
Individual health insurance	1,580,786	-	1,580,786	1,639,247	-	1,639,247
Group insurance	62,971	-	62,971	55,393	-	55,393
Total	$24,695,063	$-	$24,695,063	$26,232,317	$-	$26,232,317

	2017.6.30		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$26,972,411	$-	$26,972,411
Individual health insurance	1,719,788	-	1,719,788
Group insurance	178	-	178
Total	$28,692,377	$-	$28,692,377

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Premium deficiency reserve is summarized below:

	2018.1.1~2018.6.30			2017.1.1~2017.6.30		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$26,232,317	$-	$26,232,317	$29,761,081	$-	$29,761,081
Reserve	256,473	-	256,473	395,380	-	395,380
Recover	(1,907,834)	-	(1,907,834)	(976,592)	-	(976,592)
Losses (gains) on foreign exchange	114,107	-	114,107	(487,492)	-	(487,492)
Ending balance	$24,695,063	$-	$24,695,063	$28,692,377	$-	$28,692,377

(F) Other reserve:

	2018.6.30		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Others	$1,904,570	$-	$1,904,570

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

	2017.6.30		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Others	$1,926,792	$-	$1,926,792

Other reserve is summarized below:

	2018.1.1~2018.6.30		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$1,916,570	$-	$1,916,570
Recover	(12,000)	-	(12,000)
Ending balance	$1,904,570	$-	$1,904,570

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2017.1.1~2017.6.30		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$1,938,792	$-	$1,938,792
Recover	(12,000)	-	(12,000)
Ending balance	$1,926,792	$-	$1,926,792

(G) Liability adequacy reserve:

	Insurance contract and financial instruments with discretionary participation feature		
	2018.6.30	2017.12.31	2017.6.30
Reserve for life insurance liabilities	$5,062,285,917	$4,861,153,668	$4,639,987,899
Unearned premium reserve	15,968,365	15,978,199	14,997,277
Premium deficiency reserve	24,695,063	26,232,317	28,692,377
Other reserve	1,904,570	1,916,570	1,926,792
Total	$5,104,853,915	$4,905,280,754	$4,685,604,345
Book value of insurance liabilities	$5,104,853,915	$4,905,280,754	$4,685,604,345
Estimated present value of cash flows	$4,182,756,884	$4,158,559,601	$4,105,138,569
Balance of liability adequacy reserve	$-	$-	$-

Note 1: Shown by the range of the liability adequacy test carried out (tested on the entire contracts).

Note 2: Reserve for claims and special reserve are not included in the liability adequacy test. Reserve for claims is determined based on claims incurred before valuation date and therefore not included in the test.

Note 3: Cathay Life has completed the acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. Thus, the value of the acquired business, i.e. other reserve, shall be considered in the book value of insurance liability included in the liability adequacy test.

Note 4: There are no instances of merger or transfer of insurance contracts for Cathay Lujiazui Life and Cathay Life (Vietnam). As such, the book value of related intangible assets shall not be deducted from book value of insurance liability for liability adequacy reserve test.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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

	2018.6.30	2017.12.31	2017.6.30
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing	Integrated testing
Assumptions			
a. Information of policies	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.
b. Discount rate	Under assets allocation plan on 31 March 2018, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2017, with neutral assumption for discount rates after 30 years.	Under assets allocation plan on 30 September 2017, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2016, with neutral assumption for discount rates after 30 years.	Under assets allocation plan on 31 March 2017, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2016, with neutral assumption for discount rates after 30 years.

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

	2018.6.30	2017.12.31	2017.6.30
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing	Integrated testing
Assumptions			
a. Information of policies	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.
b. Discount rate	Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2017, with neutral assumption for discount rates after 30 years.	Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2016, with neutral assumption for discount rates after 30 years.	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.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(H) Reserve for insurance contract with feature of financial instruments:

Life insurance subsidiaries issue non-investment-linked insurance contracts without discretionary participation feature of financial instruments. As of 30 June 2018, 31 December 2017 and 30 June 2017, reserve for insurance contracts with feature of financial instruments is summarized below:

	2018.6.30	2017.12.31	2017.6.30
Life insurance	$8,465,041	$8,421,434	$7,935,297
Investment-linked insurance	655,536	340,175	178,646
Total	$9,120,577	$8,761,609	$8,113,943

	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Beginning balance	$8,761,609	$10,320,750
Premiums received	1,188,150	2,287,127
Insurance claim payments	(135,470)	(4,282,084)
Net recovery of statutory reserve	(734,188)	(25,350)
Losses (gains) on foreign exchange	40,476	(186,500)
Ending balance	$9,120,577	$8,113,943

(I) Foreign exchange volatility reserve

a. The hedge strategy and risk exposure:

Based on the principle of risk control and to maintain the consistent level of foreign exchange volatility reserve, Cathay Life consistently adjusts the hedge ratios and risk exposure position under the risk control.

b. Adjustment in foreign exchange volatility reserve:

	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Beginning balance	$11,589,138	$9,871,478
Reserve:		
Compulsory reserve	2,962,895	2,141,408
Extra reserve	4,342,998	1,248,354
Subtotal	7,305,893	3,389,762
Recover	(3,544,978)	(6,243,960)
Ending balance:	$15,350,053	$7,017,280

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

c. Effects due to foreign exchange volatility reserve:

2018.1.1~2018.6.30			
Items	Inapplicable amount (1)	Applicable amount (2)	Effects (3)=(2)-(1)
Consolidated income	$39,023,131	$36,014,399	$(3,008,732)
Earnings per share	2.95	2.71	(0.24)
Foreign exchange volatility reserve	-	15,350,053	15,350,053
Equity	608,348,098	599,670,952	(8,677,146)

2017.1.1~2017.6.30			
Items	Inapplicable amount (1)	Applicable amount (2)	Effects (3)=(2)-(1)
Consolidated income	$24,086,095	$26,455,079	$2,368,984
Earnings per share	1.90	2.08	0.18
Foreign exchange volatility reserve	-	7,017,280	7,017,280
Equity	564,294,352	562,420,581	(1,873,771)

B. Century Insurance subsidiaries

(A) Unearned premiums reserve

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

	2018.6.30			
	Unearned premium reserve		Ceded unearned premium reserve	
Items	Direct business (1)	Assumed reinsurance business (2)	Ceded reinsurance business (3)	Retained business (4)=(1)+(2)-(3)
Fire insurance	$2,030,447	$209,467	$1,196,954	$1,042,960
Marine insurance	170,893	10,117	118,408	62,602
Land and air insurance	4,776,259	633	198,066	4,578,826
Liability insurance	647,792	1,110	193,474	455,428
Bonding insurance	53,395	897	36,980	17,312
Other property insurance	620,389	53,471	422,972	250,888
Accident insurance	1,504,288	3,861	79,418	1,428,731
Health insurance	61,855	5,169	-	67,024
Compulsory automobile liability insurance	1,266,765	481,216	760,039	987,942
Total	$11,132,083	$765,941	$3,006,311	$8,891,713

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2017.12.31			
	Unearned premium reserve		Ceded unearned premium reserve	
Items	Direct business (1)	Assumed 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

	2017.6.30			
	Unearned premium reserve		Ceded unearned premium reserve	
Items	Direct business (1)	Assumed reinsurance business (2)	Ceded reinsurance business (3)	Retained business (4)=(1)+(2)-(3)
Fire insurance	$1,957,871	$121,548	$1,206,158	$873,261
Marine insurance	131,022	15,947	102,179	44,790
Land and air insurance	4,542,273	614	227,280	4,315,607
Liability insurance	574,295	467	167,810	406,952
Bonding insurance	69,371	785	52,681	17,475
Other property insurance	613,954	36,301	281,991	368,264
Accident insurance	1,499,150	2,467	89,478	1,412,139
Health insurance	55,159	7,946	-	63,105
Compulsory automobile liability insurance	1,278,423	476,239	767,393	987,269
Total	$10,721,518	$662,314	$2,894,970	$8,488,862

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

	2018.1.1~2018.6.30		2017.1.1~2017.6.30	
Items	Unearned premium reserve	Ceded unearned premium reserve	Unearned premium reserve	Ceded unearned premium reserve
Beginning balance	$11,502,792	$2,889,339	$11,100,264	$2,752,276
Others	-	-	3,566	-
Reserve	11,895,346	3,004,847	11,384,915	2,895,581
Recover	(11,502,124)	(2,889,022)	(11,098,522)	(2,749,374)
Effects of exchange rate changes	2,010	1,147	(6,391)	(3,513)
Ending balance	$11,898,024	$3,006,311	$11,383,832	$2,894,970

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(B) Claims reserve

a. Claims reserve and ceded claims reserve

	2018.6.30			
	Claims reserve		Ceded claims reserve	
Items	Direct underwriting business (1)	Assumed reinsurance business (2)	Ceded reinsurance business (3)	Retained business (4)=(1)+(2)-(3)
Claims reported but not paid off	$3,434,027	$286,747	$1,430,673	$2,290,101
Unreported claims	4,087,273	444,084	1,141,196	3,390,161
Total	$7,521,300	$730,831	$2,571,869	$5,680,262

	2017.12.31			
	Claims reserve		Ceded claims reserve	
Items	Direct underwriting business (1)	Assumed reinsurance business (2)	Ceded reinsurance business (3)	Retained business (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

	2017.6.30			
	Claims reserve		Ceded claims reserve	
Items	Direct underwriting business (1)	Assumed reinsurance business (2)	Ceded reinsurance business (3)	Retained business (4)=(1)+(2)-(3)
Claims reported but not paid off	$4,882,281	$230,953	$2,401,382	$2,711,852
Unreported claims	3,580,797	436,226	1,000,000	3,017,023
Total	$8,463,078	$667,179	$3,401,382	$5,728,875

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Net changes for claims reserve and ceded claims reserve

2018.1.1~2018.6.30

Items	Direct underwriting business Reserve (1)	Direct underwriting business Recover (2)	Assumed reinsurance business Reserve (3)	Assumed reinsurance business Recover (4)	Net change for claims reserve (5)=(1)-(2)+(3)-(4)	Ceded reinsurance business Reserve (6)	Ceded reinsurance business Recover (7)	Net change for ceded claims reserve (8)=(6)-(7)
Claims reported but not paid off	$3,429,910	$3,555,690	$286,747	$286,595	$(125,628)	$1,426,944	$1,340,994	$85,950
Unreported claims	4,087,026	3,796,188	444,084	442,692	292,230	1,141,079	$1,132,228	8,851
Total	$7,516,936	$7,351,878	$730,831	$729,287	$166,602	$2,568,023	$2,473,222	$94,801

2017.1.1~2017.6.30

Items	Direct underwriting business Reserve (1)	Direct underwriting business Recover (2)	Assumed reinsurance business Reserve (3)	Assumed reinsurance business Recover (4)	Net change for claims reserve (5)=(1)-(2)+(3)-(4)	Ceded reinsurance business Reserve (6)	Ceded reinsurance business Recover (7)	Net change for ceded claims reserve (8)=(6)-(7)
Claims reported but not paid off	$4,884,497	$5,923,479	$230,953	$235,435	$(1,043,464)	$2,403,321	$3,251,708	$(848,387)
Unreported claims	3,580,904	3,257,953	436,226	417,005	342,172	1,000,058	937,792	62,266
Total	$8,465,401	$9,181,432	$667,179	$652,440	$(701,292)	$3,403,379	$4,189,500	$(786,121)

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

2018.6.30

Items	Claims reserve: Claim reported but not paid off	Claims reserve: Unreported claims	Claims reserve: Total
Fire insurance	$1,082,458	$12,737	$1,095,195
Marine insurance	258,924	5,141	264,065
Land and air insurance	987,810	1,370,798	2,358,608
Liability insurance	412,472	716,915	1,129,387
Bonding insurance	70,777	105,845	176,622
Other property insurance	377,417	150,503	527,920
Accident insurance	75,846	566,490	642,336
Health insurance	4,485	50,801	55,286
Compulsory automobile liability insurance	450,585	1,552,127	2,002,712
Total	$3,720,774	$4,531,357	$8,252,131

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Items	2017.12.31 Claims reserve Claim reported but not paid off	Unreported claims	Total
Fire insurance	$1,213,571	$12,107	$1,225,678
Marine insurance	282,955	2,673	285,628
Land and air insurance	970,397	1,280,293	2,250,690
Liability insurance	407,046	620,734	1,027,780
Bonding insurance	49,574	93,893	143,467
Other property insurance	400,702	102,292	502,994
Accident insurance	84,084	509,467	593,551
Health insurance	933	49,001	49,934
Compulsory automobile liability insurance	434,373	1,568,489	2,002,862
Total	$3,843,635	$4,238,949	$8,082,584

Items	2017.6.30 Claims reserve Claim reported but not paid off	Unreported claims	Total
Fire insurance	$2,191,538	$11,600	$2,203,138
Marine insurance	275,601	13,634	289,235
Land and air insurance	1,169,340	1,254,652	2,423,992
Liability insurance	436,581	525,132	961,713
Bonding insurance	51,896	10,441	62,337
Other property insurance	429,531	30,961	460,492
Accident insurance	92,806	580,853	673,659
Health insurance	2,332	57,208	59,540
Compulsory automobile liability insurance	463,609	1,532,542	1,996,151
Total	$5,113,234	$4,017,023	$9,130,257

d. Reinsurance asset-ceded claims reserve for policyholder

Items	2018.6.30 Ceded claims reserve Claim reported but not paid off	Unreported claims	Total
Fire insurance	$593,215	$6,571	$599,786
Marine insurance	177,756	1,845	179,601
Land and air insurance	54,728	39,202	93,930
Liability insurance	240,118	240,752	480,870
Bonding insurance	32,817	83,613	116,430
Other property insurance	171,926	49,942	221,868
Accident insurance	5,713	41,533	47,246
Health insurance	-	-	-
Compulsory automobile liability insurance	154,400	677,738	832,138
Total	$1,430,673	$1,141,196	$2,571,869

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2017.12.31		
	Ceded claims reserve		
Items	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

	2017.6.30		
	Ceded claims reserve		
Items	Claim reported but not paid off	Unreported claims	Total
Fire insurance	$1,569,440	$5,917	$1,575,357
Marine insurance	192,168	6,000	198,168
Land and air insurance	59,557	79,516	139,073
Liability insurance	230,294	178,004	408,298
Bonding insurance	34,881	10,248	45,129
Other property insurance	140,589	11,292	151,881
Accident insurance	7,497	50,675	58,172
Health insurance	-	473	473
Compulsory automobile liability insurance	166,956	657,875	824,831
Total	$2,401,382	$1,000,000	$3,401,382

e. Reconciliation statement of claims reserve and ceded claims reserve

	2018.1.1~2018.6.30		2017.1.1~2017.6.30	
Items	Claims reserve	Ceded claims reserve	Claims reserve	Ceded claims reserve
Beginning balance	$8,082,584	$2,474,474	$9,843,664	$4,198,314
Others	-	-	367	170
Reserve	8,247,767	2,568,023	9,132,580	3,403,379
Recover	(8,081,165)	(2,473,222)	(9,833,872)	(4,189,500)
Effects of exchange rate changes	2,945	2,594	(12,482)	(10,981)
Ending balance	$8,252,131	$2,571,869	$9,130,257	$3,401,382

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(C) Special reserve

a. Special reserve - Compulsory automobile liability insurance

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Beginning balance	$1,575,128	$1,530,609
Reserve	5,409	116,341
Recover	(158,120)	(24,745)
Ending balance	$1,422,417	$1,622,205

b. Special reserve - Non-compulsory automobile liability insurance

	Liability					
	2018.1.1~2018.6.30			2017.1.1~2017.6.30		
Items	Major incidents	Fluctuation of risks	Total	Major incidents	Fluctuation of risks	Total
Beginning balance	$468,172	$1,345,017	$1,813,189	$486,899	$1,345,017	$1,831,916
Reserve	-	-	-	-	-	-
Recover	-	-	-	-	-	-
Ending balance	$468,172	$1,345,017	$1,813,189	$486,899	$1,345,017	$1,831,916

"Precautions of Strengthening Disaster Insurance of Property Insurance Industry (Commercial Earthquake and Typhoons Flood Insurance)", "Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance", "Regulations for the Management of the Various Reserves for the nuclear Insurance", and other rules governing reserves had no material impact on Cathay Century's and its subsidiaries' income before tax and earnings per share, the special reserve under liabilities decreased $1,504,690 thousand and special earnings capital under equity increased $594,801 thousand.

(D) Premiums deficiency reserve

a. Premiums deficiency reserve and ceded premium deficiency reserve

	2018.6.30			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
Items	Direct business (1)	Assumed reinsurance business (2)	Ceded reinsurance business (3)	Retained business (4)=(1)+(2)-(3)
Fire insurance	$-	$-	$-	$-
Marine insurance	2,317	170	-	2,487
Land and air insurance	2,537	442	388	2,591
Liability insurance	-	-	-	-
Bonding insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-
Total	$4,854	$612	$388	$5,078

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2017.12.31			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
Items	Direct business (1)	Assumed reinsurance business (2)	Ceded reinsurance business (3)	Retained business (4)=(1)+(2)-(3)
Fire insurance	$-	$-	$-	$-
Marine insurance	1,144	103	-	1,247
Land and air insurance	8,446	2,932	2,578	8,800
Liability insurance	-	-	-	-
Bonding insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-
Total	$9,590	$3,035	$2,578	$10,047

	2017.6.30			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
Items	Direct business (1)	Assumed reinsurance business (2)	Ceded reinsurance business (3)	Retained business (4)=(1)+(2)-(3)
Fire insurance	$-	$-	$-	$-
Marine insurance	-	-	-	-
Land and air insurance	775	523	517	781
Liability insurance	-	-	-	-
Bonding insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-
Total	$775	$523	$517	$781

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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

2018.1.1~2018.6.30

Items	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 (1)	Recover (2)	Reserve (3)	Recover (4)	(5)=(1)-(2)+(3)-(4)	Reserve (6)	Recover (7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	$-	$-	$-	$-	$-	$-	$-	$-	$-
Marine insurance	2,317	1,145	170	102	1,240	-	-	-	1,240
Land and air insurance	2,537	8,446	442	2,932	(8,399)	388	2,578	(2,190)	(6,209)
Liability insurance	-	-	-	-	-	-	-	-	-
Bonding insurance	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-	-	-	-	-	-
Total	$4,854	$9,591	$612	$3,034	$(7,159)	$388	$2,578	$(2,190)	$(4,969)

2017.1.1~2017.6.30

Items	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 (1)	Recover (2)	Reserve (3)	Recover (4)	(5)=(1)-(2)+(3)-(4)	Reserve (6)	Recover (7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	$-	$-	$-	$-	$-	$-	$-	$-	$-
Marine insurance	-	-	-	-	-	-	-	-	-
Land and air insurance	775	1,641	523	8,893	(9,236)	517	-	517	(9,753)
Liability insurance	-	-	-	-	-	-	-	-	-
Bonding insurance	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-	-	-	-	-	-
Total	$775	$1,641	$523	$8,893	$(9,236)	$517	$-	$517	$(9,753)

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

Items	2018.1.1~2018.6.30 Premiums deficiency reserve	2018.1.1~2018.6.30 Ceded premiums deficiency reserve	2017.1.1~2017.6.30 Premiums deficiency reserve	2017.1.1~2017.6.30 Ceded premiums deficiency reserve
Beginning balance	$12,625	$2,578	$10,534	$-
Reserve	5,466	388	1,298	517
Recover	(12,625)	(2,578)	(10,534)	-
Ending balance	$5,466	$388	$1,298	$517

d. Effects for the change of estimation and assumption

Cathay Century's premium deficiency reserve is a measurement of present value for future expenditure. The expected final loss ratio referred to the loss experience in the past three years, spectacular compensation case and the trend of loss. The expected operation expense ratio referred to the insurance expense exhibits of Cathay Century in the past three years excluding entertainment expense and membership fee. The actual rate of return on investment may not be the same as the expected rate due to the uncertainty of estimation and assumption.

(E) Liability reserve

a. Liability reserve and liability-ceded reserve

	2018.6.30			
	Liability reserve		Liability-ceded reserve	
Item	Direct written business (1)	Reinsurance ceded-in (2)	Reinsurance ceded-out (3)	Retention (4)=(1)+(2)-(3)
Health insurance	$49	$-	$-	$49

	2017.12.31			
	Liability reserve		Liability-ceded reserve	
Item	Direct written business (1)	Reinsurance ceded-in (2)	Reinsurance ceded-out (3)	Retention (4)=(1)+(2)-(3)
Health insurance	$55	$-	$-	$55

	2017.6.30			
	Liability reserve		Liability-ceded reserve	
Item	Direct written business (1)	Reinsurance ceded-in (2)	Reinsurance ceded-out (3)	Retention (4)=(1)+(2)-(3)
Health insurance	$57	$-	$-	$57

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Net change for liability reserve and liability reserve ceded

	2018.1.1~2018.6.30							
	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	
Item	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)
Health insurance	$3	$9	$-	$-	$(6)	$-	$-	$-

	2017.1.1~2017.6.30							
	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	
Item	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)
Health insurance	$16	$-	$-	$-	$16	$-	$-	$-

(20) Post-employment benefits

A. Defined contribution plans

The Group recognized expenses for defined contribution plan amounted to $385,412 thousand, $392,420 thousand, $767,405 thousand and $777,972 thousand for the three-month and six-month period ended 30 June 2018 and 2017, respectively.

B. Defined benefit plans

The Group recognized expenses for defined benefit plans amounted to $126,128 thousand, $119,328 thousand, $251,729 thousand and $241,834 thousand for the three-month and six-month period ended 30 June 2018 and 2017, respectively.

C. Employee preferential interest deposit plan

Cathay United Bank recognized expenses for preferential interest rate deposits plan amounted to $83,350 thousand, $79,850 thousand, $166,494 thousand and $161,184 thousand for the three-month and six-month period ended 30 June 2018 and 2017, respectively, and recorded as “Employee benefits expenses”.

(21) Capital Stock

A. As of 30 June 2018, 31 December 2017 and 30 June 2017 all the authorized share capital amounted to $180,000,000 thousand, the issued share capital amounted to $140,965,102 thousand, $133,965,102 thousand and $133,965,102 thousand, including 12,563,210 thousand common shares, and 1,533,300 thousand, 833,300 thousand and 833,300 thousand preferred shares. These shares are all with par value of $10.

B. Issuance of Series A preferred stock

The board of directors has approved the issuance of Series A Preferred Shares on 9 September 2016. The Company issued 833,300 thousand preferred shares for cash totaled $8,333,000 thousand, with a par value of $10 per share issued at $60 per share. The capital injection was approved by the FSC on 25 October 2016. The subscription date was 8 December 2016. All issued shares were registered and recognized as equity. The rights and obligations of Series A Preferred Shares Issuance are listed as follows:

(A) 3.8% per annum for Series A Preferred Shares (7-year IRS 1.06%+2.74%) calculated pursuant to issue price per share. Interest rate per annum will be reset on the day after the 7th anniversary of the issue date (“Issue Date”) and the day after each subsequent 7-year period hereafter. Record date for interest reset shall be the previous 2 business day for financial institutions in Taipei. The 7-year IRS rate shall be the arithmetic mean of 7-year IRS quotations as published by Reuter, 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 Series A Preferred Shares are distributed once per year in cash. After shareholders’ approval of issuer’s financial statements at its annual shareholders meeting, the board may set record date for distribution of available dividends from the previous year. Dividend distribution for the years of issuance and redemption (such as the shareholders’ approval of dividends declaration on shareholders meeting) shall be calculated pursuant to actual issued days of the given year.

(C) In the year when making earnings, before Issuer can distribute dividends for Series A Preferred Shares, the Company shall first: (i) pay all taxes and dues (ii) offset its losses in previous years (iii) set aside statutory reserve, or set aside or reverse special reserve and (iv) the distribution of the remaining portion, if any, will first be distributed as preferred share dividend.

(D) The Company has sole discretion to distribute dividend of the Preferred Shares, including its discretion to not declare dividends when no profit is recorded, or insufficient profit is recorded for Preferred Share dividends, or preferred share dividend distribution would render the Company's RBC ratio below the level required by law or competent authorities. The Company's cancellation of preferred share dividend distribution shall not be deemed an event of default. The Series A Preferred Shares which were issued this time are non-cumulative. Undeclared or under-declared dividends are not cumulative, and are not paid in subsequent years with profit.

(E) Except for receipt of dividends at the aforementioned dividend rate in Paragraph (A), holders of Preferred Shares cannot participate in distribution of cash or stock dividends to holders of common shares from profit or additional paid-in capital.

(F) Holders of Series A Preferred Shares shall have the same priority as holders of all subsequently issued preferred share in liquidation, which are prior to holders of common shares but subordinated to general creditors, to the extent of the issuance amount.

(G) Holders of Series A Preferred Shares have no voting right at the annual shareholders meeting, and cannot elect directors. However, holders of Series A Preferred Shares have voting rights at shareholders meeting of Preferred Shares, and at annual shareholders meeting on items relating to rights of Preferred Shares holders.

(H) Holders of Series A Preferred Shares cannot convert said preferred shares to common shares, and have no right to request the Company for redemption of Series A Preferred Shares.

(I) Through issuance of perpetual preferred stock, on the day after the 7th anniversary of the Issue Date, the Company may redeem all or part of outstanding Preferred Shares at issue price. Rights and obligations of the unredeemed Preferred Shares shall remain the same as mentioned above.

C. Issuance of Series B preferred stock

The board of directors has approved the issuance of Series B Preferred Shares on 9 February 2018. The Company issued 700,000 thousand preferred shares for cash totaled $7,000,000 thousand, with a par value of $10 per share issued at $60 per share. The capital injection was approved by the FSC on 10 May 2017. The subscription date was 27 June 2018. All issued shares were registered and recognized as equity. The rights and obligations of Series B Preferred Shares Issuance are listed as follows:

(A) 3.55% per annum for Series B Preferred Shares (7-year IRS 1.1675%+2.3825%) calculated pursuant to issue price per share. Interest rate per annum will be reset on the day after the 7th anniversary of the issue date ("Issue Date") and the day after each subsequent 7-year period hereafter. Record date for interest reset shall be the previous 2 business day for financial institutions in Taipei. The 7-year IRS rate shall be the arithmetic mean of 7-year IRS quotations as published by Reuter, 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) In the year when making earnings, before Issuer can distribute dividends for Series B Preferred Shares, the Company shall first: (i) pay all taxes and dues (ii) offset its losses in previous years (iii) set aside statutory reserve, or set aside or reverse special reserve and (iv) the distribution of the remaining portion, if any, will first be distributed as preferred share dividend.

(C) The Company has sole discretion to distribute dividend of the Preferred Shares, including its discretion to not declare dividends when no profit is recorded, or insufficient profit is recorded for Preferred Share dividends, or preferred share dividend distribution would render the Company's RBC ratio below the level required by law or competent authorities. The Company's cancellation of preferred share dividend distribution shall not be deemed an event of default. The Series B Preferred Shares which were issued this time are non-cumulative. Undeclared or under-declared dividends are not cumulative, and are not paid in subsequent years with profit.

(D) Except for receipt of dividends at the aforementioned dividend rate in Paragraph (A), holders of Preferred Shares cannot participate in distribution of cash or stock dividends to holders of common shares from profit or additional paid-in capital.

(E) Holders of Series B Preferred Shares shall have the same priority as holders of all subsequently issued preferred share in liquidation, which are prior to holders of common shares but subordinated to general creditors, to the extent of the issuance amount.

(F) Holders of Series B Preferred Shares have no voting right at the annual shareholders meeting, and cannot elect directors. However, holders of Series B Preferred Shares have voting rights at shareholders meeting of Preferred Shares, and at annual shareholders meeting on items relating to rights of Preferred Shares holders.

(G) Holders of Series B Preferred Shares cannot convert said preferred shares to common shares, and have no right to request the Company for redemption of Series B Preferred Shares.

(H) Through issuance of perpetual preferred stock, on the day after the 7th anniversary of the Issue Date, the Company may redeem all or part of outstanding Preferred Shares at issue price. Rights and obligations of the unredeemed Preferred Shares shall remain the same as mentioned above.

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D. On 31 December 2001, the Company listed its shares on Taiwan Stock Exchange Corporation (TWSE) in accordance with relevant regulations. On 29 July 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs).

(22) Capital surplus

	2018.6.30	2017.12.31	2017.6.30
Additional paid-in capital	$161,523,972	$126,523,972	$126,523,972
Treasury share transactions	2,539,377	2,539,377	2,539,377
Differences between share price and book value from acquisition or disposal of subsidiaries	29,142	29,142	29,142
Additional paid-in capital-Employee stock option	207,620	207,620	207,620
Convertible bonds to convert	1,144,486	1,144,486	1,144,486
Others	7,546	7,508	7,508
Total	$165,452,143	$130,452,105	$130,452,105

A. The capital surplus of the Company consists of consolidation premium from share exchange, additional paid-in capital from issuance of shares for cash accumulated adjustments on paid-in capital from investment under equity method, and transactions of treasury stocks and employee stock options. Capital surplus were $165,452,143 thousand, $130,452,105 thousand and $130,452,105 thousand as of 30 June 2018, 31 December 2017 and 30 June 2017, respectively.

B. According to the Ruling Letter Jin-Guan-Yin-Fa-Zi No.10200017220, capital surplus of financial holding companies from the share exchange, in compliance with Item 4, Article 47 of the Financial Holding Company Act, is allowed to be distributed as cash dividends or to be capitalized if the capital surplus was from the financial institution’s undistributed earnings before the share exchange. In addition, the capitalization amount is not subject to the restrictions provided in Article 72-1 of the “Regulations Governing the Offering and Issuance of Securities by Securities Issuers”.

C. According to the Company Act, the capital surplus shall not be used except for covering the deficit of the company. When a company incurs no loss, it may distribute the capital surplus related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

(23) Retained earnings

A. Legal reserve

Pursuant to the Company Act, 10% of the Company's after-tax net income in the current year must be appropriated to legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can only be used to offset deficits. For companies with no accumulated deficits, legal reserve which exceeds 25% of the issued share capital may be used for new share issuance or return cash to shareholders with the approval of stockholders' meeting.

On 8 June 2018, the Company's board of shareholders resolved to recognize the legal capital reserves of $5,636,280 thousand. On 16 June 2017, the Company's board of shareholders resolved to recognize the legal capital reserves of $4,762,117 thousand.

B. Special reserve

(A) According to the legal interpretations No.1010012865 issued by FSC on 6 April 2012, as the first-time adoption of IFRS, entities should appropriate special reserves from unrealized increments from revaluation and gains from accumulated translation adjustments recorded under stockholders' equity with same amount to retained earnings due to the adoption of exemptions in IFRS 1 First-time Adoption of International Financial Reporting Standards. The Company is not required to appropriate special reserves because the unrealized increments of revaluation should be treated in accordance with Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and the Company did not select to recognize accumulated translation difference as zero at the date of transition to IFRS.

(B) Cathay United Bank, Cathay Securities and Cathay Futures have reclassified appropriated trading losses reserve and default losses reserve as of 31 December 2010 as special reserve according to the relevant regulation. The special reserve can only be used to offset the accumulated deficit or be transferred to capital stock (limited to 50% of the special reserve) once the legal reserve reaches one-half of the paid-in capital. The Company set aside special reserve in the amount of $333,598 thousand for the year ended 31 December 2011.

(C) In accordance with IFRS 4, provisions for possible claims under contracts that are not in existence at the reporting date are prohibited. Based on the "Regulation Governing the Setting Aside of Various Reserves by Insurance Enterprises", the reserves under liability recorded before 31 December 2012 should be reclassified to special capital reserve considering the reclassification of balance after tax according to IAS 12 to retained earnings on 1 January 2013. In addition, in order to maintain the consistency and sustainability, the amount should be adjusted retrospectively to 1 January 2012. As of 1 January 2012, the "Special Reserve for Major Incidents" and "Special Reserve for Fluctuation of Risks" amounted to $9,022,812 thousand. Half of this amount was set aside to be reclassified as the opening balance of foreign exchange volatility reserve on 1 March 2012, and the rest of it in the amount of $4,511,405 thousand after deducting the effect of income tax was diverted to special capital reserve under retained earnings, an increase of $3,744,467 thousand. The Company set aside the special reserve in the amount of $3,744,467 thousand for the year ended 31 December 2013.

(D) Cathay Life has elected to use the fair value of certain investment properties on the transition date to TIFRS as their deemed costs. In accordance with Article 32 of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, the incremental value from fair value revaluation can be used to offset the negative impact from transition and shall set aside an equal amount of retained earnings; the residual amount shall be recognized under special reserve. According to Order No. 10202508140 issued by Insurance Bureau, the abovementioned amount of $2,994,565 thousand shall be set aside under special capital reserve in accordance with Letter Jin-Guan-Bao-Chai-Zi No.10102508861. The Company set aside special reserve in the amount of $2,994,565 thousand for the year ended 31 December 2013.

(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 30 June 2018, 31 December 2017 and 30 June 2017, the special reserves amounted to $107,509,178 thousand, $107,270,030 thousand and $107,270,030 thousand, respectively.

(F) In accordance with Letter Jin-Guan-Bao-Tsai-Zi No.10402029590, Cathay Life recognized special capital reserve in the amount of $34,764,311 thousand. The amount was originally recognized in insurance liabilities.

C. Undistributed earnings

(A) According to the Company's Articles of Incorporation, the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated as legal capital reserve and special capital reserve. The total remaining amount plus beginning undistributed earnings are the distributable earnings. The distributable earnings must be appropriated in accordance with the resolution by the stockholders' meeting.

(B) The Company cannot distribute overdue undistributed earnings. Before 2004, the Company had to pay an extra 10% income tax on approved taxable income. From (including) 2005, the calculation of the extra 10% income tax shall be based on current-year net income (after tax) generated according to Business Entity Accounting Act. Earnings that have been taxed will not be taxed again if the earnings are not distributed in the following years. From 1 January 2018, tax rate of the income tax for undistributed earnings has decreased to 5%.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(C) According to Item 1, Article 41 of Securities and Exchange Act, when distributing earnings, listed companies shall appropriate, in addition to legal reserve, special reserve equal to net deductions from shareholders' equity. The special reserve for the current year's net deductions shall be appropriated from current year's net income and prior periods' accumulated undistributed earnings. The special reserve for the prior periods' net deductions shall be appropriated only from prior periods' accumulated undistributed earnings. For any subsequent reversal of net deductions from shareholders' equity, the amount reversed may be distributed.

(D) According to the amended Article 235-1 of the Company Act, the Company shall provide a fixed amount or percentage of the actual profit for a year to be distributed as "employee remuneration", after deducting and setting aside an amount equal to the cumulative losses (if any). The aforementioned employee remuneration may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders' meeting. Furthermore the Articles of Incorporation may stipulate that the employee remuneration may be distributed to employees of affiliated enterprises meeting certain criteria.

(E) Details of the years ended 31 December 2017 and 2016 earnings distribution and dividends per share as approved by the shareholders' meeting on 8 June 2018 and 16 June 2017, respectively, are as follows:

	Appropriation of earnings		Dividend per share	
	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31	2017.1.1~ 2017.12.31	2016.1.1~ 2016.12.31
Legal reserve	$5,636,280	$4,762,117	$-	$-
(Reversal of) special reserve provision	234,146	(1,365)	-	-
Common stock-cash dividend	31,408,025	25,126,420	2.5	2.0
Preferred stock-cash dividend	1,899,924	124,585	2.28	0.1495

(F) The Company's distribution of 2017 retained earnings has been approved by its board of directors and resolved in the shareholder's meeting. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

Information regarding the employee bonuses and remuneration to directors and supervisors can be obtained from Note 6.(25).

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(24) Non-controlling interests

	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Beginning balance	$9,403,472	$6,499,449
Effects on retrospective and restatement	8,904	(Note)
Net income attributed to non-controlling interests	31,176	219,548
Other comprehensive income attributable to non-controlling interests		
Exchange differences resulting from translating the financial statements of a foreign operation	116,979	(212,987)
Unrealized gains from available-for-sale financial assets	(Note)	(25,445)
Gains on equity instruments at fair value through other comprehensive income	4	(Note)
Gains on debt instruments at fair value through other comprehensive income	60,805	(Note)
Other comprehensive losses reclassified using overlay approach	(102,479)	(Note)
Others	(338,356)	(102,173)
Ending balance	$9,180,505	$6,378,392

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(25) Employee benefits, depreciation and amortization

Summary statement of employee benefits and depreciation expenses breakdown:

	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Employee benefits expense				
Salary and wages	$9,236,769	$8,009,145	$18,675,418	$16,183,845
Labor and health insurance	928,433	929,177	2,031,499	2,033,325
Pension expense	531,031	533,010	1,063,937	1,063,758
Other employee benefits	1,283,015	1,240,910	2,437,590	2,353,557
Depreciation	641,062	602,150	1,272,514	1,202,848
Amortization	755,600	735,259	1,508,163	1,470,116

Based on the Articles of Incorporation of the Company. According to the resolution, 0.01% to 0.05% of profit of the current year is distributable as employees' compensation and no higher than 0.05% of profit of the current year is distributable as remuneration to directors. However, the company's accumulated losses shall have been covered. The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on profit of current year, the Company estimated the amounts of the employees' compensation and remuneration to directors for the year ended 30 June 2018 to be 0.01% of profit of current year and no higher than 0.05% of profit of the current year, respectively. The Company recognized employees' compensation and remuneration of $3,770 thousand and $1,350 thousand, respectively, and recorded under salaries expense. If the actual distribution is different from the estimates, the difference will be accounted for as changes in accounting estimates and recognized in profit or loss in the following year.

Based on profit of current year, the Company estimated the amounts of the employees' compensation and remuneration to directors for the year ended 30 June 2017 to be 0.01% of profit of current year and no higher than 0.05% of profit of the current year, respectively. The Company recognized employees' compensation and remuneration of $2,803 thousand and $900 thousand, respectively, and recorded under salaries expense. If the actual distribution is different from the estimates, the difference will be accounted for as changes in accounting estimates and recognized in profit or loss in the following year.

A resolution was passed at a board of directors meeting held on 15 March 2018 to distribute $5,812 thousand and $2,700 thousand in cash as employees' compensation and remuneration to directors, respectively. There were no material differences between the actual distribution and the amount on the financial report in 2017.

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. There were no material differences between the actual distribution and the amount on the financial report in 2016.

As of 30 June 2018 and 30 June 2017, the total numbers of the employees of the Group were 56,322 and 52,426, respectively.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(26) The Components of other comprehensive income

For the three-month period ended 30 June 2018:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Revaluation gains on property	$-	$-	$-	$45,367	$45,367
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	(2,354,869)	(44,422)	(2,399,291)	307,140	(2,092,151)
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	647,951	-	647,951	(129,590)	518,361
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(9,525)	-	(9,525)	10,739	1,214
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	852,604	-	852,604	(92,513)	760,091
Unrealized gains (losses) from debt instruments investment measured at fair value through other comprehensive income	(21,472,437)	(1,465,765)	(22,938,202)	4,577,126	(18,361,076)
Gain (losses) from hedging instruments	19,976	(22,814)	(2,838)	569	(2,269)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	240,124	-	240,124	(41,594)	198,530
Other comprehensive losses reclassified using overlay approach	3,821,337	(14,022,295)	(10,200,958)	(1,239,614)	(11,440,572)
Total	$(18,254,839)	$(15,555,296)	$(33,810,135)	$3,437,630	$(30,372,505)

For the three-month period ended 30 June 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:					
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	$(22,985)	$-	$(22,985)	$3,908	$(19,077)
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	(1,020,305)	-	(1,020,305)	173,452	(846,853)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	1,721,850	-	1,721,850	(51,498)	1,670,352
Unrealized gains (losses) from available-for-sale financial assets	22,619,900	7,757,649	30,377,549	(2,463,508)	27,914,041
Gains (losses) on cash flow hedges	36,891	(34,704)	2,187	(371)	1,816
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	27,099	-	27,099	3,153	30,252
Total	$23,362,450	$7,722,945	$31,085,395	$(2,334,864)	$28,750,531

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

For the six-month period ended 30 June 2018

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	$-	$-	$-	$51,401	$51,401
Revaluation gains on property	-	-	-	46,241	46,241
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	(2,055,176)	(442,804)	(2,497,980)	574,295	(1,923,685)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(86,186)	-	(86,186)	21,079	(65,107)
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	1,355,730	-	1,355,730	(228,097)	1,127,633
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	733,324	-	733,324	(40,497)	692,827
Gain (losses) from hedging instruments	22,790	(50,397)	(27,607)	(1,839)	(29,446)
Unrealized gains (losses) from debt instruments investment measured at fair value through other comprehensive income	(57,275,314)	(8,861,216)	(66,136,530)	11,002,372	(55,134,158)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(649,065)	-	(649,065)	193,782	(455,283)
Other comprehensive losses reclassified using overlay approach	2,829,626	(39,216,901)	(36,387,275)	3,057,810	(33,329,465)
Total	$(55,124,271)	$(48,571,318)	$(103,695,589)	$14,676,547	$(89,019,042)

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

For the six-month period ended 30 June 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:					
Revaluation gains on property	$235,064	$-	$235,064	$(46,243)	$188,821
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	3,352	-	3,352	(569)	2,783
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	(1,265,243)	-	(1,265,243)	215,091	(1,050,152)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	(3,136,775)	-	(3,136,775)	220,766	(2,916,009)
Unrealized gains (losses) from available-for-sale financial assets	65,916,645	(28,581,310)	37,335,335	(1,174,482)	36,160,853
Gains (losses) on cash flow hedges	119,514	(69,010)	50,504	(8,585)	41,919
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(1,120,576)	-	(1,120,576)	183,612	(936,964)
Total	$60,751,981	$(28,650,320)	$32,101,661	$(610,410)	$31,491,251

Upon derecognition of the Group' debt instrument investments at fair value through other comprehensive income, the cumulative gains or losses of in the amount $8,861,216 thousand for the six-month period ended 30 June 2018 that recognized in other comprehensive income was reclassified to profit or loss.

(27) Income taxes

Based on the amendments to the Income Tax Act announced on 7 February 2018, the Group's applicable corporate income tax rate for the year ended 31 December 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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

Income tax expense recognized in profit or loss

	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30
Current income tax expense (income):		
Current income tax charge	$(944,942)	$7,097,337
Adjustments in respect of current income tax of prior periods	220,972	200,116
Deferred tax expense (income):		
Deferred tax expense relating to origination and reversal of temporary differences	1,666,536	(5,857,499)
Deferred tax income relating to origination and reversal of tax loss and tax credit	8,144	-
Deferred tax income relating to changes in tax rate or the imposition of new taxes	(155,787)	-
Other components of deferred tax expense	2,201,335	1,682,673
Total income tax expense (benefit)	$2,996,258	$3,122,627

	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Current income tax expense (income):		
Current income tax charge	$6,351,882	$11,234,014
Adjustments in respect of current income tax of prior periods	94,866	200,153
Deferred tax expense (income):		
Deferred tax expense relating to origination and reversal of temporary differences	(3,644,301)	(10,139,142)
Deferred tax income relating to origination and reversal of tax loss and tax credit	(3,573,882)	-
Deferred tax income relating to changes in tax rate or the imposition of new taxes	9,487	-
Other components of deferred tax expense	2,299,836	1,895,965
Total income tax expense (benefit)	$1,537,888	$3,190,990

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Income tax relating to components of other comprehensive income

	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30
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	129,590	(173,452)
Exchange difference resulting from translating the financial statements of a foreign operation	92,513	51,498
Unrealized losses from equity instruments investments measured at fair value through other comprehensive income	(307,140)	(Note)
Unrealized losses from debt instruments investments measured at fair value through other comprehensive income	(4,577,126)	(Note)
Unrealized gains from available-for-sale financial assets	(Note)	2,463,508
Gains (losses) from hedging instruments/Gains (losses) on cash flow hedges	(569)	371
Revaluation gains on property	(45,367)	-
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	30,855	(7,061)
Other comprehensive losses reclassified using overlay approach	1,239,614	(Note)
Income tax relating to components of other comprehensive income	$(3,437,630)	$2,334,864

	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Current income tax expense:		
Current income tax charge	$-	$-
Deferred tax expense (income):		
Remeasurement of defined benefit plans	(51,041)	-
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	228,097	(215,091)
Exchange difference resulting from translating the financial statements of a foreign operation	40,497	(220,766)
Unrealized losses from equity instruments investments measured at fair value through other comprehensive income	(574,295)	(Note)
Unrealized losses from debt instruments investments measured at fair value through other comprehensive income	(11,002,372)	(Note)
Unrealized losses from available-for-sale financial assets	(Note)	1,174,482
Gains (losses) from hedging instruments/Gains (losses) on cash flow hedges	1,839	8,585
Revaluation gains on property	(46,241)	46,243
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(214,861)	(183,043)
Other comprehensive losses reclassified using overlay approach	(3,057,810)	(Note)
Income tax relating to components of other comprehensive income	$(14,676,547)	$610,410

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Income taxes charged to equity

	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30
Current tax expense (benefit)		
Disposal of equity instruments measured at fair value through other comprehensive income	$(168,135)	(Note)
Deferred tax expense (benefit)		
Disposal of equity instruments measured at fair value through other comprehensive income	168,135	(Note)
Capital surplus	3	(1)
Income taxes relating to components of equity	$3	$(1)

	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Current tax expense (benefit)		
Disposal of equity instruments measured at fair value through other comprehensive income	$(582,525)	(Note)
Deferred tax expense (benefit)		
Disposal of equity instruments measured at fair value through other comprehensive income	582,525	(Note)
Capital surplus	3	3
Income taxes relating to components of equity	$3	$3

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

B. Income tax returns:

	2018.6.30	
	Income tax returns examined by tax authorities	Notes
The Company	through 2014	-
Cathay Life	through 2013	Cathay Life was in the process of administrative remedy for 2007, 2011 and 2012.
Cathay United Bank	through 2013	Cathay United Bank was in the process of administrative remedy from 2010 to 2013.
Cathay Century	through 2013	-
Cathay Securities	through 2013	Cathay Securities was in the process of administrative remedy from 2011 to 2013.
Cathay Venture	through 2012	Cathay Venture was in the process of administrative remedy from 2011.
Cathay Securities Investment Trust	through 2013	-
Cathay Futures	through 2015	-

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

(28) Earnings per share

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

	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Basic earnings per share				
Profit attributable to ordinary equity holders of the Company (in thousands)	$11,015,916	$15,485,935	$34,083,299	$26,110,946
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	12,563,210	12,563,210	12,563,210	12,563,210
Basic earnings per share (in dollars)	$0.87	$1.23	$2.71	$2.08

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of the financial statements.

(29) Risk management for insurance contract

A. Life insurance subsidiaries

Risk management objectives, policies, procedures and methods:

(A) Objectives of risk management

Cathay Life’s risk management policy aims to promote operational efficiency, to ensure assets safety, to increase shareholder value, and to comply with any and all applicable laws and regulations for the purpose of steady growth and sustainable management.

(B) Framework of risk management, organization structure and responsibilities

a. Board of directors

(a) The board of directors should establish appropriate risk management framework and culture, ratify appropriate risk management policy and allocate resources in the most effective manner.
(b) The board of directors, together with senior management should promote and execute risk management policies and standards. Furthermore, they should keep the policies and standards in line with Cathay Life’s operational objective and strategy.
(c) The board of directors should be aware of the risk arising from daily operations, ensure the effectiveness of risk management and bear the ultimate responsibility for risk management.
(d) The board of directors should delegate authority to risk management department to deal with violation of risk limits by other departments.

b. Risk management committee

(a) The committee should develop the risk management policies, framework and organizational function and establish quantitative and qualitative risk management standards. The committee is also responsible for reporting the results of implementing such policies and standards to the board regularly and making necessary suggestions for improvement.
(b) The committee should execute the risk management decisions set by the board of directors and evaluate the results of developing and executing risk management mechanisms.
(c) The committee should assist and monitor the risk management activities.
(d) The committee should adjust the risk category, risk limits and risk taking tendency according to the change of the environment.
(e) The committee should enhance cross-department interaction and communication.

c. Chief Risk Officer

(a) The chief risk officer should maintain independence and should not concurrently play a business or financial role nor hold a position in any profit center of Cathay Life.
(b) The chief risk officer should be able to access any and all information which may have an impact on risk overview of Cathay Life.
(c) The chief risk officer should be in charge of overall risk management of Cathay Life.
(d) The chief risk officer should participate in Cathay Life important decision-making process and express opinions from a risk management perspective.

d. Risk management department

(a) The department is responsible for monitoring, measuring and evaluating daily risks and should perform its duties independently.
(b) The department should perform the following functions with regard to different business activities:

(i) Propose and execute the risk management policies set by the board of directors.
(ii) Suggest the risk limits based on risk appetite
(iii) Summarize the risk information provided by all departments, facilitate the execution of the policies and discuss the risk limits with each department
(iv) Regularly generate risk management related reports
(v) Regularly review all department’s risk limits and cope with the violation of such limits
(vi) Execute stress testing
(vii) Execute back testing if necessary
(viii) Manage other risk management related issues

e. Business Units

(a) Each business unit shall assign a risk management coordinator to assist with the risk management of each business unit.

(b) The duties of the risk management includes the following:

(i) Identify and measure risks and report risk exposure and potential influence against Cathay Life on time
(ii) Regularly review the risk limits. Any excess of such limits should be reported along with any actions taken against such excess.
(iii) Assist with developing the risk model and to ensure that the risk measurement. The model application and the assumptions behind the model are reasonable and consistent.
(iv) Ensure that internal control operates effectively to comply with relevant regulations and Cathay Life's risk management policies
(v) Assist in risk management data collection
(vi) Be responsible for such department's daily risk management reporting and report issues if necessary
(vii) Urge the disclosure of risk management information regularly to the risk management department

f. Audit department

The department is required to audit all departments and to figure out the status of risk management policies execution pursuant to the relevant regulations and Cathay Life's risk management policies.

The risk management department formulates risk management standards and policies based on Cathay Life's business nature and needs. Cathay Life provides risk management reports to the risk management department regularly. The reports are compiled by the risk management department and turned in to the risk management committee.

(C) The range and types of risk assessment and reporting

Cathay Life's procedures for risk management include risk identification, risk measurement, risk control process and risk management reporting. Cathay Life sets its risk management standards for a broad variety of risks as specified below, i.e. market risk, credit risk, sovereign risk, liquidity risk, operation risk, insurance risk, and assets/liability matching risk as well as for the capital adequacy. Cathay Life also monitors Cathay Life's risks and regularly provides the risk management reports.

a. Market risk

This risk can be defined as the risk of losses in value of Cathay Life's financial assets arising from adverse movements in market prices of financial instruments. The measurement indicators Cathay Life applied is based on value-at-risk (VaR) and is regularly reviewed. In addition, Cathay Life also uses back testing regularly to ensure the accuracy of the market risk model. Furthermore, Cathay Life applies scenario analysis and stress testing to evaluate the changes in the value of certain asset groups due to significant domestic and/or international events. In response to the enforcement of foreign exchange volatility reserve, Cathay Life determines the ceiling of foreign exchange risk, implements early warning system and also monitors the foreign exchange risk regularly.

b. Credit risk

This risk refers to Cathay Life's losses due to the default of debtors or counterparties. The measurements that Cathay Life uses include credit rating, concentration analysis and value-at-risk (VaR). Furthermore, Cathay Life applies scenario analysis and stress testing to evaluate the changes in the value of the asset groups due to significant domestic and/or international events.

c. Sovereign risk

It means that Cathay Life suffers losses from investment in a specific country as a consequence of market price fluctuation or government's default stemming from local political and/or economic situations. Cathay Life measures the sovereign risk by certain ratio. The ratio could be calculated as follows: the total investment amount in a certain country or specific area divided by total foreign investment amount or net asset. The Company reviews and adjusts the indicator on a regular basis.

d. Liquidity risk

Liquidity risk includes 'funding liquidity risk' and 'market liquidity risk'. The former is the risk of insufficient funding to meet Cathay Life's commitment when due. Cathay Life uses current ratio to measure funding liquidity risk and maintains the ratio below high risk. Operating departments have established funding communication system. The risk management department manages funding liquidity based on the information provided by the operating departments. Furthermore, operating departments have also built up their own cash flow analysis models and monitor the result of the analysis regularly. They also set the annual assets allocation plan to better maintain the liquidity of funding. 'Market liquidity risk' occurs when drastic change of market price is triggered by market turmoil or lack of market depth. All investment departments have evaluated the market trading volumes and adequacy of holding positions based on the characteristics and objectives of current investment portfolio.

e. Operating risk

This risk occurs when there are errors caused by internal processes, employees, system breakdowns or external issues such as the legislative risk; however, the strategic risk and the reputation risk are excluded. Cathay Life has set the standard operating procedure based on the nature of the operations and established losses reporting system as well to collect and manage information with respect to losses resulting from operational risk. To maintain Cathay Life's operation and ability to provide customer services while minimizing the losses under emergency events, Cathay Life has established emergency handling mechanism and information system damage preparedness.

f. Insurance risk

Cathay Life assumes that certain risks transfer from policy holders to Cathay Life after collecting premiums from policy holders and, as a result, Cathay Life may bear a loss for paying a claim due to unexpected changes. This risk generally happens because of the policy design, pricing risk, underwriting risk, reinsurance risk, catastrophe risk, claim risk and reserve-related risk.

g. Asset and liability matching risk

It happens when the changes in the value of assets and liabilities are not equal. Cathay Life measures the risk with capital costs, duration, cash flow management and scenario analysis.

h. Risk-based capital (RBC) ratio

The RBC ratio regulated under the Insurance Act and the Regulations Governing Capital Adequacy of Insurance Companies is the total capital of Cathay Life divided by Cathay Life's risk-based capital. Cathay Life regards such ratio as an indicator for capital adequacy.

(D) The process of assuming, measuring, monitoring and controlling risks and the way to determine a proper risk classification, a premium level and underwriting policies

a. The process of assuming, measuring, monitoring and controlling risks:

(a) Promulgate Cathay Life's risk management standards including the definitions and range of risks, management structure, risk management indexes and other risk management measures.
(b) Establish methods to evaluate insurance risks.
(c) Regularly provide the insurance risk management report to be reviewed by the risk management committee and as a reference to developing insurance risk management strategies.
(d) Regularly summarize the results of implementing risk management policies and report to the risk management committee. When an exceptional risk event occurs, the affected departments should propose possible solutions to the risk management committee in Cathay Life and that in the Company.

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.

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.

(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.

c. Cathay Life assesses and reviews the effectiveness of the hedge instruments and hedged items regularly. The assessment report is issued and forwarded to the management which is delegated by board of directors; meanwhile, a copy of the assessment report is delivered to the audit department for future reference.

(J) The policies and procedures against the concentration of credit and investment risks

Credit and investment limits to a group of companies are set by Cathay Life. When such limits have been reached or breached as a result of any increase of the credit line or investment, Cathay Life shall not grant a loan or make investment to such group in general. However, if there is any individual reason to require Cathay Life to undertake it. It should be handled in accordance with the “National Risk Management Guideliness”, “Code for Risk Investment Risk Limits” and “Administrative Measures for Credits and Investment Risks of Group Enterprises and Other Legal Persons” of Cathay Life

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Information of insurance risk

(A) Sensitivity of insurance risk - Insurance contracts and financial instruments with discretionary participation features:

a. Cathay Life

	For the six-month period ended 30 June 2018		
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 1,330,937	Decrease (increase) 1,064,749
Expense	×1.05 (×0.95)	Decrease (increase) 1,414,038	Decrease (increase) 1,131,230
Surrender rates	×1.05 (×0.95)	Increase (decrease) 171,458	Increase (decrease) 137,167
Rate of return	+0.1%	Increase 2,671,937	Increase 2,137,550
Rate of return	-0.1%	Decrease 2,673,259	Decrease 2,138,607

	For the six-month period ended 30 June 2017		
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 1,212,715	Decrease (increase) 1,006,553
Expense	×1.05 (×0.95)	Decrease (increase) 1,389,473	Decrease (increase) 1,153,263
Surrender rates	×1.05 (×0.95)	Increase (decrease) 215,447	Increase (decrease) 178,821
Rate of return	+0.1%	Increase 2,454,804	Increase 2,037,488
Rate of return	-0.1%	Decrease 2,456,020	Decrease 2,038,497

b. Cathay Lujiazui Life

	For the six-month period ended 30 June 2018		
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.10 (×0.90)	Decrease (increase) 80,505	Decrease (increase) 60,378
Expense	×1.05 (×0.95)	Decrease (increase) 41,917	Decrease (increase) 31,438
Surrender rates	×1.10 (×0.90)	Increase (decrease) 53,157	Increase (decrease) 39,867
Rate of return	+0.25%	Increase 292,680	Increase 219,510
Rate of return	-0.25%	Decrease 321,286	Decrease 260,964

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	For the six-month period ended 30 June 2017		
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.10 (×0.90)	Decrease (increase) 74,353	Decrease (increase) 55,765
Expense	×1.05 (×0.95)	Decrease (increase) 36,676	Decrease (increase) 27,507
Surrender rates	×1.10 (×0.90)	Increase (decrease) 54,546	Increase (decrease) 40,909
Rate of return	+0.25%	Increase 140,479	Increase 105,359
Rate of return	-0.25%	Decrease 153,894	Decrease 115,420

c. Cathay Life (Vietnam)

	For the six-month period ended 30 June 2018		
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 332	Decrease (increase) 266
Expense	×1.05 (×0.95)	Decrease (increase) 13,592	Decrease (increase) 10,874
Surrender rates	×1.05 (×0.95)	Increase (decrease) 4,317	Increase (decrease) 3,453
Rate of return	+0.1%	Increase 4,050	Increase 3,240
Rate of return	-0.1%	Decrease 4,052	Decrease 3,241

	For the six-month period ended 30 June 2017		
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 302	Decrease (increase) 241
Expense	×1.05 (×0.95)	Decrease (increase) 9,381	Decrease (increase) 7,505
Surrender rates	×1.05 (×0.95)	Increase (decrease) 1,433	Increase (decrease) 1,146
Rate of return	+0.1%	Increase 3,358	Increase 2,687
Rate of return	-0.1%	Decrease 3,360	Decrease 2,688

(a) Changes in income before tax listed above refer to the effects of income before tax arising from the assumption for the six-month periods ended 30 June 2018 and 2017. The influence on equities of Cathay Life, Cathay Lujiazui Life and Cathay Life (Vietnam) is assumed that the income tax is calculated on pre-tax income at rates of 20% (17% for the period ended 30 June 2017), 25% and 20% individually.

(b) An increase (decrease) of 0.1% on discount rate applied to liability adequacy test has no impact on income before tax and equity. The result of the test shows Cathay Life's adequacy. However, if the discount rate keeps declining significantly, income before tax and equity will probably be affected.

(c) Sensitivity Test

(i) Mortality/Morbidity test is executed by multiplying mortality, morbidity and the occurrence rate of injury insurance by the changes of assumptions and results in the corresponding changes in income before tax.
(ii) Expense sensitivity is executed by multiplying all expense items listed in statements of comprehensive income (Note 1) by the changes of assumptions and results in the corresponding changes in income before tax.
(iii) Surrender rate sensitivity test is executed by multiplying surrender rate by the changes of assumptions and results in the corresponding changes in income before tax.
(iv) The rate of returns sensitivity test is executed by multiplying the rate of returns (Note 2) increases (decreases) by the changes of assumptions and results in the corresponding changes in income before tax.

Note 1: Expense items includes underwriting expenses, commission expenses, other operating expenses included in operating costs as well as business expenses, administration expenses and training expenses included in operating expenses.
Note 2: The rate of returns is measured by 2 x (net profits or losses on investment – finance costs) / (the beginning balance of usable capital + the ending balance of usable capital – net profits or losses on investment + 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.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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.

(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		
2011Q3~2012Q2	15,344,577	18,942,860	19,280,694	19,367,147	19,428,083	19,465,573	19,502,832	-	-
2012Q3~2013Q2	14,207,669	17,538,363	17,859,772	17,908,460	17,948,974	17,979,947	18,011,567	31,620	31,683
2013Q3~2014Q2	14,430,297	17,717,754	18,040,951	18,142,401	18,145,908	18,179,561	18,211,085	65,177	65,307
2014Q3~2015Q2	14,571,990	18,110,741	18,441,030	18,521,678	18,564,872	18,598,574	18,630,587	108,909	109,127
2015Q3~2016Q2	15,612,219	19,236,420	19,604,451	19,689,493	19,735,196	19,771,110	19,805,109	200,658	201,059
2016Q3~2017Q2	16,041,023	19,907,013	20,255,060	20,336,933	20,383,563	20,420,226	20,455,204	548,191	549,288
2017Q3~2018Q2	18,543,718	22,801,523	23,204,485	23,309,095	23,370,252	23,414,184	23,456,340	4,912,622	4,922,447

Expected future payment	$5,878,911
Add: Assumed reserve for incurred but not reported claim	70,185
Reserve for unreported claim	5,949,096
Add: Reported but not paid claim	1,928,282
Claims reserve balance	$7,877,378

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(b) Retained business development trend

Accident year	Development year							Unreported claim	Reserve for unreported claim
	1	2	3	4	5	6	7		
2011Q3~2012Q2	15,449,742	19,092,864	19,433,506	19,520,838	19,582,569	19,620,367	19,658,166	-	-
2012Q3~2013Q2	14,396,496	17,752,964	18,079,602	18,129,471	18,170,339	18,201,957	18,234,362	32,405	32,470
2013Q3~2014Q2	14,508,785	17,834,585	18,162,290	18,264,353	18,268,596	18,302,561	18,334,515	65,919	66,051
2014Q3~2015Q2	14,685,660	18,279,560	18,612,485	18,694,584	18,738,434	18,772,576	18,805,209	110,625	110,846
2015Q3~2016Q2	15,749,673	19,399,201	19,773,769	19,859,865	19,906,216	19,942,566	19,977,140	203,371	203,777
2016Q3~2017Q2	16,100,992	20,016,979	20,367,969	20,450,543	20,497,605	20,534,558	20,569,930	552,951	554,056
2017Q3~2018Q2	18,688,695	22,997,355	23,405,554	23,511,413	23,573,338	23,617,786	23,660,647	4,971,952	4,981,896

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

Expected future payment	$5,949,096
Add: Reported but not paid claim	1,925,919
Retained claims reserve balance	$7,875,015

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.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Cathay Lujiazui Life

(a) Direct business development trend

Accident year	Development year 1	2	3	4	5	6	7	Expected future payment
2011Q3~2012Q2	238,233	440,878	467,217	467,217	483,038	483,038	483,038	-
2012Q3~2013Q2	253,742	495,546	535,572	539,647	539,647	539,647	539,647	-
2013Q3~2014Q2	375,166	603,104	640,915	650,798	650,798	650,798	650,798	-
2014Q3~2015Q2	220,188	412,107	441,040	650,798	650,798	650,798	650,798	-
2015Q3~2016Q2	261,280	448,360	441,040	451,724	451,724	451,724	451,724	10,684
2016Q3~2017Q2	268,806	448,360	471,860	492,340	492,340	492,340	492,340	43,980
2017Q3~2018Q2	268,806	473,382	498,193	538,464	538,464	538,464	538,464	269,658

Expected future payment	$324,322
Less: Expected reported but not paid claim	(37,216)
Reserve for unreported claim	287,106
Add: Reported but not paid claim	30,747
Claims reserve balance	$317,853

(b) Retained business development trend

Accident year	Development year 1	2	3	4	5	6	7	Expected future payment
2011Q3~2012Q2	234,039	440,518	467,217	467,217	474,327	474,327	474,327	-
2012Q3~2013Q2	248,035	494,291	535,550	539,625	474,327	474,327	474,327	-
2013Q3~2014Q2	318,577	594,325	632,093	641,974	641,974	641,974	641,974	-
2014Q3~2015Q2	197,327	388,818	417,728	641,974	641,974	641,974	641,974	-
2015Q3~2016Q2	258,644	445,338	417,728	428,402	428,402	428,402	428,402	10,674
2016Q3~2017Q2	256,438	445,338	465,506	486,861	486,861	486,861	486,861	41,523
2017Q3~2018Q2	256,438	476,015	497,572	520,974	520,974	520,974	520,974	264,536

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

Expected future payment	$316,733
Less: Expected reported but not paid claim	(37,216)
Add: Reported but not paid claim	30,747
Retained claims reserve balance	$310,264

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Cathay Lujiazui Life recognize claims reserve for reported claims (reported but not paid) and unreported claims (incurred but not reported). Due to uncertainty, estimation, and judgment involved in recognition, there is a high degree of complexity in reserving for claim. Any changes of the estimation or judgment are treated as the changes of the accounting estimates and can be recognized as profit and loss in current year. Some claims are delayed in notifying Cathay Life and Cathay Lujiazui Life. Also, the expected payment for unreported claims involves major subjective judgment and estimation on the past experiences. Thus, uncertainty exists that the estimated claims reserve for claim payments on the balance sheet date will not be equal to the final settled amount of claim payments. The claims reserve recorded on the book is estimated based upon the currently available information. However, the final amount probably will deviate from the original estimates because of the follow-up developments of the claim events.

The chart above shows the development trend of claim payments. The event year is the actual year for the occurrence of the insurance claim events; The x-axis is the year of the development for the settlement cases; the dollar amount shown above the diagonal line represents the settlement cases in that specific event year with the corresponding accumulated dollar amounts that have been paid in the end of the year; the dollar amount shown below the diagonal line represents the accumulated estimated dollar amounts needed to be paid for each event year as time passes. It is possible that the circumstances and trends affecting dollar amount of recognition for the claims reserve in current year will be different from that in the future. Thus, the expected future payment amount for the settlement cases cannot be determined by this chart.

c. Cathay life (Vietnam)

Direct business development trend (and retained business development trend)

Accident year	Development year				
	1	2	3	4	5
2013Q3~2014Q2	618	673	673	673	673
2014Q3~2015Q2	1,081	1,196	1,196	1,199	1,199
2015Q3~2016Q2	1,163	1,323	1,323	1,324	1,324
2016Q3~2017Q2	5,786	7,308	7,308	7,312	7,312
2017Q3~2018Q2	32,352	38,971	38,971	38,996	38,996

The chart above has shown the development trend of claim payments. The event year is the actual year for the occurrence of the insurance claim events; The x-axis is the year of the development for the settlement cases; the dollar amount shown above the diagonal line represents the settlement cases in that specific event year with the corresponding accumulated dollar amounts has been paid in the end of the year; the dollar amount shown below the diagonal line represents the accumulated estimated dollar amounts that need to be paid for each event year as time passes.

Cathay Life (Vietnam) recognizes claims reserve for reported claims (reported but not paid) and unreported claims (incurred but not reported). The estimation method of unreported claims is earned premium multiplied by the loss ratio based upon the past loss experiences instead of loss triangle method, which was approved by the Vietnam local authorities. Thus, the expected future payment amount for the settlement cases cannot be determined by this chart. Also, the expected payment for unreported claims involves major subjective judgment and estimation on the past experiences. Thus, uncertainty exists that the estimated claims reserve for claim payments on the balance sheet date will not be equal to the final settled amount of claim payments.

Credit risk, liquidity risk, and market risk for insurance contracts

(a) Credit risk

This risk represents Cathay Life's financial loss due to the default of reinsurers; therefore, may cause impairment of reinsurance assets.

Due to the nature of reinsurance market and the regulations on qualified reinsurers, the insurers in Taiwan sustain certain degree of concentration of credit risk in reinsurers. To reduce this risk, Cathay Life chooses the reinsurance counterparty, reviews its credit rating periodically, monitors and controls the risk of reinsurance transactions properly in accordance with Cathay Life's "Reinsurance Risk Management Plan" and "Evaluation Standards for Reinsurers."

The 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.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(b) Liquidity risk

The chart below is the analysis (undiscounted) of insurance contracts and net cash flows of liabilities of financial instruments with discretionary participation features. The figures shown in this chart are the total insurance payments and expenses of valid insurance contracts at specific times in the future on the balance sheet date. The actual future payment amounts will not be the same as expected due to the differences between the actual and expected experiences.

Unit: NT $ 100 million

	Insurance contracts and financial instruments with discretionary participation features		
	Within 1 year	1 to 5 years	Over 5 years
2018.6.30	$(750)	$1,209	$171,350
2017.12.31	(1,082)	474	171,163
2017.6.30	(1,877)	(226)	169,167

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 contacts have slight impact on profit and loss or equity. When the regulator changes the discount rate assumption possibly and reasonably, this change will have the impact of different range on profit and loss or equity depending upon the level of change it has been made and the overall company product portfolio. Furthermore, the reasonably possible change on the market risk will probably have impact on the future cash flows of insurance contracts and financial instruments with discretionary participation features, which are estimated based on information available at the balance sheet date and are used for assessing the adequacy of recognized insurance liabilities via adequacy test. Based upon the reasonably possible changes of current market risk, it has little impact on the adequacy of current recognized insurance liabilities.

B. Property and casualty insurance subsidiaries

The objectives, policies, procedures and methods of risk management:

(A) The framework, organization, and responsibility of risk management:

a. Board of directors

(a) To recognize various risks associated with insurance business, assure effectiveness of risk management and take ultimate responsibility for risk management as a whole.
(b) To establish appropriate mechanism and culture for risk management, ratify appropriate risk management policies and optimize resource allocation.
(c) To consider the aggregate effect of various risks from the perspective of Cathay Century as a whole, take into account the regulatory capital requirements from the competent authority and other related capital allocation regulations regarding finance and business.

b. Risk Management Committee

(a) To formulate risk management policies, frameworks, and organizations; to build quantitative and qualitative management standards, regularly report to board of directors, reflect timely the execution of risk management and propose necessary steps for improvement.
(b) To execute risk management decisions from board of directors and review development, establishment and effectiveness of risk management mechanism for Cathay Century as a whole on a regular basis.
(c) To assist and supervise various departments in risk management activities.
(d) To adjust risk category, allotment, and attribution in response to changes in the environment.
(e) To coordinate the interaction and communication of risk management function across departments.

c. Chief Risk Officer

The appointment and removal of the chief risk officer need to be resolved by the board of directors. The chief risk officer should work independently and cannot concurrently serve on business unit and financial unit. He or she has the rights to acquire any information that could have impact on Cathay Century’s risk outline.

(a) To manage Cathay Century’s overall risk management.
(b) To participate in the discussion of important company policies and to deliver appropriate recommendations from risk management viewpoint.

d. Risk management department

Risk management department is established independent of sales function to take charge of tasks such as the supervision and evaluation of various major risks.

Responsibility of risk management division:

(a) To assist in drafting risk management policies and the execution when ratified by the board of directors.
(b) To assist in setting up risk limits according to the risk appetite.
(c) To compile risk information from various departments, coordinate and communicate with them to execute policies and limits.
(d) To propose risk management related reports on a regular basis.
(e) To supervise risk limit and its use in each business unit on a regular basis.
(f) To assist in stress tests and conduct back-testing when necessary.
(g) To conduct other risk management related tasks.

e. Business unit

(a) The responsibilities of business's risk management are as follows:

(i) To supervise the daily risk management and report of the responsible unit and take necessary responsive actions.
(ii) To oversee the sharing of risk management information to risk management on a regular basis.

(b) The business unit's responsibilities for risk management are as follows:

(i) To identify risk and report risk exposure.
(ii) To evaluate the degree of influence (quantitative or qualitative) when risks occur and pass the risk information in a timely and correct manner.
(iii) To review each risk item and its limit on a regular basis to insure the effective execution of risk limit within business unit.
(iv) To oversee risk exposure and report when over-limit occur, including measures taken against it.
(v) To assist in development of risk model to insure the evaluation of risk, use of model, and its assumption are conducted on a reasonable basis and is consistent with actual practice.
(vi) To assure effective execution of internal control within business unit to comply with relevant regulations and risk management policies of Cathay Century.
(vii) To assist in collecting information regarding operation risk.

f. Internal audit room

Audit the execution of risk management of each unit in Cathay Century according to the existing relevant regulations.

(B) Scope and nature of risk reporting and evaluation system of property insurance

a. Risks reporting

(a) Each business unit within Cathay Century and its subsidiaries should pass risk information to risk management unit for overseeing purpose, and propose over-limit report and responding measures when risk exposure is over limit.
(b) Risk management unit compiles risk information from each department, examine and track the use of major risk limit, submit a monthly risk management report to the general manager, and make quarterly report to the risk management committee and board of director to oversee risks on a regular basis.

b. Scope and nature of risk evaluation system

The risk management unit of Cathay Century and its subsidiaries, and the Company collaborate in building market risk management system. The structure will consider functionality, source of information, completeness of uploaded information, and the safety of the environment in which the system operates. Function-wise, risk management system focuses on the need of middle office to quantify risk, and it would only be authorized to risk management personnel.

(C) Processes to undertake, evaluate, supervise and control insurance risk of property insurance business. Policy in underwriting to assure proper risk categorization and fee standard.

In Cathay Century and its subsidiaries, risk management department takes responsibilities in monitoring risks, integrate insurance risk of Cathay Century as a whole, and set up risk indicators, risk limit, and managing mechanism. Each related department is the execution unit of insurance risk control. They report execution process to risk management department every month based on regulation, internal rules, and professional knowledge and experience of their respective field. Risk management department then propose insurance risk management report to risk management committee and the board of directors each quarter.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(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:

Items	2018	2017
Fire insurance	NT$1,233,000	NT$1,105,000
Marine insurance	NT$1,233,000	NT$1,105,000
Engineering insurance	NT$1,233,000	NT$1,105,000
Other property insurance	NT$1,233,000	NT$1,105,000
Automobile insurance	NT$1,233,000	NT$1,105,000
Health and injury insurance	NT$1,233,000	NT$1,105,000

(F) Methods of asset/liability management

Provisions are evaluated on a regular basis based on Cathay Century and its subsidiaries’ business characteristics to insure fund allocation and the liquidity of asset investment is sufficient to meet possible future claims. Cash flow management with comprehensive consideration of the amount of fund required and its timeline of every department is conducted through fund procurement department, which is independent of trading unit.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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 and control process when additional liability or commitment to equity contribution is required for the property insurance business Cathay Century and its subsidiaries has established a management mechanism for capital adequacy, which includes capital adequacy indicators for regular review. Capital adequancy will be measured quarterly and every six month a capital adequacy management report will be compiled to implement capital adequacy management.

If capital adequacy ratio exceeds control standard (risk limit) or in the case of unusual events, related departments will meet together to study counter-measures and report to the Company to review the impact on the group's capital adequacy ratio.

Receivables and payables of insurance contracts

(A) Receivables of insurance contracts

	Premiums receivable (Note)		
Items	2018.6.30	2017.12.31	2017.6.30
Fire insurance	$876,887	$751,065	$862,309
Marine insurance	273,995	231,980	220,830
Land and air insurance	85,688	130,372	108,428
Liability insurance	162,770	251,238	144,396
Bonding insurance	36,907	22,206	52,794
Other property insurance	259,838	202,333	195,707
Accident insurance	162,046	118,032	122,468
Health insurance	10,194	6,159	8,866
Compulsory automobile liability insurance	17,727	14,866	18,739
Total	1,886,052	1,728,251	1,734,537
Less: Loss allowance	(76,305)	(62,742)	(66,865)
Net amount	$1,809,747	$1,665,509	$1,667,672

Cathay Century and its subsidiaries ageing analysis of receivable:

	2018.6.30	2017.12.31	2017.6.30
≦90 days	$1,662,740	$1,530,976	$1,544,323
＞90 days	223,312	197,275	190,214
Total	$1,886,052	$1,728,251	$1,734,537

Note: As of 30 June 2018, 31 December 2017 and 30 June 2017, the receivables included overdue receivables amounting to $222,730 thousand, $197,203 thousand and $188,405 thousand, respectively; and the allowance for bad debts amounting to $59,742 thousand, $47,475 thousand and $51,488 thousand, respectively.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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

Items	Claims reported and paid off 2018.6.30	2017.12.31	2017.6.30
Fire insurance	$49,192	$18,931	$48,008
Marine insurance	30,038	25,499	13,024
Land and air insurance	44,837	41,553	43,157
Liability insurance	32,947	33,210	23,442
Bonding insurance	147	305	8,088
Other property insurance	50,960	18,812	28,124
Accident insurance	11,909	15,473	30,670
Health insurance	-	-	-
Compulsory automobile liability insurance	232,445	391,512	177,642
Total	452,475	545,295	372,155
Less: Loss allowance	(4,524)	(5,453)	-
Net amount	$447,951	$539,842	$372,155

(C) Payables of insurance contract

Items	2018.6.30 Commission payables	Other payables	Total
Fire insurance	$27,337	$13,788	$41,125
Marine insurance	7,546	14,576	22,122
Land and air insurance	22,507	86,226	108,733
Liability insurance	13,067	18,484	31,551
Bonding insurance	3,591	833	4,424
Other property insurance	4,544	9,467	14,011
Accident insurance	10,513	31,787	42,300
Health insurance	2,898	4,029	6,927
Compulsory automobile liability insurance	28,093	-	28,093
Total	$120,096	$179,190	$299,286

Items	2017.12.31 Commission payables	Other payables	Total
Fire insurance	$21,904	$11,967	$33,871
Marine insurance	6,148	12,585	18,733
Land and air insurance	28,889	85,161	114,050
Liability insurance	12,574	21,819	34,393
Bonding insurance	3,243	441	3,684
Other property insurance	3,375	10,166	13,541
Accident insurance	11,582	25,716	37,298
Health insurance	2,475	1,850	4,325
Compulsory automobile liability insurance	26,560	-	26,560
Total	$116,750	$169,705	$286,455

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2017.6.30		
Items	Commission payables	Other payables	Total
Fire insurance	$20,995	$14,100	$35,095
Marine insurance	6,799	10,521	17,320
Land and air insurance	26,955	83,606	110,561
Liability insurance	12,734	17,892	30,626
Bonding insurance	6,076	685	6,761
Other property insurance	3,335	9,258	12,593
Accident insurance	12,176	31,393	43,569
Health insurance	3,029	3,462	6,491
Compulsory automobile liability insurance	31,795	-	31,795
Total	$123,894	$170,917	$294,811

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

	2018.6.30	
Items	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C.	$137,421	$346,298
AON	31,516	171,164
Sompo Japan Nipponkoa	35,376	16,573
Marsh	14,179	135,850
Central Re	6,670	89,303
EverApex	-	92,023
Others	189,764	647,853
Total	414,926	1,499,064
Less: Loss allowance	(17,281)	-
Net amount	$397,645	$1,499,064

	2017.12.31	
Items	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C.	$134,595	$324,393
AON	39,290	55,471
Central Re	10,052	81,312
Guy Carpenter	82,142	4,816
Marsh	9,226	232,780
Others	325,864	645,080
Total	601,169	1,343,852
Less: Loss allowance	(28,716)	-
Net amount	$572,453	$1,343,852

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2017.6.30	
Items	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C.	$133,829	$345,316
Marsh	91,286	246,214
Willis	88,489	81,366
Sompo Japan Nipponkoa	56,946	59,540
Guy Carpenter	38,445	11,873
Central Re	17,364	87,124
Others	219,694	757,130
Total	646,053	1,588,563
Less: Loss allowance	(33,451)	-
Net amount	$612,602	$1,588,563

Notes: As of 30 June 2018, 31 December 2017 and 30 June 2017, the due from reinsurers and ceding companies included overdue receivables amounting to $13,231 thousand, $22,912 thousand and $28,585 thousand, respectively; and the allowance for bad debts amounting to $13,231 thousand, $22,912 thousand and $28,585 thousand, respectively.

Information of management achievements

(A) Acquisition cost for insurance contracts

	2018.4.1~2018.6.30				
Items	Commission expense	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	$42,839	$2,737	$25,385	$3,194	$74,155
Marine insurance	14,064	269	1,558	305	16,196
Land and air insurance	230,790	-	6	81,788	312,584
Liability insurance	35,742	20	46	3,063	38,871
Bonding insurance	2,553	2	44	-	2,599
Other property insurance	13,977	512	5,391	532	20,412
Accident insurance	92,672	26	136	23,161	115,995
Health insurance	14,946	137	1,024	3,081	19,188
Compulsory automobile liability insurance	-	88,225	-	-	88,225
Total	$447,583	$91,928	$33,590	$115,124	$688,225

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2017.4.1~2017.6.30				
Items	Commission expense	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	$46,770	$1,640	$11,761	$2,769	$62,940
Marine insurance	11,756	381	4,292	294	16,723
Land and air insurance	225,667	-	19	78,397	304,083
Liability insurance	35,085	16	163	2,558	37,822
Bonding insurance	3,565	-	6	-	3,571
Other property insurance	15,251	676	5,467	608	22,002
Accident insurance	94,553	5	87	23,437	118,082
Health insurance	13,386	227	908	2,682	17,203
Compulsory automobile liability insurance	-	101,514	-	-	101,514
Total	$446,033	$104,459	$22,703	$110,745	$683,940

	2018.1.1~2018.6.30				
Items	Commission expense	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	$86,170	$4,501	$42,704	$6,021	$139,396
Marine insurance	31,115	517	3,628	597	35,857
Land and air insurance	490,163	-	19	165,543	655,725
Liability insurance	76,868	44	284	5,548	82,744
Bonding insurance	7,762	3	55	-	7,820
Other property insurance	34,476	972	10,454	1,139	47,041
Accident insurance	188,752	185	226	44,779	233,942
Health insurance	29,192	137	1,024	5,673	36,026
Compulsory automobile liability insurance	-	189,873	-	-	189,873
Total	$944,498	$196,232	$58,394	$229,300	$1,428,424

	2017.1.1~2017.6.30				
Items	Commission expense	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	$83,482	$2,627	$18,945	$4,178	$109,232
Marine insurance	25,045	431	4,403	546	30,425
Land and air insurance	463,635	-	46	152,787	616,468
Liability insurance	68,558	19	171	2,936	71,684
Bonding insurance	9,290	-	8	-	9,298
Other property insurance	31,731	773	7,370	1,184	41,058
Accident insurance	179,929	6	156	42,758	222,849
Health insurance	24,445	227	908	4,576	30,156
Compulsory automobile liability insurance	-	198,838	-	-	198,838
Total	$886,115	$202,921	$32,007	$208,965	$1,330,008

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(B) Disclosure for insurance cost benefit analysis

a. Cost benefit analysis for direct underwriting

2018.4.1~2018.6.30

Items	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid (include claim expense and cash surrender value)	Net change for claims reserve	Net gain (loss)
Fire insurance	$1,141,943	$(338,005)	$(48,770)	$(183,996)	$(39,546)	$531,626
Marine insurance	190,430	(23,413)	(14,638)	(63,352)	18,693	107,720
Land and air insurance	2,187,874	(21,081)	(312,578)	(1,276,426)	(92,846)	484,943
Liability insurance	314,106	22,687	(38,825)	(114,627)	(109,317)	74,024
Bonding insurance	25,656	3,810	(2,555)	(358)	(18,322)	8,231
Other property insurance	205,997	(12,981)	(15,021)	(133,043)	39,278	84,230
Accident insurance	795,028	(1,081)	(115,859)	(259,022)	(14,263)	404,803
Health insurance	89,586	(3,024)	(18,164)	(26,440)	(6,886)	35,072
Compulsory automobile liability insurance	723,234	603	(88,225)	(494,665)	(45,532)	95,415
Total	$5,673,854	$(372,485)	$(654,635)	$(2,551,929)	$(268,741)	$1,826,064

2017.4.1~2017.6.30

Items	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid (include claim expense)	Net change for claims reserve	Net gain (loss)
Fire insurance	$1,173,888	$(415,493)	$(51,179)	$(225,770)	$90,720	$572,166
Marine insurance	161,958	(16,275)	(12,431)	(70,663)	(9,712)	52,877
Land and air insurance	2,036,570	52,248	(304,064)	(1,336,788)	227,830	675,796
Liability insurance	272,928	28,886	(37,659)	(112,995)	(69,527)	81,633
Bonding insurance	32,759	1,126	(3,565)	(13,604)	(12,737)	3,979
Other property insurance	136,759	7,573	(16,535)	(85,908)	18,517	60,406
Accident insurance	767,780	2,019	(117,995)	(309,425)	(54,460)	287,919
Health insurance	74,853	(1,926)	(16,295)	(27,744)	(2,594)	26,294
Compulsory automobile liability insurance	743,939	11,503	(101,514)	(418,472)	95,344	330,800
Total	$5,401,434	$(330,339)	$(661,237)	$(2,601,369)	$283,381	$2,091,870

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2018.1.1~2018.6.30					
Items	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid (include claim expense and cash surrender value)	Net change for claims reserve	Net gain (loss)
Fire insurance	$1,709,931	$(129,777)	$(96,692)	$(391,760)	$114,429	$1,206,131
Marine insurance	347,874	(31,165)	(32,229)	(122,700)	30,380	192,160
Land and air insurance	4,412,202	(127,435)	(655,706)	(2,575,298)	(108,573)	945,190
Liability insurance	633,255	1,801	(82,460)	(242,783)	(100,992)	208,821
Bonding insurance	70,448	(7,841)	(7,765)	(8,652)	(31,491)	14,699
Other property insurance	378,080	3,292	(36,587)	(208,472)	(16,568)	119,745
Accident insurance	1,566,338	(53,904)	(233,716)	(517,647)	(48,103)	712,968
Health insurance	167,753	(9,682)	(35,002)	(45,117)	(5,085)	72,867
Compulsory automobile liability insurance	1,432,419	3,552	(189,873)	(917,615)	945	329,428
Total	$10,718,300	$(351,159)	$(1,370,030)	$(5,030,044)	$(165,058)	$3,802,009

	2017.1.1~2017.6.30					
Items	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid (include claim expense)	Net change for claims reserve	Net gain (loss)
Fire insurance	$1,714,095	$(174,988)	$(90,287)	$(980,389)	$841,978	$1,310,409
Marine insurance	302,454	(8,015)	(26,022)	(101,441)	(28,888)	138,088
Land and air insurance	4,157,959	(26,949)	(616,422)	(2,514,300)	69,140	1,069,428
Liability insurance	574,466	3,714	(71,513)	(200,705)	(116,766)	189,196
Bonding insurance	98,135	(33,234)	(9,290)	20,689	(5,957)	70,343
Other property insurance	277,700	17,595	(33,688)	(174,164)	46,365	133,808
Accident insurance	1,501,142	(15,759)	(222,693)	(560,593)	(104,531)	597,566
Health insurance	138,871	(3,031)	(29,248)	(57,516)	(7,743)	41,333
Compulsory automobile liability insurance	1,465,677	11,094	(198,838)	(830,167)	22,433	470,199
Total	$10,230,499	$(229,573)	$(1,298,001)	$(5,398,586)	$716,031	$4,020,370

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Recognized gain (loss) for reinsurance contract purchased

	2018.4.1~2018.6.30					
Items	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid (include claim expense)	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	$117,074	$(37,110)	$(25,385)	$(27,726)	$17,791	$44,644
Marine insurance	7,164	866	(1,558)	(8,576)	(9,094)	(11,198)
Land and air insurance	40	1,020	(6)	(33)	19	1,040
Liability insurance	354	274	(46)	(4)	(496)	82
Bonding insurance	306	(149)	(44)	(1,087)	(1,250)	(2,224)
Other property insurance	23,913	5,102	(5,391)	(2,922)	(7,986)	12,716
Accident insurance	2,826	(203)	(136)	(502)	(566)	1,419
Health insurance	5,464	(2,871)	(1,024)	(6,877)	(326)	(5,634)
Compulsory automobile liability insurance	175,162	6,929	-	(232,146)	(2,791)	(52,846)
Total	$332,303	$(26,142)	$(33,590)	$(279,873)	$(4,699)	$(12,001)

	2017.4.1~2017.6.30					
Items	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	$64,914	$(24,893)	$(11,761)	$(6,674)	$1,213	$22,799
Marine insurance	15,832	(7,704)	(4,292)	2,665	154	6,655
Land and air insurance	(6)	2,539	(19)	(34)	1,393	3,873
Liability insurance	426	(123)	(163)	(150)	7	(3)
Bonding insurance	220	(105)	(6)	(64)	1	46
Other property insurance	24,910	(14,830)	(5,467)	(2,657)	(1,867)	89
Accident insurance	1,857	89	(87)	(112)	(14)	1,733
Health insurance	9,081	(7,946)	(908)	(488)	(224)	(485)
Compulsory automobile liability insurance	187,556	(4,856)	-	(156,091)	(1,500)	25,109
Total	$304,790	$(57,829)	$(22,703)	$(163,605)	$(837)	$59,816

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2018.1.1~2018.6.30					
Items	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	$206,782	$(53,660)	$(42,704)	$(74,632)	$18,743	$54,529
Marine insurance	15,991	(2,960)	(3,628)	(17,149)	(8,781)	(16,527)
Land and air insurance	45	2,029	(19)	(42)	822	2,835
Liability insurance	1,082	80	(284)	(265)	(618)	(5)
Bonding insurance	763	(17)	(55)	(1,725)	(1,664)	(2,698)
Other property insurance	46,699	9,261	(10,454)	(29,521)	(8,322)	7,663
Accident insurance	5,731	(574)	(226)	(974)	(663)	3,294
Health insurance	5,464	174	(1,024)	(6,877)	(267)	(2,530)
Compulsory automobile liability insurance	369,201	3,604	-	(551,147)	(794)	(179,136)
Total	$651,758	$(42,063)	$(58,394)	$(682,332)	$(1,544)	$(132,575)

	2017.1.1~2017.6.30					
Items	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	$119,273	$(39,412)	$(18,945)	$(13,909)	$8,994	$56,001
Marine insurance	18,031	(7,545)	(4,403)	1,947	555	8,585
Land and air insurance	(16)	6,610	(46)	(741)	(534)	5,273
Liability insurance	346	233	(171)	(27)	(13)	368
Bonding insurance	718	16	(8)	(87)	3	642
Other property insurance	33,066	(14,316)	(7,370)	(6,467)	(383)	4,530
Accident insurance	3,790	37	(156)	(120)	(19)	3,532
Health insurance	9,081	(7,946)	(908)	(488)	(224)	(485)
Compulsory automobile liability insurance	371,146	5,503	-	(336,080)	(23,118)	17,451
Total	$555,435	$(56,820)	$(32,007)	$(355,972)	$(14,739)	$95,897

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

c. Recognized gain (loss) for reinsurance contract purchased

	2018.4.1~2018.6.30					
Items	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	$748,054	$(198,302)	$(37,774)	$(69,633)	$(87,237)	$355,108
Marine insurance	141,658	(17,880)	(15,876)	(31,362)	5,082	81,622
Land and air insurance	82,024	17,623	(23,504)	(44,848)	5,141	36,436
Liability insurance	80,288	28,978	(18,295)	(34,142)	(48,341)	8,488
Bonding insurance	15,585	2,749	(2,747)	513	(10,067)	6,033
Other property insurance	133,811	(59,077)	(18,442)	(50,053)	1,705	7,944
Accident insurance	49,595	3,667	(14,172)	(14,334)	(2,679)	22,077
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	301,601	364	-	(291,286)	(27,992)	(17,313)
Total	$1,552,616	$(221,878)	$(130,810)	$(535,145)	$(164,388)	$500,395

	2017.4.1~2017.6.30					
Items	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	$797,530	$(307,972)	$(40,710)	$(108,330)	$110,710	$451,228
Marine insurance	114,596	(18,613)	(12,066)	(38,405)	2,814	48,326
Land and air insurance	81,411	26,010	(23,871)	(43,226)	51,191	91,515
Liability insurance	73,665	22,480	(16,970)	(20,659)	(17,272)	41,244
Bonding insurance	20,570	762	(3,237)	(2,871)	(16,006)	(782)
Other property insurance	58,372	(7,823)	(13,076)	(40,913)	25,026	21,586
Accident insurance	45,493	(7,549)	(13,962)	(36,529)	1,851	(10,696)
Health insurance	-	-	-	-	882	882
Compulsory automobile liability insurance	302,411	7,041	-	(243,583)	51,966	117,835
Total	$1,494,048	$(285,664)	$(123,892)	$(534,516)	$211,162	$761,138

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2018.1.1~2018.6.30					
Items	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	$1,076,695	$(66,637)	$(76,478)	$(129,978)	$(41,538)	$762,064
Marine insurance	241,264	(28,849)	(29,797)	(71,142)	11,689	123,165
Land and air insurance	160,774	28,654	(48,668)	(98,885)	44,122	85,997
Liability insurance	188,517	23,666	(41,485)	(67,951)	(32,000)	70,747
Bonding insurance	49,211	(6,005)	(9,095)	(4,628)	(8,939)	20,544
Other property insurance	228,680	(44,193)	(36,717)	(68,427)	(60,981)	18,362
Accident insurance	122,578	(24,625)	(29,453)	(28,310)	(6,545)	33,645
Health insurance	-	-	-	-	324	324
Compulsory automobile liability insurance	595,089	2,164	-	(535,897)	(933)	60,423
Total	$2,662,808	$(115,825)	$(271,693)	$(1,005,218)	$(94,801)	$1,175,271

	2017.1.1~2017.6.30					
Items	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	$1,156,133	$(144,537)	$(52,801)	$(765,006)	$809,887	$1,003,676
Marine insurance	214,312	(12,670)	(25,776)	(54,918)	(10,515)	110,433
Land and air insurance	157,896	55,477	(52,977)	(82,867)	(11,277)	66,252
Liability insurance	194,241	12,308	(44,065)	(43,165)	(26,253)	93,066
Bonding insurance	75,025	(30,629)	(11,998)	28,784	(7,444)	53,738
Other property insurance	131,673	(3,607)	(28,232)	(60,549)	32,992	72,277
Accident insurance	128,228	(29,625)	(31,611)	(53,556)	(9,129)	4,307
Health insurance	-	-	-	-	300	300
Compulsory automobile liability insurance	599,614	7,076	-	(477,728)	7,560	136,522
Total	$2,657,122	$(146,207)	$(247,460)	$(1,509,005)	$786,121	$1,540,571

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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	$1,618,484	45.15%	$(80,924)	$(57,215)
Marine insurance	343,983	58.32%	(17,199)	(5,130)
Land and air insurance	4,361,288	64.51%	(218,064)	(207,529)
Liability insurance	632,472	53.02%	(31,624)	(20,953)
Bonding insurance	70,448	18.74%	(3,522)	(930)
Other property insurance	375,740	64.65%	(18,787)	(14,948)
Accident insurance	1,552,934	40.87%	(77,647)	(72,162)
Health insurance	167,753	48.35%	(8,388)	(8,365)
Compulsory automobile liability insurance	1,432,419	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)

	Premium income	Expected loss ratio	Changes in income when the expected loss ratio increases 5%: Before reinsurance	After reinsurance
Automobile insurance	$50,914	44.50%	$(2,546)	$(2,544)
flood insurance	3,891	26.95%	(195)	(35)
Fire insurance	91,447	135.21%	(4,572)	(607)
Engineering insurance	2,340	0%	(117)	(4)
Accident insurance	13,404	28.53%	(670)	(670)
Liability insurance	783	51.63%	(39)	(12)

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.

Concentration Risk

(A) Cathay Century

a. Situations that might cause concentration of insurance risk:

(a) Single insurance contract or few related contracts

For the six-month period ended 30 June 2018, Cathay Century will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

(b) Exposure to unanticipated change in trend

As of the six-month period ended 30 June 2018, Cathay Century has not yet had exposures resulting from unanticipated changes in trend.

(c) Material lawsuit or legal risks that could lead to huge losses in a single contract or have a broad effect on several contracts.

"Regulations for Assisting Lawsuit Cases of Cathay Century Insurance" is set up to safeguard the rights of Cathay Century and the insureds and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of Cathay Century will appoint staff to be responsible for compliance matters, so that possible legal risk is minimized. As of the six-month period ended 30 June 2018, no material lawsuit or legal risks has taken place.

(d) Correlation and mutual influence between different risks

In case of a catastrophe, in addition to huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of Cathay Century being severely damaged by these derived risks, Cathay Century has established "Operation Standards Under Crisis" that set up a crisis task force team to respond to the event. The team will undertake urgent tasks such as resources coordination and fund procurement to protect the rights of the insureds and Cathay Century and maintaining financial order. As of the six-month period ended 30 June 2018, no catastrophe has taken place.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(e) When a certain key variable has approached a significantly non-linear level that could dramatically influence its future cash flow

Since the third stage of liberalization of property insurance fee took effect, Cathay Century has conducted regular fee reviews on car insurance, fire insurance, and residential fire insurance in accordance with the regulation. Fees will be raised when actual loss rate exceeds expected loss rate by a certain percentage to avoid further losses. In addition, from time to time the related departments would observe the change in trend for loss rates of different product categories and adjust pricing and coverage in a timely manner to effectively lower insurance risk.

Cathay Century also monitors changes in VAR in its investment positions on a regular basis and performs cash flow analysis, supplemented by stress testing, to control and manage the impact from fluctuations of major risk factors.

In addition, Cathay Century implements stress tests for overall operation every year, assesses the impact of assets and the extreme scenario of insurance risk on the financial position of Cathay Century, and learns about the major risk factors to adjust the response in advance.

(f) Concentration risks in geographic regions and operating segments

Cathay Century's catastrophe policies for earthquakes and floods concentrated in the areas of Taipei, Taoyuan, Hsinchu, Chiayi, Tainan, Kaohsiung and Pingtung.

b. The following table summarizes the concentration risk of Cathay Century before and after reinsurance by types of insurance:

	2018.4.1~2018.6.30				
Insurance type	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	%
Fire insurance	$1,065,952	$120,352	$678,891	$507,413	11.50%
Marine insurance	188,301	7,164	140,323	55,142	1.25%
Land and air insurance	2,159,591	40	82,024	2,077,607	47.08%
Liability insurance	313,939	354	80,172	234,121	5.31%
Bonding insurance	25,656	306	15,585	10,377	0.24%
Other property insurance	204,755	23,913	133,001	95,667	2.17%
Accident insurance	787,431	2,826	49,595	740,662	16.78%
Health insurance	89,586	5,464	-	95,050	2.15%
Compulsory automobile liability insurance	723,235	175,161	301,601	596,795	13.52%
Total	$5,558,446	$335,580	$1,481,192	$4,412,834	100.00%

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2018.1.1~2018.6.30				
Insurance type	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	%
Fire insurance	$1,618,484	$210,672	$996,448	$832,708	9.65%
Marine insurance	343,983	16,497	239,289	121,191	1.40%
Land and air insurance	4,361,288	45	160,742	4,200,591	48.66%
Liability insurance	632,472	1,082	188,007	445,547	5.16%
Bonding insurance	70,448	763	49,211	22,000	0.25%
Other property insurance	375,740	46,740	227,225	195,255	2.26%
Accident insurance	1,552,934	5,731	122,578	1,436,087	16.63%
Health insurance	167,753	5,464	-	173,217	2.01%
Compulsory automobile liability insurance	1,432,419	369,201	595,089	1,206,531	13.98%
Total	$10,555,521	$656,195	$2,578,589	$8,633,127	100.00%

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 six-month period ended 30 June 2018, Cathay Insurance (Vietnam) will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

(b) Exposure to unanticipated change in trend

For the six-month period ended 30 June 2018, the loss rates of the rest insurance categories are still within reasonable range.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(c) Material lawsuit or legal risks that could lead to huge losses in a single contract or have a broad effect on several contracts.

"THE PROCEDURE FOR SUBROGATION" and "THE PROCEEDINGS OF THE COURT" is set up to safeguard the rights of Cathay Insurance (Vietnam) and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of Cathay Insurance (Vietnam) will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the six-month period ended 30 June 2018, no material lawsuit or legal risks has taken place.

(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 six-month period ended 30 June 2018, there is no catastrophe has taken place.

(e) Concentration risks in geographic regions and operating segments

Cathay Insurance (Vietnam)'s catastrophe insurance for earthquakes and floods are centralized in the areas of Ho Chi Minh City, Tinh Dong Nai and Tinh Ha Tinh.

b. The following table summarizes the concentration risk of Cathay Insurance (Vietnam) before and after reinsurance by types of insurance:

	2018.4.1~2018.6.30				
Insurance type	Direct premium income	Reinsurance premium income	Premiums ceded to reinsurers	Net premium income	%
Automobile insurance	$28,283	$-	$-	$28,283	69.48%
flood insurance	2,128	-	1,336	792	1.95%
Fire insurance	75,991	320	72,762	3,549	8.72%
Engineering insurance	1,242	-	809	433	1.06%
Accident insurance	7,597	-	-	7,597	18.66%
Liability insurance	167	-	116	51	0.13%
Total	$115,408	$320	$75,023	$40,705	100.00%

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2018.1.1~2018.6.30				
Insurance type	Direct premium income	Reinsurance premium income	Premiums ceded to reinsurers	Net premium income	%
Automobile insurance	$50,914	$-	$32	$50,882	68.65%
flood insurance	3,891	-	2,481	1,410	1.90%
Fire insurance	91,447	687	84,824	7,310	9.86%
Engineering insurance	2,340	-	1,496	844	1.14%
Accident insurance	13,404	-	-	13,404	18.08%
Liability insurance	783	-	510	273	0.37%
Total	$162,779	$687	$89,343	$74,123	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.

Claim development table

(A) Cathay Century

Underwriting Year	-2012.6.30	2012.7.1-2013.6.30	2013.7.1-2014.6.30	2014.7.1-2015.6.30	2015.7.1-2016.6.30	2016.7.1-2017.6.30	2017.7.1-2018.6.30	Total
Estimate of cumulative claims incurred:								
At end of underwriting year	$14,191,384	$5,576,672	$6,483,154	$7,170,324	$10,927,997	$8,351,788	$8,563,452	
One year later	16,143,951	5,804,078	6,675,204	7,441,579	11,188,856	8,026,850		
Two year later	16,466,985	5,725,506	6,617,395	7,353,789	11,209,255			
Three year later	16,489,297	5,691,141	6,566,833	7,419,731				
Four year later	16,587,592	5,640,448	6,567,427					
Five year later	16,565,932	5,665,135						
Six year later	16,421,472							
Estimate of cumulative claims incurred	16,421,472	5,665,135	6,567,427	7,419,731	11,209,255	8,026,850	8,563,452	$63,873,322
Cumulative payment to date	16,466,401	5,606,010	6,471,476	6,992,668	10,510,612	7,113,687	4,969,187	58,130,041
Subtotal	(44,929)	59,125	95,951	427,063	698,643	913,163	3,594,265	5,743,281
Reconciliation	-	-	-	-	-	-	124,429	124,429
Recorded in balance sheet	$(44,929)	$59,125	$95,951	$427,063	$698,643	$913,163	$3,718,694	$5,867,710

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 $1,389,980 thousand and assumed reserve for claims – non-compulsory insurance of $730,831 thousand from the upper table.

(B) Cathay Century (Vietnam)

Historical data for Cathay Century (Vietnam)'s loss trends are not available. Cathay Century (Vietnam) has adopted the suggestion from the Vietnamese Ministry of Finance 2842/BTC/QLBH for loss reserving method with incurred but not reported claims, which is calculated at a rate of 5% of its annual retained premiums.

7. Related party transactions

(1) Related parties

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay United Bank	〃
Cathay Century	〃
Cathay Securities	〃
Cathay Venture	〃
Cathay Securities Investment Trust	〃
Cathay Lujiazui Life Insurance Company Limited	〃
Cathay Life (Vietnam)	〃
Cathay Insurance (Bermuda)	〃
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 Century (China)	Associate
Taiwan Real-estate Management Corp.	〃
Symphox Information Co., Ltd.	〃
Tien-Tai Energy Corp.	〃
Xin-Ri-Tai Energy Corp.	〃
Rizal Commercial Banking Corporation	〃
PT Bank Mayapada Internasional Tbk	〃
Da Sheng Venture Inc.	〃
Cathay Sunrise Corporation	〃

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Name	Relationship
Cathay Life	Subsidiary of the Company
Seaward Card Co., Ltd.	Other related party (Note)
Vietinbank	Other related party
Cathay Dragon Fund etc.	〃
Lin Yuan Property Management Co., Ltd.	〃
Cathay Medical Care Corporate	〃
Cathay Real Estate Development Co., Ltd.	〃
San Ching Engineering Co., Ltd.	〃
Cathay Healthcare Management Co., Ltd.	〃
Cathay Hospitality Management Co., Ltd.	〃
Liang-Ting Co., Ltd.	〃
Ally Logistic Property	〃
Charity Foundation of Cathay Life	〃
Cathay Cultural Foundation	〃
Cathay United Bank Culture and Charity Foundation.	〃
Cathay Life Insurance Employees' Welfare Committee	〃
Cathay Real Estate Development Employees' Welfare Committee	〃
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.

(2) Significant transactions with related parties:

A. Cash and cash equivalent

(A) Due from commercial banks

	Ending balance		
Name	2018.6.30	2017.12.31	2017.6.30
Other related party			
Vietinbank	$5,357,077	$5,340,176	$5,541,614

	Interest income			
Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Other related party				
Vietinbank	$1,283	$1,498	$2,583	$3,865

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(B) Due to commercial banks

	Ending balance		
Name	2018.6.30	2017.12.31	2017.6.30
Other related party			
Vietinbank	$5,350,766	$5,337,418	$5,452,049

	Interest expense			
Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Other related party				
Vietinbank	$1,263	$1,389	$2,554	$2,773

B. Financial assets at fair value through profit or loss

Name	2018.6.30	2017.12.31	2017.6.30
Other related party			
Cathay Dragon Fund etc.	$806,866	$239,943	$189,160
Cathay Healthcare Management Co., Ltd.	146,190	(Note)	(Note)
Total	$953,056	$239,943	$189,160

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

C. Receivables

Name	2018.6.30	2017.12.31	2017.6.30
Other related party			
Cathay Dragon Fund etc.	$161,806	$145,162	$113,462

D. Reinsurance assets

Name	2018.6.30	2017.12.31	2017.6.30
Subsidiary			
Cathay Insurance (Bermuda)	$-	$-	$9,993

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

E. Loans

Name	Ending balance 2018.6.30	2017.12.31	2017.6.30
Associate			
Taiwan Real-estate Management Corp.	$32,000	$32,000	$35,000
Tien-Tai Energy Corp.	83,579	87,763	91,947
Other related party			
Liang-Ting Co., Ltd.	-	-	27,547
Others	2,314,755	2,363,153	2,532,176
Total	$2,430,334	$2,482,916	$2,686,670

Name	Interest income 2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Associate				
Taiwan Real-estate Management Corp.	$143	$157	$284	$311
Tien-Tai Energy Corp.	668	740	1,345	1,489
Other related party				
Liang-Ting Co., Ltd.	-	117	-	234
Others	15,644	9,099	25,183	19,553
Total	$16,455	$10,113	$26,812	$21,587

F. Available-for-sale financial assets

Name	2018.6.30 (Note)	2017.12.31	2017.6.30
Other related party			
Cathay Dragon Fund etc.		$501,033	$494,648
Cathay Healthcare Management Co., Ltd.		93,225	92,318
Total		$594,258	$586,966

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

G. Deposit

Name	Ending balance 2018.6.30	2017.12.31	2017.6.30
Subsidiary			
Cathay Securities Investment Consulting Co., Ltd.	$111,053	$146,976	$97,223
Associate			
Symphox Information Co., Ltd.	112,229	150,870	103,202
Xin-Ri-Tai Energy Corp.	72,633	308,836	1,137,457
Other related party			
Cathay Real Estate Development Co., Ltd.	90,343	253,682	104,166
Cathay Dragon Fund etc.	29,531	106,497	115,493
Cathay Hospitality Management Co., Ltd.	11,827	9,202	72,203
Cathay United Bank Culture and Charity Foundation.	535,309	544,588	533,160
Cathay Life Insurance Employees' Welfare Committee	2,145,227	3,065,254	2,948,558
Cathay Real Estate Development Employees' Welfare Committee	360,331	363,768	334,085
Others	7,877,557	9,013,397	10,001,122
Total	$11,346,040	$13,963,070	$15,446,669

Name	Interest expense 2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Subsidiary				
Cathay Securities Investment Consulting Co., Ltd.	$197	$156	$344	$295
Associate				
Symphox Information Co., Ltd.	182	142	332	283
Xin-Ri-Tai Energy Corp.	19	145	57	307
Other related party				
Cathay Real Estate Development Co., Ltd.	5	11	16	25
Cathay Dragon Fund etc.	1	-	1	-
Cathay Hospitality Management Co., Ltd.	11	15	16	16
Cathay United Bank Culture and Charity Foundation.	1,359	1,415	2,771	2,842
Cathay Life Insurance Employees' Welfare Committee	5,803	5,827	11,602	11,581
Cathay Real Estate Development Employees' Welfare Committee	1,022	608	1,941	1,502
Others	16,430	16,089	32,775	34,264
Total	$25,029	$24,408	$49,855	$51,115

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

H. Property transactions

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

	2018.1.1~2018.6.30	
Name	Items	Amount
Other related party		
Lin Yuan Property Management Co., Ltd.	Cathay Land Mark, etc.	$6,511
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	552,430
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	364,149
Ally Logistic Property	Wuri E-commerce Building, etc.	494,275
Total		$1,417,365

	2017.1.1~2017.6.30	
Name	Items	Amount
Other related party		
Lin Yuan Property Management Co., Ltd.	Cathay Land Mark, etc.	$5,921
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	30,608
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	612,552
Ally Logistic Property	Jui-Fang Logistic Park, etc.	462,453
Total		$1,111,534

The total amounts of the real estate projects contracted as of 30 June 2018, 31 December 2017 and 30 June 2017 between Cathay Life and its subsidiaries and Lin Yuan Property Management Co., Ltd. were $0 thousand, $1,387 thousand and $0 thousand, respectively.

The total amounts of the real estate projects contracted as of 30 June 2018, 31 December 2017 and 30 June 2017 between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were $1,838,045 thousand, $1,853,190 thousand and $1,853,190 thousand, respectively.

The total amounts of the real estate projects contracted as of 30 June 2018, 31 December 2017 and 30 June 2017 between Cathay Life and its subsidiaries and Cathay Real Estate Development Co., Ltd. were all $1,742,250 thousand.

The total amounts of the real estate projects contracted as of 30 June 2018, 31 December 2017 and 30 June 2017 between Cathay Life and its subsidiaries and Ally Logistic Property were all $3,383,783 thousand.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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

	Rental income			
Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Subsidiary				
Cathay Securities Investment Consulting Co.,Ltd.	$2,225	$2,225	$4,450	$4,450
Associate				
Symphox Information Co., Ltd.	10,201	9,983	20,391	19,990
Cathay Century (China)	7,398	6,347	13,950	13,411
Other related party				
Cathay Real Estate Development Co., Ltd.	4,971	5,123	9,211	10,301
Cathay Medical Care Corporate	48,007	80,829	92,774	92,530
Cathay Healthcare Management Co., Ltd.	14,105	14,007	28,195	28,015
Cathay Hospitality Management Co., Ltd.	58,373	56,396	116,216	112,162
Ally Logistic Property	137,029	68,296	241,857	131,241
Total	$282,309	$243,206	$527,044	$412,100

	Guarantee deposits received		
Name	2018.6.30	2017.12.31	2017.6.30
Associate			
Symphox Information Co., Ltd.	$9,798	$9,798	$10,324
Cathay Century (China)	7,218	7,186	7,038
Other related party			
Cathay Real Estate Development Co., Ltd.	3,837	3,773	3,686
Cathay Medical Care Corporate	11,260	10,916	10,844
Cathay Healthcare Management Co., Ltd.	13,157	13,157	13,157
Cathay Hospitality Management Co., Ltd.	218,252	216,949	216,108
Ally Logistic Property	56,752	55,669	55,669
Total	$320,274	$317,448	$316,826

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

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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

	Rental expense			
Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Other related party				
Cathay Real Estate Development Co., Ltd.	$1,853	$1,853	$3,706	$3,706

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

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

	Rental expense			
Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Other related party				
Cathay Real Estate Development Co., Ltd.	$4,267	$5,078	$9,190	$9,995

	Refundable Deposits		
Name	2018.6.30	2017.12.31	2017.6.30
Other related party			
Cathay Real Estate Development Co., Ltd.	$4,549	$4,549	$4,549

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

I. Guarantee deposits received

Name	2018.6.30	2017.12.31	2017.6.30
Other related parties			
Lin Yuan Property Management Co., Ltd.	$5,000	$5,000	$5,000
San Ching Engineering Co., Ltd.	424,980	661,181	329,261
Cathay Hospitality Management Co., Ltd.	104,537	120,257	120,257
Ally Logistic Property	303,386	337,790	210,074
Total	$837,903	$1,124,228	$664,592

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

J. Futures traders' equity

Name	2018.6.30	2017.12.31	2017.6.30
Other related party			
Cathay Dragon Fund etc.	$825,071	$526,611	$92,274

K. Payables

Name	2018.6.30	2017.12.31	2017.6.30
Associate			
Symphox Information Co., Ltd.	$189,374	$161,255	$175,380
Other related parties			
Seaward Card Co., Ltd.	27,101	24,254	23,404
Lin Yuan Property Management Co., Ltd.	9,762	1,165	9,199
Total	$226,237	$186,674	$207,983

L. Investment balance of related parties' discretionary investment

Name	2018.6.30	2017.12.31	2017.6.30
Other related parties			
Charity Foundation of Cathay Life	$80,138	$72,580	$67,866
Cathay Cultural Foundation	57,454	52,238	51,407
Total	$137,592	$124,818	$119,273

M. Net commission and handling fee

(A) Handling fee income

Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Subsidiaries				
Cathay Securities Investment Consulting Co., Ltd.	$4,505	$4,270	$8,775	$9,075

(B) Reinsurance service expense

Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Subsidiary				
Cathay Insurance (Bermuda)	$-	$1,486	$-	$4,923

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

N. Net premiums from insurance business

(A) Insurance income

Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Other related parties				
Cathay Medical Care Corporate	$10,978	$10,781	$22,121	$21,745
Others	96,691	95,268	133,972	142,750
Total	$107,669	$106,049	$156,093	$164,495

(B) Reinsurance income

Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Subsidiary				
Cathay Insurance (Bermuda)	$-	$27,659	$-	$62,514

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	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Subsidiary				
Cathay Insurance (Bermuda)	$-	$15,479	$-	$24,587

O. Net other non-interest income

Management fee income

Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Other related party				
Cathay Dragon Fund etc.	$465,871	$338,527	$905,517	$664,306

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

P. Operating expenses

Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Associate				
Symphox Information Co., Ltd.	$239,868	$245,416	$470,714	$525,850
Other related parties				
Seaward Card Co., Ltd.	52,245	65,377	141,787	150,189
Cathay Real Estate Development Co., Ltd.	689	1,640	1,936	3,191
Lin Yuan Property Management Co., Ltd.	198,843	198,199	395,401	398,277
Cathay Healthcare Management Co., Ltd.	8,014	7,677	17,523	12,898
Charity Foundation of Cathay Life	5,300	-	5,300	5,550
Total	$504,959	$518,309	$1,032,661	$1,095,955

Q. Subscription of shares issued by related parties

Name	Items	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Associates			
Rizal Commercial Banking Corporation	Common stock	$1,992,264	$-
PT Bank Mayapada Internasional Tbk	Common stock	898,860	-
Da Sheng Venture Inc.	Common stock	-	375,000
Cathay Sunrise Corporation	Common stock	-	675,000
Total		$2,891,124	$1,050,000

R. Key management personnel compensation

	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Short-term employee benefits	$164,688	$144,009	$480,221	$408,077
Post-employment pension	4,466	4,108	8,875	8,098
Other long-term employee benefits	-	-	26	45
Total	$169,154	$148,117	$489,122	$416,220

The key management personnel of the Group include chairman, vice chairman, directors, supervisors, president, senior executive vice president, and executive vice president.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(3) The Company

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

A. Cash in bank

Name	Item	Ending balance 2018.6.30	Ending balance 2017.12.31	Ending balance 2017.6.30
Subsidiary				
Cathay United Bank	Cash in bank	$455,597	$137,400	$345,616

Interest income from Cathay United Bank for the three-month period ended 30 June 2018 and 2017 were $232 thousand and $70 thousand, respectively. The six-month period ended 30 June 2018 and 2017 were $298 thousand and $217 thousand.

B. Receivables

Name	Items	2018.6.30	2017.12.31	2017.6.30
Subsidiaries				
Cathay Life	Receivables due to consolidated income tax, interest and dividends	$10,810,278	$158,589	$11,129,638
Cathay Century	Receivables due to consolidated income tax, interest and dividends	1,533,341	231,138	1,670,429
Cathay United Bank	Receivables due to consolidated income tax and dividends	377,029	-	10,814,972
Cathay Securities	Receivables due to consolidated income tax	97,388	76,883	22,616
Cathay Securities Investment Trust	Receivables due to consolidated income tax and dividends	472,027	57,089	279,282
Cathay Venture	Receivables due to consolidated income tax	-	3,647	-
	Total	$13,290,063	$527,346	$23,916,937

C. Guarantee deposits paid

Name	2018.6.30	2017.12.31	2017.6.30
Subsidiary			
Cathay Life	$12,588	$12,588	$10,814

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

D. Held-to-maturity financial asset

Name	2018.6.30 (Note)	2017.12.31	2017.6.30
Subsidiaries			
Cathay Life		$40,000,000	$40,000,000
Cathay Century		1,000,000	1,000,000
Total		$41,000,000	$41,000,000

Note: The Company adopted IFRS 9 on 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

E. Financial assets measured at amortized cost

Name	2018.6.30	2017.12.31 (Note)	2017.6.30 (Note)
Subsidiaries			
Cathay Life	$5,000,000		
Cathay Century	1,000,000		
Total	$6,000,000		

Note: The Company adopted IFRS 9 on 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

F. Financial assets at fair value through profit or loss

Name	2018.6.30	2017.12.31 (Note)	2017.6.30 (Note)
Subsidiaries			
Cathay Life	$35,000,000		

Note: The Company adopted IFRS 9 on 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

G. Payables

Name	Items	2018.6.30	2017.12.31	2017.6.30
Subsidiaries				
Cathay Life	Payable due to consolidated income tax	$1,513,565	$706,336	$-
Cathay United Bank	Payable due to consolidated income tax	-	145,836	113,178
Total		$1,513,565	$852,172	$113,178

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

H. Interest income

Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Subsidiary				
Cathay Life	$337,323	$337,323	$670,940	$670,940
Cathay Century	4,638	4,638	9,224	9,224
Total	$341,961	$341,961	$680,164	$680,164

I. Operating expenses

Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Subsidiary				
Cathay Life	$17,202	$15,735	$32,118	$27,687

J. Subscription of shares issued by related parties

Name	Items	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Subsidiaries			
Cathay Life	Common stock	$42,000,000	$-
Cathay Century	Common stock	-	14,998,000
Total		$42,000,000	$14,998,000

(4) Subsidiaries' significant transactions with related parties that are more than $100 million:

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

A. Cathay Life and its subsidiaries

(A) Cash in banks

Name	Items	2018.6.30	2017.12.31	2017.6.30
Subsidiaries				
Cathay United Bank	Time deposit	$2,463,410	$2,047,772	$2,003,000
	Cash in bank	18,998,796	26,172,194	19,313,467
	Check deposit	283,627	343,491	381,253
	Security deposit	6	6	6
Indovina Bank	Time deposit	13,290	13,140	13,390
	Cash in bank	10,712	15,984	12,574
	Total	$21,769,841	$28,592,587	$21,723,690

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Interest income from Cathay United Bank for the three-month and six-month period ended 30 June 2018 and 2017, were $18,563 thousand, $6,381 thousand, $26,004 thousand, and $11,871 thousand, respectively.

Interest income from Indovina Bank for the three-month and six-month period ended 30 June 2018 and 2017 were $81 thousand, $145 thousand, $191 thousand and $252 thousand, respectively.

As of 30 June 2018, 31 December 2017 and 30 June 2017, time deposit pledged were all $3,000 thousand.

(B) Other receivables

Name	2018.6.30	2017.12.31	2017.6.30
The Company			
Cathay Financial Holding (Note)	$1,513,565	$706,336	$-

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

(C) Secured loans

	2018.1.1~2018.6.30		
Name	Maximum amount	Rate	Ending balance
Other related party			
Others	$930,630	1.03%~3.44%	$845,934

	2017.1.1~2017.6.30		
Name	Maximum amount	Rate	Ending balance
Other related party			
Others	$1,037,410	1.03%~3.44%	$990,030

Interest income from others related parties for the three-month periods ended 30 June 2018 and 2017 were $9,341 thousand and $3,886 thousand, respectively.

Interest income from others related parties for the six-month period ended 30 June 2018 and 2017 were $12,577 thousand and $7,865 thousand, respectively.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(D) Investment balance of related parties' discretionary investment

Name	2018.6.30	2017.12.31	2017.6.30
Subsidiary			
Cathay Securities Investment Trust	$245,494,673	$245,661,387	$227,854,711

(E) Guarantee deposits paid

Name	2018.6.30	2017.12.31	2017.6.30
Subsidiary			
Cathay Futures	$1,826,571	$1,628,717	$2,157,574

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 three-month and six-month period ended 30 June 2018 and 2017 were $355 thousand, $193 thousand, $723 thousand and $456 thousand, respectively.

(F) Other payables

Name	2018.6.30	2017.12.31	2017.6.30
The Company			
Cathay Financial Holding (Note)	$10,810,278	$158,589	$11,129,638
Subsidiary			
Cathay United Bank	457,026	163,342	420,914
Total	$11,267,304	$321,931	$11,550,552

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

(G) Preferred stock liability

Name	2018.6.30	2017.12.31	2017.6.30
The Company			
Cathay Financial Holding	$5,000,000	$5,000,000	$5,000,000

(H) Bonds payable

Name	2018.6.30	2017.12.31	2017.6.30
The Company			
Cathay Financial Holding	$35,000,000	$35,000,000	$35,000,000

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(I) 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:

	2018.1.1~2018.6.30	
Name	Items	Amount
Other related party		
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	$552,430
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	364,149
Ally Logistic Property	Wuri E-commerce Building, etc.	494,275
Total		$1,410,854

	2017.1.1~2017.6.30	
Name	Items	Amount
Other related party		
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	$30,608
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	612,552
Ally Logistic Property	Jui-Fang Logistic Park, etc	462,453
Total		$1,105,613

The total amounts of the real estate projects contracted as of 30 June 2018, 31 December 2017 and 30 June 2017 between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were $1,838,045 thousand, $1,853,190 thousand and $1,853,190 thousand, respectively.

The total amounts of the real estate projects contracted as of 30 June 2018, 31 December 2017 and 30 June 2017 between Cathay Life and its subsidiaries and Ally Logistic Property were all $1,742,250 thousand.

The total amounts of the real estate projects contracted as of 30 June 2018, 31 December 2017 and 30 June 2017 between Cathay Life and its subsidiaries and Cathay Real Estate Development Co., Ltd. were all $3,383,783 thousand.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(J) Rental income

Name	Items	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Subsidiary					
Cathay United Bank	Real-estate rental income	$169,847	$148,263	$335,200	$266,795
Other related party					
Ally Logistic Property	Real-estate rental income	137,029	68,296	241,857	131,241
Cathay Hospitality Management Co., Ltd.	Real-estate rental income	58,373	56,396	116,216	112,162
Total		$365,249	$272,955	$693,273	$510,198

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

(K) Guarantee deposits received

Name	2018.6.30	2017.12.31	2017.6.30
Subsidiary			
Cathay United Bank	$167,515	$164,798	$153,323
Other related parties			
San Ching Engineering Co., Ltd.	424,980	661,181	329,261
Cathay Hospitality Management Co., Ltd.	322,789	337,206	336,365
Ally Logistic Property	360,138	393,459	265,743
Total	$1,275,422	$1,556,644	$1,084,692

(L) Miscellaneous income

Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Subsidiary				
Cathay Century	$145,865	$135,942	$281,778	$255,813

Miscellaneous income is mainly generated from Cathay Life and its subsidiaries' integrated marketing activities.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(M) Insurance income

Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Other related party				
Other	$96,691	$95,268	$133,972	$142,750

(N) Operating expenses

Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Subsidiary				
Cathay United Bank	$1,669,792	$1,625,076	$3,589,292	$3,824,867
Cathay Securities Investment Trust	101,669	36,862	203,610	67,296
Associate				
Symphox Information Co., Ltd.	87,876	88,227	147,893	156,535
Other related party				
Lin Yuan Property Management Co., Ltd.	196,349	195,989	390,198	393,606
Total	$2,055,686	$1,946,154	$4,330,993	$4,442,304

(O) Non-operating expenses

Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
The Company				
Cathay Financial Holding	$337,323	$337,323	$670,940	$670,940

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

(P) Shares issued from Cathay Life and related parties

Capital increased by cash

Name	Items	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
The Company			
Cathay Financial Holding	Common stock	$42,000,000	$-

Subscription of shares issued by related parties

Name	Items	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Associates			
Rizal Commercial Banking Corporation	Common stock	$1,992,264	$-
PT Bank Mayapada Internasional Tbk	Common stock	898,860	-
Da Sheng Venture Inc.	Common stock	-	375,000
Cathay Sunrise Corporation	Common stock	-	675,000
Total		$2,891,124	$1,050,000

(P) Other disclosures

As of 30 June 2018, 31 December 2017 and 30 June 2017, the nominal amounts (in thousands) of the financial instruments transactions between Cathay Life and Cathay United Bank are summarized below:

Item	2018.6.30	2017.12.31	2017.6.30
CS contracts	USD 3,615,000	USD 3,322,000	USD 3,141,000

B. Cathay United Bank and its subsidiaries

(A) Loans and deposits

Account/Name	Ending balance 2018.6.30	2017.12.31	2017.6.30
Loans			
Other related party			
Others	$1,442,331	$1,422,061	$1,509,607

Account/Name	Ending balance 2018.6.30	2017.12.31	2017.6.30
Deposits			
The Company			
Cathay Financial Holding	$455,597	$137,400	$345,616
Subsidiaries			
Cathay Life	21,211,086	28,472,961	21,666,690
Cathay Century	1,791,086	1,827,176	1,642,278
Cathay Securities	2,799,489	3,414,826	2,708,790
Cathay Futures Co., Ltd.	1,108,842	1,041,691	1,121,189
Cathay Securities Investment Trust	134,049	179,814	150,245
Cathay Life (Vietnam)	24,002	29,124	25,964
Cathay Century (Vietnam)	195,145	145,661	146,377
Conning Asia Pacific Ltd.	31,846	90,502	31,035
Cathay Securities Investment Consulting Co., Ltd.	111,053	146,976	97,223
Lin Yuan (Shanghai) Real Estate Co., Ltd.	502,907	-	-
Cathay Securities (Hong Kong) ,Ltd	65	66	67
Cathay Private Equity	34,357	49,963	-
Associate			
Symphox Information Co., Ltd.	112,229	150,870	103,202
Xin-Ri-Tai Energy Corp.	72,633	308,836	1,137,457
Other related party			
Cathay Real Estate Development Co., Ltd.	90,343	253,682	104,166
Cathay Dragon Fund etc.	29,531	106,497	115,493
Cathay United Bank Culture and Charity Foundation.	535,309	544,588	533,160
Cathay Life Insurance Employees’ Welfare Committee	2,145,227	3,065,254	2,948,558
Cathay Real Estate Development Employees’ Welfare Committee	360,331	363,768	334,085
Others	7,877,557	9,013,397	10,001,122
Total	$39,622,684	$49,343,052	$43,212,717

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	Interest income			
Account/Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Loans				
Other related party				
Others	$6,200	$5,091	$12,390	$11,480

	Interest expense			
Account /Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Deposits				
The Company				
Cathay Financial Holding	$232	$70	$298	$127
Subsidiary				
Cathay Life	18,299	6,355	25,617	11,780
Cathay Century	1,917	1,769	3,680	3,490
Cathay Securities	1,626	1,028	2,681	1,889
Cathay Futures Co., Ltd.	1,127	2,540	3,714	5,506
Cathay Securities Investment Trust	49	52	102	136
Cathay Securities Investment Consulting Co., Ltd.	197	156	344	295
Lin Yuan (Shanghai) Real Estate Co., Ltd.	27	-	27	-
Cathay Life (Vietnam)	81	145	191	252
Cathay Century (Vietnam)	1,746	1,568	3,124	3,460
Conning Asia Pacific Ltd.	237	26	360	91
Cathay Private Equity	8	-	9	-
Associate				
Symphox Information Co., Ltd.	182	142	332	283
Xin-Ri-Tai Energy Corp.	19	145	57	307
Other related parties				
Cathay Real Estate Development Co., Ltd.	5	11	16	25
Cathay Dragon Fund etc.	1	-	1	-
Cathay United Bank Culture and Charity Foundation.	1,359	1,415	2,771	2,842
Cathay Life Insurance Employees' Welfare Committee	5,803	5,827	11,602	11,581
Cathay Real Estate Development Employees' Welfare Committee	1,022	608	1,941	1,502
Others	16,429	16,089	32,774	34,264
Total	$50,366	$37,946	$89,641	$77,830

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	Ending balance		
Account/Name	2018.6.30	2017.12.31	2017.6.30
Call loans to banks			
Other related party			
Vietinbank	$5,357,077	$5,340,176	$5,541,614
Due to commercial banks			
Other related party			
Vietinbank	5,350,766	5,337,418	5,452,049

	Interest income			
Account/Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Call loans to banks				
Other related party				
Vietinbank	$1,283	$1,498	$2,583	$3,865

	Interest expense			
Account/Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Due to commercial banks				
Other related party				
Vietinbank	$1,263	$1,389	$2,554	$2,773

Cathay United Bank and its subsidiaries' transaction terms with related parties are similar to those with third parties except that employees are given favorable interest rates within specified limit for savings and loans.

(B) Cathay United Bank and its related party loan, Guarantees and Derivatives Financial instruments refer to Note 16.(4).

(C) Receivables due to commission of insurance agency

Name	2018.6.30	2017.12.31	2017.6.30
Subsidiary			
Cathay Life	$457,026	$163,342	$420,914

(D) Payables

Name	2018.6.30	2017.12.31	2017.6.30
Associate			
Symphox Information Co., Ltd.	$146,405	$157,938	$112,942

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(E) Combined tax receivable

Name	2018.6.30	2017.12.31	2017.6.30
The Company			
Cathay Financial Holding	$-	$145,836	$113,178

(F) Dividends payable

Name	2018.6.30	2017.12.31	2017.6.30
The Company			
Cathay Financial Holding	$-	$-	$10,814,972

(G) Combined tax payable

Name	2018.6.30	2017.12.31	2017.6.30
The Company			
Cathay Financial Holding	$377,029	$-	$-

(H) Rental expense

Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Subsidiary				
Cathay Life	$169,847	$148,263	$335,200	$266,795

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

(I) Guarantee deposits paid

Name	2018.6.30	2017.12.31	2017.6.30
Subsidiary			
Cathay Life	$167,515	$164,798	$153,323

(J) Handling fees income

Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Subsidiary				
Cathay Life	$1,669,792	$1,625,076	$3,589,292	$3,824,867

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(K) Operating expenses

Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Associate				
Symphox Information Co., Ltd.	$138,120	$140,029	$294,393	$340,007
Other related parties				
Seaward Card Co., Ltd.	37,963	42,917	103,481	103,105
Total	$176,083	$182,946	$397,847	$443,112

(L) Shares issued from Cathay United Bank

Capital increased by cash

Name	Item	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Subsidiary			
Cathay Life	Common stock	$-	$14,998,000

C. Cathay Century and its subsidiaries

(A) Cash in banks

Name	Item	2018.6.30	2017.12.31	2017.6.30
Subsidiaries				
Cathay United Bank	Time deposit	$618,200	$618,200	$618,200
	Cash in bank	998,775	1,079,221	887,794
	Check deposit	174,111	129,755	136,284
Indovina Bank	Time deposit	168,587	140,380	141,301
	Cash in bank	26,558	5,281	5,076
	Total	$1,986,231	$1,972,837	$1,788,655

Interest income from Cathay United Bank for the three-month and six-month period ended 30 June 2018 and 2017 were $1,917 thousand, $1,769 thousand, $3,680 thousand and $3,490 thousand, respectively,

Interest income from Indovina Bank for the three-month and six-month period ended 30 June 2018 and 2017 were $1,746 thousand, $1,568 thousand, $3,124 thousand and $3,460 thousand, respectively.

As of 30 June 2018, 31 December 2017 and 30 June 2017, the time deposit pledged were $23,132 thousand, $23,041 thousand and $23,194 thousand, respectively.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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

Name	Item	2018.6.30	2017.12.31 (Note)	2017.6.30 (Note)
Other related party				
Cathay Dragon Fund etc.	Beneficiary certificates	$413,642		

Note: Cathay Century and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay Century and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(C) Available-for-sale financial assets

Name	Item	2018.6.30 (Note)	2017.12.31	2017.6.30
Other related party				
Cathay Dragon Fund etc.	Beneficiary certificates		$302,124	$247,775

Note: Cathay Century and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay Century and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(D) Investment balance of related parties' discretionary investment

Name	2018.6.30	2017.12.31	2017.6.30
Subsidiary			
Cathay Securities Investment Trust	$987,035	$898,774	$838,463

(E) Other payables

Name	2018.6.30	2017.12.31	2017.6.30
The Company			
Cathay Financial Holding	$1,533,341	$231,138	$1,670,429

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(F) Preferred stock liability

Name	2018.6.30	2017.12.31	2017.6.30
The Company			
Cathay Financial Holding	$1,000,000	$1,000,000	$1,000,000

(G) Operating expenses

Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Subsidiary				
Cathay Life	$145,865	$135,942	$281,778	$255,813

(H) Other disclosure

As of 30 June 2018, 31 December 2017 and 30 June 2017, the nominal amounts (in thousand) of the derivative financial instruments transactions with Cathay United Bank are summarized as below:

Item	2018.6.30		2017.12.31		2017.6.30	
CS contracts	USD	88,700	USD	88,700	USD	88,700
	EUR	1,850	EUR	4,850	EUR	5,850

D. Cathay Securities and its subsidiaries

(A) Cash in bank

Name	Items	2018.6.30	2017.12.31	2017.6.30
Subsidiary				
Cathay United Bank	Time deposits (Note)	$1,809,000	$2,042,784	$1,900,744
	Cash in bank	1,407,836	1,697,512	1,091,673
	Check deposits	3	3	3
	Total	$3,216,839	$3,740,299	$2,992,420

Interest income from Cathay United Bank for the three-month and six-month period ended 30 June 2018 and 2017 were $2,753 thousand, $3,568 thousand, $6,395 thousand and $7,395 thousand, respectively.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

As of 30 June 2018, 31 December 2017 and 30 June 2017, the time deposits pledged were all $900,000 thousand.

Note: In accordance with Article 14 of the "Regulations Governing Futures Commission Merchants", Article 10 of the "Regulations Governing Futures Advisory Enterprises", Article 7 of the "Regulations Governing Securities Investment Consulting Enterprises" and Article 17 of the "Regulations Governing Managed Futures Enterprises", Cathay Futures lodges the time deposits in Cathay United Bank as the operating bonds. As of 30 June 2018, 31 December 2017 and 30 June 2017, the operating bonds were $390,000 thousand, $385,000 thousand and $360,000 thousand, respectively.

(B) Customer's margin accounts

	Ending balance		
Name	2018.6.30	2017.12.31	2017.6.30
Subsidiary			
Cathay United Bank	$691,557	$716,284	$837,626

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

Name	2018.6.30	2017.12.31	2017.6.30
Other related party			
Cathay Dragon Fund etc.	$284,588	$237,708	$188,636

(D) Futures trader's equity

Name	2018.6.30	2017.12.31	2017.6.30
Subsidiary			
Cathay Life	$1,826,571	$1,628,717	$2,157,574
Other related party			
Cathay Dragon Fund etc.	825,071	526,611	92,274
Total	$2,651,642	$2,155,328	$2,249,848

E. Cathay Securities Investment Trust

(A) Cash in bank

Name	Items	2018.6.30	2017.12.31	2017.6.30
Subsidiary				
Cathay United Bank	Time deposit (Note)	$86,300	$96,300	$121,300
	Cash in bank	42,315	55,082	1,649
	Check deposits	39,791	78,395	27,296
	Total	$168,406	$229,777	$150,245

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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 30 June 2018, 31 December 2017 and 30 June 2017, the operating bonds were all $50,000 thousand. In accordance with “Discretionary Investment Services Contract”, as of 30 June 2018, 31 December 2017 and 30 June 2017, Cathay Securities Investment Trust reserved the performance bonds amounting to $36,300 thousand, $36,300 thousand and $61,300 thousand, respectively.

Interest income from Cathay United Bank for the three-month and six-month periods ended 30 June 2018 and 2017 were $57 thousand, $52 thousand, $111 thousand and $136 thousand, respectively.

(B) Management fee income

Name	2018.4.1~ 2018.6.30	2017.4.1~ 2017.6.30	2018.1.1~ 2018.6.30	2017.1.1~ 2017.6.30
Subsidiary				
Cathay Life	$101,669	$36,862	$203,610	$67,296
Other related party				
Cathay Dragon Fund etc.	465,871	338,527	905,517	664,306
Total	$567,540	$375,389	$1,109,127	$731,602

(C) Receivables

Name	2018.6.30	2017.12.31	2017.6.30
Other related party			
Cathay Dragon Fund etc.	$161,806	$145,162	$113,462

(D) Other payables

Name	2018.6.30	2017.12.31	2017.6.30
The Company			
Cathay Financial Holding	$472,027	$57,089	$279,282

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(E) Investment balance of related parties' discretionary investment

Name	2018.6.30	2017.12.31	2017.6.30
Subsidiary			
Cathay Life	$245,494,673	$245,661,387	$227,854,711
Cathay Century	987,035	898,774	838,463
Total	$246,481,708	$246,560,161	$228,693,174

8. Pledged assets

As of 30 June 2018, 31 December 2017 and 30 June 2017 the Group's pledged assets are summarized below:

		Carrying amount		
Items	Guarantee purpose	2018.6.30	2017.12.31	2017.6.30
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	$27,055,726	$14,608,359	$13,433,376
Financial assets at fair value through profit or loss	Securities lending, settlement of futures margin, guarantee loan	1,838,930	1,929,047	1,340,931
Available-for-sale financial assets	Business reserves and guarantees	(Note)	57,613	65,933
Financial assets at fair value through other comprehensive income	Business reserves and guarantees	257,084	(Note)	(Note)
Financial assets measured at amortized cost	Business reserves and guarantees	64,973,226	(Note)	(Note)
Held-to-maturity financial assets	Business reserves and guarantees	(Note)	5,903,749	3,070,972
Investments in debt securities with no active market	Business reserves and guarantees	(Note)	63,800,000	63,800,000
Investment property	short-term loan	290,341	-	-
Total		$94,415,307	$86,298,768	$81,711,212

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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.

(2) As of 30 June 2018, 31 December 2017 and 30 June 2017 Cathay United Bank and its subsidiaries had the following commitments and contingent liabilities, which were not reflected in the financial statements:

	2018.6.30	2017.12.31	2017.6.30
Trust and security held for safekeeping	$739,692,171	$684,016,891	$649,540,200
Travelers checks for sale	346,081	355,055	406,418
Bills for collection	39,241,131	40,718,597	42,924,141
Book-entry for government bonds and depository for short-term marketable securities under management	459,382,221	388,637,503	411,551,436
Entrusted financial management business	10,566,396	8,827,034	7,426,407
Guarantees on duties and contracts	7,926,004	7,167,460	6,539,311
Unused commercial letters of credit	6,083,529	5,395,278	3,900,196
Irrevocable loan commitments	217,327,593	211,869,506	215,464,802
Unused credit card lines commitments	574,959,341	555,882,027	542,996,521
Underwriting securities	1,762,500	230,000	3,200,000
Financial guarantee contracts	3,221,936	2,648,521	3,662,820

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(3) Leases

As of 30 June 2018, 31 December 2017 and 30 June 2017. According to the effective operating leases agreement (the longest lease term is 5 years), rentals for the next five years are as follows:

	2018.6.30	2017.12.31	2017.6.30
Within 1 year	$1,741,151	$2,025,770	$1,888,802
1 to 5 years	2,368,736	3,337,847	3,422,315
Over 5 year	84,528	108,483	108,090
Total	$4,194,415	$5,472,100	$5,419,207

(4) Investment commitment for private equity fund

As of 30 June 2018, the maximum remaining capital commitment for the contracted private equity fund of Cathay Life was USD 2,094,965 thousand, EUR 280,336 thousand, and GBP 1,557 thousand.

10. Significant disaster losses:

None

11. Subsequent events

(1) On 15 March 2018, Cathay Life's board of directs has approved a capital increase of USD 120 million for the subsidiary Cathay Life (Vietnam). The capital increase case was approved by the Investment Commission, MOEA in 20 June 2018 and obtained the approval letter issued by Ministry of Finance, Vietnam on 18 July 2018.

(2) Cathay Life has been approved by authority on 19 July 2018 to redeem 125,000 thousand shares of Series C Preferred Shares issued on 11 November 2011 for private in advance and complete the registration of capital reduction.

(3) Cathay Century and its subsidiaries resolved by the board of directors on 14 March 2018. In accordance with Article 158 of the Company Law and Articles of Association, to redeem Series A Preferred Shares in advance in July 2018. The capital reduction case has been approved by Financial Supervisory Commission, Insurance Bureau on 11 June 2018 and the record date for capital reduction was set for 12 July 2018.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

12. Other significant matters

(1) Categories of financial instruments

The Group

	2018.6.30	2017.12.31 (Note)	2017.6.30 (Note)
Financial assets			
Designated at fair value through profit or loss at initial recognition	$1,423,426,036		
Financial assets at fair value through other comprehensive income	1,149,474,661		
Derivative assets for hedging	217,899		
Financial assets measured at amortized cost			
Cash and cash equivalents (petty cash and cash on hand excluded)	291,069,534		
Due from the Central Bank and call loans to banks	109,711,078		
Financial assets measured at amortized cost	2,496,164,317		
Securities purchased under agreements to resell	109,042,261		
Receivables -net	189,220,327		
Loans -net	2,119,649,909		
Other financial assets	583,446,775		
Guarantee deposits paid	73,586,582		
Subtotal	5,971,890,783		
Total	$8,545,009,379		

	2018.6.30(Note)	2017.12.31	2017.6.30
Financial assets			
Financial assets at fair value through profit or loss:		$365,808,158	$278,016,689
Available-for-sale financial assets -net		1,681,125,738	1,530,850,336
Derivative financial assets for hedging		246,444	283,105
Held-to-maturity financial assets -net		98,759,110	90,474,000
Other financial assets - investments with no active market		2,783,306,758	2,599,427,914
Loans and receivables:			
Cash and cash equivalents (petty cash and cash on hand excluded)		227,032,625	338,693,618
Due from the Central Bank and call loans to banks		125,163,780	131,991,151
Securities purchased under agreements to resell		99,703,578	89,378,584
Receivables -net		169,202,260	163,280,334
Loans -net		2,038,528,190	2,020,044,431
Other financial assets		564,600,543	541,459,496
Guarantee deposits paid		36,555,168	35,419,163
Subtotal		3,260,786,144	3,320,266,777
Total		$8,190,032,352	$7,819,318,821

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2018.6.30	2017.12.31	2017.6.30
Financial liabilities			
Financial liabilities at fair value through profit or loss:	$167,696,630	$90,514,268	$90,918,060
Financial liabilities at amortized cost:			
Due to the Central Bank and call loans from banks	91,802,507	90,417,859	75,187,547
Securities sold under agreements to repurchase	105,689,690	112,643,582	74,325,892
Commercial paper payable -net	53,847,245	51,468,158	47,617,018
Payables	92,897,195	57,943,815	83,879,474
Deposits	2,121,960,307	2,062,953,012	2,025,898,760
Bonds payable	90,600,000	98,350,000	98,350,000
Other borrowings	218,389	441,199	595,770
Other financial liabilities	654,949,610	623,527,312	594,609,900
Guarantee deposits received	6,571,466	13,392,097	7,217,722
Subtotal	3,218,536,409	3,111,137,034	3,007,682,083
Total	$3,386,233,039	$3,201,651,302	$3,098,600,143

(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).

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(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).

(F) The Group evaluates the credit risk of the derivative contract traded over-the-counter through the following calculation. Under the assumption that the Group will not default, the Group determines its credit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Group calculates its debit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the Group. The Group decides the estimated probability of default by referring to the probability of default announced by external credit rating agencies. The Group sets estimated loss given default at 60% by considering the experiences of Jon Gregory, a scholar, and foreign financial institutions. The estimated exposure at default for current period is evaluated by considering the fair value of the derivative instruments traded at Taipei Exchange.

B. Financial instruments not measured at fair value:

Except as detailed in the following table, cash and cash equivalents, due from the central bank and call loans to banks, securities purchased under resell agreements, receivables, discounts and loans, guarantee deposits paid, deposits from the central bank and banks, due to the central bank and other banks, notes and bonds issued under repurchase agreement, commercial papers payable, payables, deposits and remittances and guarantee deposits received are the management considers the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values or that the fair values cannot be reasonably measured:

	Book value		
	2018.6.30	2017.12.31	2017.6.30
Financial assets			
Financial assets measured at amortized cost (Note 1)	$2,514,710,980	(Note 2)	(Note 2)
Held-to-maturity financial assets (Note 1)	(Note 2)	$107,306,112	$99,343,009
Investments with no active market	(Note 2)	2,783,306,758	2,599,427,914
Other financial assets	3,497,769	4,500,000	4,500,000

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	Fair value		
	2018.6.30	2017.12.31	2017.6.30
Financial assets			
Financial assets measured at amortized cost (Note 1)	$2,444,906,790	(Note 2)	(Note 2)
Held-to-maturity financial assets (Note 1)	(Note 2)	$115,588,892	$105,094,669
Investments with no active market	(Note 2)	2,876,428,806	2,643,183,129
Other financial assets	3,524,111	4,521,701	4,536,960

Note 1:Guarantee deposits paid in bonds are included.

Note 2:The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(3) Hedge accounting disclosures

Cash flow hedges

Cathay Life and its subsidiaries elected to apply hedge accounting policy of IFRS 9 late at the initial application of IFRS 9. The future cash flows fluctuation in the floating-rate assets held by Cathay Life and its subsidiaries may occur due to the change in market interest rate and lead to risk. Cathay Life and its subsidiaries held IRS thus to hedge risks arising from changes in interest rate. Information of hedge accounting from 1 January 2018 is as follows:

A. Hedging instruments

30 June 2018					
		Carrying amount of the hedging instrument			
Hedging instrument	Nominal amount of the hedging instrument	Assets	Liabilities	Line items in balance sheet where the hedging instrument is included	Changes in fair value used for calculating hedge ineffectiveness for current period
IRS	$6,800,000	$217,899	$-	Financial assets for hedging	$22,790

B. A profile of the timing of the nominal amount of the hedging instrument and the average price or rate

	Due in				
30 June 2018	1 month	1-3 months	3 months-1 year	1-5 years	Over 5 years
IRS					
Nominal principal	$-	$-	$-	$2,800,000	$4,000,000
Average fixed rate	-	-	-	1.6%	1.7%

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

C. Hedged items

2018.1.1~2018.6.30

	Changes in fair value used for calculating hedge ineffectiveness for current period	Cash flow hedge reserve	Balance of cash flow hedge reserve generated from the hedging relationships where hedge accounting is no longer applicable	Change in the value of the hedging instrument recognized in other comprehensive income	Hedge ineffectiveness recognized in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from the cash flow hedge reserve to profit or loss	Line items affected in profit or loss because of the reclassification
Floating-rate bonds	$(22,790)	$217,899	n/a	$22,790	$-	$-	$(51,335)	Net other non-interest gains
Discontinued hedge－floating-rate bonds	n/a	n/a	$(149)	n/a	n/a	n/a	938	Net other non-interest gains

D. Movement of equity component applying hedged accounting and related other comprehensive income are summarized below:

	2018.1.1~2018.6.30
Beginning balance	$203,647
Gross amount recognized in other comprehensive income	
Change in the value of the hedging instrument recognized in other comprehensive income	22,790
Amount reclassified from the cash flow hedge reserve to profit or loss	(50,397)
Income tax	(1,839)
Ending balance	$174,201

The following table summarizes the terms of Cathay Life and its subsidiaries' IRS for bonds used as hedging instruments before 1 January 2018:

2017.12.31

Hedged item	Hedging instrument	Fair Value	Expected period of cash flow	Expected period of profit and loss recognized in the statement of comprehensive income
Floating rate bonds	IRS	$246,444	2018.2.19~2024.5.26	2018.2.19~2024.5.26

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.6.30

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	$283,105	2017.7.25~2024.5.26	2017.7.25~2024.5.26

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:

	2017.4.1~2017.6.30	2017.1.1~2017.6.30
Amount recognized in other comprehensive income	$2,187	$50,504
Amount reclassified from equity to profit or loss	167	332

(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.

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

2018.6.30

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
				Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Financial instruments	Cash collateral received	Net amount
Derivative financial instrument	$4,692,108	$-	$4,692,108	$(4,611,905)	$-	$80,203

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2018.6.30

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: Financial instruments	Relevant amount that has not been offset on balance sheet: Cash collateral pledged	Net amount
Derivative financial instrument	$55,410,128	$-	$55,410,128	$(4,611,905)	$(24,103,943)	$26,694,280

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: Financial instruments	Relevant amount that has not been offset on balance sheet: Cash collateral received	Net amount
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: Financial instruments	Relevant amount that has not been offset on balance sheet: Cash collateral pledged	Net amount
Derivative financial instrument	$1,104,658	$-	$1,104,658	$(1,102,509)	$(24,176)	$(22,027)

2017.6.30

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: Financial instruments	Relevant amount that has not been offset on balance sheet: Cash collateral received	Net amount
Derivative financial instrument	$12,102,893	$-	$12,102,893	$(6,548,657)	$-	$5,554,236

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.6.30

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
				Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Financial instruments	Cash collateral pledged	Net amount
Derivative financial instrument	$9,364,883	$-	$9,364,883	$(6,257,689)	$(290,968)	$2,816,226

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

2018.6.30

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
				Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Financial instruments (Note)	Cash collateral received	Net amount
Derivative financial instrument	$68,413,681	$-	$68,413,681	$(61,956,486)	$(2,876,061)	$3,581,134

2018.6.30

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
				Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Financial instruments (Note)	Cash collateral pledged	Net amount
Derivative financial instrument	$61,956,486	$-	$61,956,486	$(61,956,486)	$-	$-

2017.12.31

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
				Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Financial instruments (Note)	Cash collateral received	Net amount
Derivative financial instrument	$33,172,556	$-	$33,172,556	$(33,172,556)	$-	$-

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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

2017.6.30

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: Financial instruments (Note)	Relevant amount that has not been offset on balance sheet: Cash collateral received	Net amount
Derivative financial instrument	$34,495,016	$-	$34,495,016	$(33,832,127)	$(662,889)	$-

2017.6.30

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: Financial instruments (Note)	Relevant amount that has not been offset on balance sheet: Cash collateral pledged	Net amount
Derivative financial instrument	$33,832,127	$-	$33,832,127	$(33,832,127)	$-	$-

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

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.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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

2018.6.30

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
				Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Financial instruments (Note)	Cash collateral received	Net amount
Repurchase bonds	$3,246,829	$-	$3,246,829	$(3,246,829)	$-	$-

2017.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
				Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Financial instruments (Note)	Cash collateral received	Net amount
Repurchase bonds	$2,702,157	$-	$2,702,157	$(2,702,157)	$-	$-

2017.6.30

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
				Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Financial instruments (Note)	Cash collateral received	Net amount
Repurchase bonds	$3,023,923	$-	$3,023,923	$(3,023,923)	$-	$-

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

(5) Financial instruments related information

A. The definition of the hierarchy of the financial instruments is measured at fair value:

1st Level: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
2nd Level: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
3rd Level: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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:

	2018.6.30			
Financial instruments measured at fair value items	Total	1st Level	2nd Level	3rd Level
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Mandatorily measured at fair value through profit or loss				
Stocks	$687,367,571	$606,201,361	$75,172,565	$5,993,645
Bonds	240,589,654	80,725,179	158,577,222	1,287,253
Others	425,820,814	205,639,592	153,661,741	66,519,481
Financial assets at fair value through other comprehensive income				
Stocks	58,780,887	49,417,292	202,403	9,161,192
Bonds (Note 1)	1,094,934,261	146,992,454	947,941,807	-
Investment property (Note 2)	307,811,521	-	-	307,811,521
Liabilities				
Financial liabilities at fair value through profit or loss	53,826,003	1,709,015	52,116,988	-
Derivative instruments				
Assets				
Financial assets at fair value through profit or loss	69,647,997	909,344	56,407,833	12,330,820
Derivative assets for hedging	217,899	-	217,899	-
Liabilities				
Financial liabilities at fair value through profit or loss	113,870,627	451,385	101,115,219	12,304,023

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2017.12.31			
Financial instruments measured at fair value items	Total	1st Level	2nd Level	3rd Level
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Designated at fair value through profit or loss at initial recognition				
Stocks	$84,171	$84,171	$-	$-
Others	155,197	-	155,197	-
Held for trading				
Stocks	17,846,019	17,831,044	14,975	-
Bonds	109,547,916	87,569,462	21,978,454	-
Others	188,267,281	17,703,649	170,563,632	-
Available-for-sale financial assets				
Stocks	714,122,499	695,086,227	4,610,042	14,426,230
Bonds (Note 1)	604,173,815	111,667,033	492,475,196	31,586
Others	364,504,104	296,861,181	16,490,474	51,152,449
Investment property (Note 2)	307,190,424	-	-	307,190,424
Liabilities				
Financial liabilities at fair value through profit or loss				
Designated at fair value through profit or loss at initial recognition	53,639,010	-	53,639,010	-
Held for tradind				
Bonds	49,945	49,945	-	-
Others	1,824,436	1,824,436	-	-
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	49,907,574	642,536	40,544,691	8,720,347
Derivatives financial assets for hedging	246,444	-	246,444	-
Liabilities				
Financial liabilities at fair value through profit or loss	35,000,877	867,393	25,310,612	8,822,872

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2017.6.30			
Financial instruments measured at fair value items	Total	1st Level	2nd Level	3rd Level
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Designated at fair value through profit or loss at initial recognition	$155,933	$-	$155,933	$-
Held for trading				
Stocks	12,794,718	12,794,718	-	-
Bonds	89,227,589	65,960,935	23,266,654	-
Others	128,816,842	27,713,121	101,103,721	-
Available-for-sale financial assets				
Stocks	627,957,657	610,038,796	4,891,208	13,027,653
Bonds (Note 1)	590,653,990	76,913,254	513,740,736	-
Others	313,871,623	254,417,871	15,269,686	44,184,066
Investment property (Note 2)	305,347,362	-	-	305,347,362
Liabilities				
Financial liabilities at fair value through profit or loss				
Designated financial liabilities at fair value through profit or loss at initial recognition	45,827,657	-	45,827,657	-
Held for trading				
Bonds	302,262	302,262	-	-
Others	1,005,644	1,005,644	-	-
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	47,021,607	771,499	34,426,186	11,823,922
Derivatives financial assets for hedging	283,105	-	283,105	-
Liabilities				
Financial liabilities at fair value through profit or loss	43,782,497	565,429	31,333,894	11,883,174

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 six-month period ended 30 June 2018, Cathay Life and its 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 $220,445 thousand was transferred as its market price was obtainable. For the six-month period ended 30 June 2017, Cathay Life and its subsidiaries' assets and liabilities which were measured at fair value on a recurring basis, no transfer between Level 1 and Level 2 during the period.

For the six-month period ended 30 June 2018 and 2017, Cathay Century transferred stocks which were measured at fair value on a recurring basis, from 2nd level to 1st level. A total of $101,459 thousand and $310,800 thousand, respectively, was transferred as its market price was obtainable.

For the six-month period ended 30 June 2018, Cathay United Bank and its subsidiaries were no transfers between Level 1 and Level 2. Cetain central government bonds held by Cathay United Bank were determined to be debt instruments with no active market according to the Company's internal risk control policy evaluation. Therefore, $8,431,930 thousand of it was transferred from 1st level to 2nd level fair value measurements during the six-month period ended 30 June 2017.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Reconciliation for fair value measurements in 3rd level for movements

Reconciliation for fair value measurements in 3rd level of the fair value hierarchy for movements during the period is as follows:

	Assets			Liabilities
	Financial assets at fair value through profit or loss (Note)	Financial assets at fair value through other comprehensive income	Investment property	Financial liabilities at fair value through profit or loss
2018.1.1	$68,663,020	$8,805,074	$307,190,424	$8,822,872
Total gains (losses) recognized				
Amount recognized in profit or loss				
Valuation profit or loss from financial assets and liabilities at fair value through profit or loss	9,141,938	-	-	4,160,993
Other comprehensive losses reclassified using overlay approach	(3,256,688)	-	-	-
Valuation losses from investment property	-	-	(656,636)	-
Amount recognized in other comprehensive income				
Exchange differences resulting from translating the financial statements of foreign operations	18,788	77	(143,887)	(739)
Other comprehensive income reclassified using overlay approach	3,256,688	-	-	-
Valuation gains on equity instruments at fair value through other comprehensive income	-	1,735,540	-	-
Acquisition or issues	14,678,275	256,500	45,000	37,579
Transfers from property and equipment	-	-	(16,222)	-
Transfers from investment property under construction and prepayment for properties	-	-	425,123	-
Transfers from investment property measured at cost	-	-	1,053,619	-
Disposal or settlements	(5,236,623)	-	(85,900)	(716,682)
Transfers to 3rd level	405,170	-	-	-
Transfers from 3rd level	(1,539,369)	(1,635,999)	-	-
2018.6.30	$86,131,199	$9,161,192	$307,811,521	$12,304,023

Note:The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	Assets			Liabilities
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Investment property	Financial liabilities at fair value through profit or loss
2017.1.1	$17,622,700	$53,522,530	$301,744,407	$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	(6,004,630)	-	-	(6,017,716)
Realized gains from available-for-sale financial assets	-	1,548,143	-	-
Valuation losses from investment property	-	-	(329,055)	-
Amount recognized in other comprehensive income				
Unrealized valuation losses from available-for-sale financial assets	-	(806,252)	-	-
Exchange differences resulting from translating the financial statements of foreign operations	-	-	(214,478)	(4,230)
Acquisition or issues	608,409	8,283,557	-	608,409
Transfers from property and equipment	-	-	367,192	-
Transfers from investment property under construction and prepayment for properties	-	-	1,588,181	-
Transfers from investment property measured at cost	-	-	2,191,115	-
Disposal or settlements	(402,557)	(4,707,924)	-	(402,557)
Transfers to 3rd level	-	333,588	-	-
Transfers from 3rd level	-	(961,923)	-	-
2017.6.30	$11,823,922	$57,211,719	$305,347,362	$11,883,174

Total gains (losses) recognized in profit or loss in the table above contained unrealized losses related to assets on hand as of 30 June 2018 and 2017 in the amount of $4,954,841 thousand and $(6,333,685) thousand, respectively.

Total gains (losses) recognized in profit or loss in the table above contained unrealized gains related to liabilities on hand as of 30 June 2018 and 2017 in the amount of $(4,160,993) thousand and $6,017,716 thousand, respectively.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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

2018.6.30

	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets				
Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income	Net value approach	discount for lack of marketability	0% ~ 3%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Market approach	discount for lack of marketability	10% ~ 30%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Income approach	discount for lack of marketability	14% ~ 51%	The higher the discount for lack of marketability, the lower the fair value of the stocks
		growth rate of adjusted net profit after tax	-48% ~ 62%	The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks
		dividend payout ratio	80% ~ 140%	The higher the dividend payout ratio, the higher the fair value of the stocks
Investment property	Refer to Note 6.(11)			

2017.12.31

	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets				
Available- for-sale	Market approach	discount for lack of marketability	11% ~ 30%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Income approach	discount for lack of marketability	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.(11)			

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2017.6.30			
	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets				
Available- for-sale	Market approach	discount for lack of marketability	9% ~ 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	-47% ~ 60%	The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks
		dividend payout ratio	77% ~ 90%	The higher the dividend payout ratio, the higher the fair value of the stocks
Investment property	Refer to Note 6.(11)			

Cathay United Bank and its subsidiaries

	2018.6.30			
	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets				
financial assets at fair value through other comprehensive income				
Stocks	Market approach	discount for lack of marketability	15%~ 20%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Residual income approach	Cost of equity rate	6% ~ 7%	The higher the cost of equity rate, the lower the fair value of the stocks
	Value of net assets approach	Value of net assets	N/A	The higher the value of net assets, the higher the fair value of the stocks
Investment property	Income approach and sales comparison approach	Capitalization rate	2.05% ~ 5.85%	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

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.12.31

	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets				
Available-for-sale				
Stocks	Market approach	discount for lack of marketability	15% ~ 20%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Residual income approach	Cost of equity rate	6% ~ 7%	The higher the cost of equity rate, the lower the fair value of the stocks
	Value of net assets approach	Value of net assets	N/A	The higher the value of net assets, the higher the fair value of the stocks
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

2018.6.30

	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets				
Available-for-sale				
Stocks	Market approach	discount for lack of marketability	15% ~ 20%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Residual income approach	Cost of equity rate	6% ~ 7%	The higher the cost of equity rate, the lower the fair value of the stocks
	Value of net assets approach	Value of net assets	N/A	The higher the value of net assets, the higher the fair value of the stocks
Investment property	Income approach and sales comparison approach	Capitalization rate	1.60%~2.95%	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%~17.11%	The higher the composite interest rate for capital interest, the lower the fair value

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Cathay Century and its subsidiaries

	2018.6.30				
	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets					
financial assets at fair value through other comprehensive income					
Stocks	Market comparison approach	discount for lack of marketability	30%	The higher the discount for lack of marketability, the lower the fair value of the stocks	5% increase (decrease) in the discount for lack of marketability would result in decrease (increase) in Cathay Century's equity by $28,800

	2017.12.31				
	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets					
Available-for-sale					
Stocks	Market comparison approach	discount for lack of marketability	30%	The higher the discount for lack of marketability, the lower the fair value of the stocks	5% increase (decrease) in the discount for lack of marketability would result in decrease (increase) in Cathay Century's equity by $31,200

	2017.6.30				
	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets					
Available-for-sale					
Stocks	Market comparison approach	discount for lack of marketability	30%	The higher the discount for lack of marketability, the lower the fair value of the stocks	5% increase (decrease) in the discount for lack of marketability would result in decrease by $33,000 thousand or increase by$33,600 thousand in Cathay Century's equity

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Cathay Securities and its subsidiaries

2018.6.30

	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 5.46%~-3.74%

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 5.46%~ -3.74%

2017.6.30

	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 5.17%~-4.02%

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Valuation process used for fair value measurements categorized within 3rd level of the fair value hierarchy

The Group's Risk Management Department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company and subsidiaries' accounting policies at each reporting date.

C. Fair value measurement hierarchy of the Group's assets and liabilities not measured at fair value but for which the fair value is disclosed

	2018.6.30			
	Total	1st level	2nd level	3rd level
Financial assets not measured at fair value for which only the fair value is disclosed				
Financial assets measured at amortized cost (Note)	$2,444,906,790	$121,279,959	$2,315,732,199	$7,894,632
Other financial assets	3,524,111	-	3,524,111	-

	2017.12.31			
	Total	1st level	2nd level	3rd 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	-

	2017.6.30			
	Total	1st level	2nd level	3rd 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	$2,643,183,129	$322,142	$2,641,334,323	$1,526,664
Held-to-maturity financial assets (Note)	105,094,669	30,087,530	71,867,583	3,139,556
Other financial assets	4,536,960	-	4,536,960	-

Note: Guarantee deposits paid in bonds are included.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(6) Transfers of Financial Assets

A. Financial Assets transferred that have not been fully removed

Transferred financial assets that are part of Cathay United Bank and 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:

	2018.6.30				
Categories of financial assets	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	$39,714,720	$37,144,456	$39,196,119	$37,144,456	$2,051,663
Financial assets at fair value through other comprehensive income					
Repurchase agreements	48,335,992	45,367,142	45,949,909	45,367,142	582,767
Financial assets measured at amortized cost					
Repurchase agreements	22,966,726	19,282,820	22,966,657	19,282,820	3,683,837
Securities sold under agreements					
Repurchase agreements	728,696	648,442	728,696	648,442	80,254

	2017.12.31				
Categories of financial assets	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

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2017.6.30				
Categories of financial assets	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	$15,512,762	$14,557,812	$15,249,404	$14,557,812	$691,592
Available for sale financial assets					
Repurchase agreements	25,845,735	25,110,943	25,328,519	25,110,943	217,576
Held to maturity financial assets					
Repurchase agreements	27,378,719	27,287,415	27,378,719	27,287,415	91,304
Debt instrument investments for which no active market exists					
Repurchase agreements	4,887,943	4,345,799	4,887,943	4,345,799	542,144

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:

	2018.6.30				
Categories of financial assets	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 other comprehensive income					
Repurchase bonds	$3,288,187	$3,246,829	$3,288,187	$3,246,829	$41,358

	2017.12.31				
Categories of financial assets	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 bonds	$2,737,491	$2,702,157	$2,737,491	$2,702,157	$35,334

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2017.6.30				
Categories of financial assets	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 bonds	$3,042,635	$3,023,923	$3,042,635	$3,023,923	$18,712

(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

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

2018.6.30

Financial assets	Taiwan	Asia	Europe	North America	Emerging markets and others	Total
Cash and cash equivalents	$134,185,857	$76,547	$126,979	$80,830,618	$4,712,630	$219,932,631
Financial assets at fair value through profit or loss	36,777,971	21,185,748	62,129,830	18,828,923	80,907,652	219,830,124
Financial assets at fair value through other comprehensive income	101,684,239	31,677,221	159,588,456	376,535,643	229,605,262	899,090,821
Derivative financial assets for hedging	95,780	-	-	122,119	-	217,899
Financial assets measured at amortized cost	190,463,693	135,171,197	344,507,076	941,813,628	532,315,636	2,144,271,230
Other financial assets	-	-	3,497,769	-	-	3,497,769
Total	$463,207,540	$188,110,713	$569,850,110	$1,418,130,931	$847,541,180	$3,486,840,474
Proportion	13.3%	5.4%	16.3%	40.7%	24.3%	100.0%

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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%

2017.6.30

Financial assets	Taiwan	Asia	Europe	North America	Emerging markets and others	Total
Cash and cash equivalents	$221,071,827	$66,814	$7,676,216	$81,928,572	$14,712,125	$325,455,554
Financial assets at fair value through profit or loss	7,050,107	1,021,522	4,420,281	3,658,497	-	16,150,407
Available-for-sale financial assets	191,531,095	18,752,019	40,425,819	117,520,743	119,915,113	488,144,789
Derivative financial assets for hedging	105,140	-	2,701	175,264	-	283,105
Debt instrument investments for which no active market exists	99,528,382	133,351,886	451,485,776	977,598,039	527,835,780	2,189,799,863
Held-to-maturity financial assets	35,990,064	-	-	913,080	-	36,903,144
Other financial assets	1,000,000	-	3,500,000	-	-	4,500,000
Total	$556,276,615	$153,192,241	$507,510,793	$1,181,794,195	$662,463,018	$3,061,236,862
Proportion	18.2%	5.0%	16.6%	38.6%	21.6%	100.0%

b. Regional distribution of credit risk exposure for secured loans and overdue receivables:

2018.6.30

Location	Northern and eastern areas	Central area	Southern area	Overseas	Total
Secured loans	$311,341,704	$47,835,454	$76,404,917	$5,135,544	$440,717,619
Overdue receivables	852,751	28,565	70,141	-	951,457
Total	$312,194,455	$47,864,019	$76,475,058	$5,135,544	$441,669,076
Proportion	70.7%	10.8%	17.3%	1.2%	100.0%

2017.12.31

Location	Northern and eastern areas	Central area	Southern area	Overseas	Total
Secured loans	$313,014,247	$50,733,517	$77,352,450	$2,079,898	$443,180,112
Overdue receivables	244,525	29,822	69,957	-	344,304
Total	$313,258,772	$50,763,339	$77,422,407	$2,079,898	$443,524,416
Proportion	70.6%	11.4%	17.5%	0.5%	100.0%

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.6.30

Location	Northern and eastern areas	Central area	Southern area	Overseas	Total
Secured loans	$314,646,570	$50,148,425	$77,338,213	$812,806	$442,946,014
Overdue receivables	191,255	21,159	72,250	-	284,664
Total	$314,837,825	$50,169,584	$77,410,463	$812,806	$443,230,678
Proportion	71.0%	11.3%	17.5%	0.2%	100.0%

(C) Credit risk quality category

The credit risk of Cathay Life can be categorized into low credit risk, medium credit risk, high credit risk and credit impaired. The definitions of each category are as follows:

a. Low credit risk indicates that an entity or a subject has an ability to perform financial commitment in a stable level. Even though it encounters material uncertainty and is exposed to unfavorable conditions, it can still maintain its ability to perform financial commitment.
b. Medium credit risk indicates that an entity or a subject has a weak ability to perform financial commitment. Unfavorable operational, financial or economic conditions will diminish its ability to perform financial commitment.
c. High credit risk indicates that an entity or a subject has a fragile ability to perform financial commitment. Whether the entity can perform the commitment depends on whether its business environment and financial status are favorable.
d. Credit impaired indicates that an entity or a subject fails to fulfill its obligations. Cathay Life evaluated whether the impairment standard has been reached based on potential losses.

(D) Determinants for whether the credit risk has increased significantly since initial recognition

a. Cathay Life assesses, at each reporting date, whether the credit risk of a financial instrument in the scope of impairment requirements under IFRS 9 has increased significantly since initial recognition. To make this assessment, Cathay Life and its subsidiaries considered reasonable and supportable information (including forward-looking information) which indicated that credit risk has increased significantly since initial recognition. The main indicators included external credit rating, past due information, credit spread and other market information which showed that the credit risk related to borrowers and issuers has increased significantly.
b. If the credit risk at the reporting date is determined to be low, an entity can assume that the credit risk of the financial instrument has not increased significantly since initial recognition.

(E) Definitions of a default occurring on a financial asset and a credit-impaired financial asset

The definition of a default occurring on financial assets of Cathay Life is the same as a credit-impaired financial asset. If one or more of the criteria below are met, a default occurs and a financial asset is credit-impaired:

a. Quantitative factor: when contractual payments are more than 90 days past due, a default occurs and a financial asset is credit-impaired.

b. Qualitative factor: an evidence indicates that the issuers or borrowers cannot pay the contractual payments or that they have significant financial difficulties, for example:

(a) The issuers and borrowers have entered bankruptcy or are probable to file bankruptcy or financial reorganization.
(b) The borrowers fail to make interest or principal payments based on original terms and conditions.
(c) The collaterals of the borrowers are seized provisionally or enforced.
(d) The borrowers claim for a change of credit conditions due to financial difficulties.

c. The abovementioned definitions of a default and a credit impairment are applicable to all financial assets held by Cathay Life, and are aligned with those of financial assets for internal credit risk management. The definitions are also applicable to related impairment assessment model.

(F) Measurement of expected credit losses

a. Methods and assumptions adopted

For financial instruments on which the credit risk has not increased significantly since initial recognition, Cathay Life measures loss allowance for financial instruments at an amount equal to 12-month expected credit losses; for financial instruments on which the credit risk has increased significantly since initial recognition or are credit-impaired, Cathay Life measures loss allowance for financial instruments at an amount equal to the lifetime expected credit losses.

To measure expected credit losses, Cathay Life multiplies exposure at default by 12-month and the lifetime probability of default of the issuers, guarantee agencies and borrowers and loss given default. Cathay Life also considers the effect of the time value of money to calculate 12-month expected credit losses and the lifetime expected credit losses.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Default rate is the rate that issuers, guarantee agencies and counterparties default. Loss given default is the loss rate resulted from the default of issuers, guarantee agencies and counterparties. Loss given default used by Cathay Life in impairment assessment is based on information regularly issued by Moody's. Probability of default is based on information regularly issued by Taiwan Ratings and Moody's and is determined based upon current observable information and macroeconomic information (gross domestic product and economic growth rate, for example) with adjustments of historic data. Exposure at default is measured at the amortized cost and interest receivables of the financial assets.

b. Consideration of forward-looking information

Cathay Life takes forward-looking information into consideration while measuring expected credit losses of the financial assets.

(G) Gross carrying amount of maximum credit risk exposure and category of credit quality

a. Financial assets of Cathay Life

30 June 2018 (Note 1)

		Stage 1	Stage 2	Stage 3			
		12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Loss allowance	Gross carrying amount
Investment grade	Debt instruments at fair value through other comprehensive income	$877,761,503	$-	$-	$-	$-	$877,761,503
	Financial assets measured at amortized cost	2,106,226,021	-	-	-	(822,905)	2,105,403,116
	Other financial assets	3,500,000	-	-	-	(2,231)	3,497,769
Non-investment grade	Debt instruments at fair value through other comprehensive income	20,945,343	383,975	-	-	-	21,329,318
	Financial assets measured at amortized cost	30,873,827	8,786,413	-	-	(792,126)	38,868,114

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	31 December 2017 (Note 1)					
	Normal assets					
Financial assets	Investment grade	Non-investment grade or unrated	Past due but not impaired	Impaired	Provision for impairment	Total
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%

	30 June 2017 (Note 1)					
	Normal assets					
Financial assets	Investment grade	Non-investment grade or unrated	Past due but not impaired	Impaired	Provision for impairment	Total
Cash and cash equivalents	$325,455,554	$-	$-	$-	$-	$325,455,554
Financial assets at fair value through profit or loss	14,507,146	1,643,261	-	-	-	16,150,407
Available-for-sale financial assets	425,936,796	62,207,993	-	-	-	488,144,789
Derivative financial assets for hedging	283,105	-	-	-	-	283,105
Debt instrument investments for which no active market exists	2,127,491,435	62,308,428	-	395,668	(395,668)	2,189,799,863
Held-to-maturity financial assets	36,903,144	-	-	-	-	36,903,144
Other financial assets	4,500,000	-	-	-	-	4,500,000
Total	$2,935,077,180	$126,159,682	$-	$395,668	$(395,668)	$3,061,236,862
Proportion	95.9%	4.1%	-	-	-	100.0%

Note 1: Cathay Life and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay Life and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Note 2: Investment grade assets refer to those with credit rating of at least BBB- granted by a credit rating agency; non-investment grade assets are those with credit rating lower than BBB- granted by a credit rating agency.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Secured loans of Cathay Life

30 June 2018 (Note)

	Stage 1	Stage 2	Stage 3				
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Loss allowance	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	Gross carrying amount
Secured loans	$437,273,256	$552,499	$3,843,321	$-	$(606,418)	$(5,550,986)	$435,511,672

31 December 2017 (Note)

	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

30 June 2017 (Note)

	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	$241,556,639	$116,472,132	$52,084,368	$276,200	$3,169,195	$413,558,534	$5,862,450	$407,696,084
Corporate finance	24,284,616	4,756,306	532,002	-	99,220	29,672,144	251,810	29,420,334
Total	$265,841,255	$121,228,438	$52,616,370	$276,200	$3,268,415	$443,230,678	$6,114,260	$437,116,418

Note: Cathay Life adopted IFRS 9 on 1 January 2018. Cathay Life elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Ageing analysis of past due but not impaired secured loans 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
2018.6.30	(Note)	(Note)	(Note)
2017.12.31	176,870	31,620	208,490
2017.6.30	194,358	81,842	276,200

Note: Cathay Life and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay Life and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(H) Movement of loss allowance is summarized below:

a. Debt instrument investments at fair value through other comprehensive income

	12-month expected credit losses	Lifetime expected credit losses: Collectively assessed	Lifetime expected credit losses: Not purchased or originated credit-impaired financial asset	Lifetime expected credit losses: Purchased or originated credit-impaired financial assets	Total of impairment charged in accordance with IFRS 9
1 January 2018	$455,064	$96,965	$-	$-	$552,029
Changes due to financial instruments recognized as at 1 January					
Transfer to lifetime expected credit losses	(848)	848	-	-	-
New financial assets originated or purchased	157,837	-	-	-	157,837
Financial assets that have been derecognized during the period	(132,971)	(116,693)	-	-	(249,664)
Changes in models/risk parameters	3,972	53,201	-	-	57,173
Foreign exchange and other movements	10,662	50	-	-	10,712
30 June 2018	$493,716	$34,371	$-	$-	$528,087

b. Financial assets measured at amortized cost

	12-month expected credit losses	Lifetime expected credit losses: Collectively assessed	Lifetime expected credit losses: Not purchased or originated credit-impaired financial asset	Lifetime expected credit losses: Purchased or originated credit-impaired financial assets	Total of impairment charged in accordance with IFRS 9
1 January 2018	$754,100	$705,758	$-	$-	$1,459,858
Changes due to financial instruments recognized as at 1 January					
Transfer to lifetime expected credit losses	(4,597)	4,597	-	-	-
New financial assets originated or purchased	170,579	-	-	-	170,579
Financial assets that have been derecognized during the period	(51,881)	(346,614)	-	-	(398,495)
Changes in models/risk parameters	13,841	335,247	-	-	349,088
Foreign exchange and other movements	18,723	15,278	-	-	34,001
30 June 2018	$900,765	$714,266	$-	$-	$1,615,031

c. Other financial assets

	12-month expected credit losses	Lifetime expected credit losses: Collectively assessed	Lifetime expected credit losses: Not purchased or originated credit-impaired financial asset	Lifetime expected credit losses: Purchased or originated credit-impaired financial assets	Total of impairment charged in accordance with IFRS 9
1 January 2018	$901	$-	$-	$-	$901
Foreign exchange and other movements	1,330	-	-	-	1,330
30 June 2018	$2,231	$-	$-	$-	$2,231

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

d. Secured loans

		Lifetime expected credit losses						
	12-month expected credit losses	Collectively assessed	Individually assessed	Not purchased or originated credit-impaired financial asset	Purchased or originated credit-impaired financial assets	Total of impairment charged in accordance with IFRS 9	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	Total
1 January 2018	$108,879	$1,211	$-	$601,271	$-	$711,361	$5,438,078	$6,149,439
Changes due to financial instruments recognized as at 1 January:								
Transfer to lifetime expected credit losses	(194)	408	-	(214)	-	-	-	-
Transfer to credit-impaired financial assets	(31)	(34)	-	65	-	-	-	-
Transfer to 12-month expected credit losses	1,906	(1,087)	-	(819)	-	-	-	-
New financial assets originated or purchased	14,119	2	-	4,173	-	18,294	-	18,294
Financial assets that have been derecognized during the period	(4,970)	(37)	-	(36,895)	-	(41,902)	-	(41,902)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	-	112,908	112,908
Changes in models/risk parameters	(8,448)	92	-	(72,979)	-	(81,335)	-	(81,335)
30 June 2018	$111,261	$555	$-	$494,602	$-	$606,418	$5,550,986	$6,157,404

There is no significant change in loss allowance due to significant change in the carrying amount of the abovementioned financial instruments.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(J) The exposure to credit risk and loss allowance of receivables

Measurement of loss allowance of Cathay Life's receivables which are in the scope of the impairment requirements under IFRS 9 is based upon the lifetime expected credit losses under simplified approach. The assessment of loss allowance as of 30 June 2018 is addressed below.

Cathay Life's receivables which are in the scope of the impairment requirements under IFRS 9 included notes receivable in the amount of $71,225 thousand and other receivables in the amount of $34,333,646 thousand. Loss allowance measured by a provision matrix under simplified approach is as follows:

	Recognition				
	Not yet due/ within 1 month	1-3 months	3-6 months	Over 6 months	Total
Gross carrying amount	$34,306,007	$97,122	$1,766	$6	$34,404,901
Loss rate	0%	2%	10%	50%	
Lifetime expected credit losses	-	1,944	178	3	2,125

The abovementioned expected credit losses measured by a provision matrix under simplified approach amounted to $2,804 thousand. The movement in loss allowance is as follows:

	2018.1.1~ 2018.6.30
Beginning balance (in accordance with IAS 39)	$2,175
Transition adjustment to retained earnings as at 1 January	-
Beginning balance (in accordance with IFRS 9)	2,175
Addition for the current period	(50)
Ending balance	$2,125

In accordance with the transition provision in IFRS 9 that was adopted on 1 January 2018, Cathay Life elected not to restate prior periods at the date of initial application. Please refer to Note 6 for the movements in allowance for bad debts of receivables for the six-month period ended 30 June 2017.

B. Liquidity risk analysis

(A) Sources of liquidity risk

Liquidity risks of the financial instruments are classified as "funding liquidity risk" and "market liquidity risk". "Funding liquidity risk" represents the default risk that Cathay Life is unable to turn assets into cash or obtain sufficient funds. "Market liquidity risk" represents the risk of significant changes in fair value that Cathay Life faces when it sells or offsets its assets during market disorder.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(B) Liquidity risk management

Cathay Life assesses the characteristics of business, monitors short-term cash flows, and constructs the completed mechanism of liquidity risk management. Furthermore, Cathay Life manages market liquidity risk cautiously by considering market trading volumes and adequacy of holding positions with symmetric.

Cathay Life uses cash flow model and stress testing to assess cash flow risk based on actual management needs or special situation. Also, for abnormal and urgent financing needs, Cathay Life makes an emergency management operating procedure to deal with significant liquidity risks.

(C) Maturity analysis of financial liabilities:

The analysis of cash outflows to Cathay Life and its subsidiaries is listed below and based on the residual term to maturity on balance sheet date. The disclosed amounts are in conformity of contract cash flows and the results of the differences from the disclosed amounts on balance sheet.

a. Maturity analysis of derivative financial liability:

2018.6.30	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Payables	$31,307,293	$389,291	$87,073	$1,529,821	$845,240	$34,158,718
Bonds payables (Note)	569,589	996,765	2,415,000	7,245,000	79,660,000	90,886,354
Preferred stock liability	5,004,586	-	-	-	-	5,004,586

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

2017.6.30	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	$34,637,342	$874,411	$120,565	$69,937	$2,551,128	$38,253,383
Payables	569,768	996,765	2,415,000	7,245,000	82,074,821	93,301,354
Bonds payables (Note)	-	-	5,126,888	-	-	5,126,888

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

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Maturity analysis of derivative financial liability:

2018.6.30	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	$14,309	$14,771	$7,828	$962	$-	$37,870
Forward	10,896,002	1,395,150	-	-	-	12,291,152
CS	62,082	-	-	-	-	62,082

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

2017.6.30	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	$31,640	$27,824	$31,619	$(930)	$-	$90,153
Forward	1,119,949	1,157,549	-	-	-	2,277,498
CS	4,884,585	7,777,687	-	-	-	12,662,272
Option	8,361	-	-	-	-	8,361

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.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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
2018.1.1~2018.6.30

Risk Factors	Changes (+/-)	Gain (loss)
Equity risk (Price)	Price decreases by 10%	$(68,281,809)
Interest rate risk (Yield curve)	The main yield curve shifts up by 100 bps	(108,239,750)
Exchange risk (Foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(9,711,395)

Table of Stress Testing
2017.1.1~2017.6.30

Risk Factors	Changes (+/-)	Gain (loss)
Equity risk (Price)	Price decreases by 10%	$(55,451,345)
Interest rate risk (Yield curve)	The main yield curve shifts up by 100 bps	(38,770,839)
Exchange risk (Foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(8,442,644)

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.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

c. Sensitivity Analysis

Summarization of Sensitivity Analysis
2018.1.1~2018.6.30

Risk Factors	Variables (+/-)		Change in Income	Change in Equity
Foreign currency risk	USD/NTD	appreciates 1%	$4,709,329	$5,099,180
	CNY(CNH)/USD	appreciates 1%	858,591	547,713
	HKD/USD	appreciates 1%	321	506,973
	EUR/USD	appreciates 1%	(92,800)	202,049
	GBP/USD	appreciates 1%	3,357	259,311
Interest rate risk	Yield curve (USD)	parallelly shifts up 1 bp	7,198	(859,061)
	Yield curve (AUD)	parallelly shifts up 1 bp	-	(55)
	Yield curve (EUR)	parallelly shifts up 1 bp	3,877	(14,573)
	Yield curve (NTD)	parallelly shifts up 1 bp	770	(183,713)
Equity price risk	Equity price increases 1%		28,788	6,809,220

Summarization of Sensitivity Analysis
2017.1.1~2017.6.30

Risk Factors	Variables (+/-)		Change in Income	Change in Equity
Foreign currency risk	USD/NTD	appreciates 1%	$2,994,071	$5,532,999
	CNY(CNH)/USD	appreciates 1%	914,763	469,439
	HKD/USD	appreciates 1%	(4,208)	638,971
	EUR/USD	appreciates 1%	38,917	145,804
	GBP/USD	appreciates 1%	34,893	250,089
Interest rate risk	Yield curve (USD)	parallelly shifts up 1 bp	(62)	(168,122)
	Yield curve (AUD)	parallelly shifts up 1 bp	-	(2,945)
	Yield curve (EUR)	parallelly shifts up 1 bp	(1,837)	(4,546)
	Yield curve (NTD)	parallelly shifts up 1 bp	1,963	(184,515)
Equity price risk	Equity price increases 1%		(90,587)	5,644,131

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.

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.

(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.

(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.

b. Management procedure

When undertaking the operations relating to interest rate instruments, Cathay United Bank identifies the repricing risk of interest rate, yield curve risk, basis risk and options risk characteristics. In additional, Cathay United Bank also measures the potential impact of interest rate changes on the profit and economic value of Cathay United Bank. Cathay United Bank analyzes and monitors the interest risk limits and each target of interest risk management monthly. The results of analysis and monitoring are regularly reported to not only the risk management committee but also the board of directors.

If any risk management targets is found to exceed the limit during the monitoring process, it will be reported to the risk management committee and a solution should be proposed.

c. Method of measurement

The interest rate risk of Cathay United Bank mainly measures the repricing risk that is caused by the difference between maturity date and repricing date of the assets, liabilities, and off balance sheet items in banking book. To stabilize long-term profitability and ensure business growth, Cathay United Bank sets the monitoring indicators of interest sensitivity in major terms and implements stress test. Each interest risk indicator and the result of stress test are reported to the executive management regularly for review.

(E) Foreign exchange risk management

a. Definition of foreign exchange risk

Foreign exchange risk is the gain/loss caused by two currencies exchange in different times. Cathay United Bank’s foreign exchange risk arises from the derivative instruments, such as spot exchange, forward exchange and foreign exchange option…etc. Cathay United Bank’s foreign exchange transactions are implemented daily to offset clients’ position. Thus, Cathay United Bank suffers little foreign exchange risk.

b. Policy, procedure and measurement methodology of foreign exchange risk management

In order to control foreign exchange risk, Cathay United Bank sets the limits of transaction and stop-loss limits for the dealing room and traders. Meanwhile, Cathay United Bank also sets the maximum annual loss limit to control the loss within the tolerable extent. Foreign exchange risk is controlled based on VaR. The assumption and calculation of VaR is described in VaR section.

For foreign exchange risk, Cathay United Bank sets the scenario at 3% fluctuation of interest rate of major currencies to execute the stress test quarterly, and reports to the risk management committee.

(F) Risk management of equity securities price

a. Definition of risk of equity securities price

The market risk of equity securities held by Cathay United Bank includes the individual risk from the fluctuation of individual equity securities' market price and general market risk from the fluctuation of the overall price trend.

b. Purpose of risk management in equity securities prices

To avoid the massive fluctuation of equity securities price to worsen Cathay United Bank's financial situation or earnings. Also, to raise the operating efficiency of capital and strengthen the business operation.

c. Procedure of risk management of equity securities prices

Cathay United Bank sets investment limit on industries, using the β value to measure the investment portfolio affected by the systemic risk monthly. The stop-loss point must be authorized by the board of directors, and the equity investment should be authorized by the executives if the stop-loss point is reached but the investment is not going to be disposed of.

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.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Cathay United Bank adopts many methodologies to manage its market risk. Value-at-risk (VaR) is one of the methodologies. VaR is a statistical measure that assesses potential losses that might be caused by changes in risk factors over a specified period of time and at a specific level of statistical confidence. Cathay United Bank applies historical simulation with a statistic confidence of 99% to extrapolate the VaR of one-year fluctuations. The following table indicates that VaR is the estimated based on the potential amount of loss within one day, while the statistic confidence of 99% represents the possible fluctuations that would be included in assumed adverse market changes. Base on the assumption, the VaR may exceed the amounts listed in 1 of 100 days due to the price changes in the market. The overall VaR in the market may be less than the aggregate VaR of individual market risk factors.

2018.6.30			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	$1,366,577	$1,885,738	$797,958
Foreign exchange	145,671	178,745	95,724
Equity Securities price	272,499	424,067	165,345

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

2017.6.30			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	$1,419,274	$2,000,760	$707,624
Foreign exchange	390,197	619,473	158,691
Equity Securities price	194,545	282,573	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.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(G) Stress testing

The stress testing is used to measure the maximum losses of risk asset portfolio under the worst scenario. Cathay United Bank's stress testing considers various types of risk factors and reports the results to the executive management.

Stress Test				
Market/ Product	Scenarios	2018.6.30	2017.12.31	2017.6.30
Stock Market	Major Stock Exchanges +15%	$1,920,630	$2,668,120	$1,705,400
	Major Stock Exchanges -15%	(1,862,580)	(2,668,120)	(1,569,810)
Interest Rate/ Bond Market	Major Interest Rate + 100bp	(12,769,490)	(9,791,210)	(11,375,130)
	Major Interest Rate - 100bp	13,003,320	10,097,920	10,997,640
Foreign Exchange Market	Major Currencies + 3%	4,017,946	6,597,235	4,688,780
	Major Currencies - 3%	(4,017,768)	(6,596,390)	(4,681,335)
Composite	Major Stock Exchanges -15% Major Interest Rate + 100bp Major Currencies +3%	(10,614,124)	(5,862,095)	(8,256,160)

(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.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Market risk factor sensitivity of Cathay United Bank

		2018.6.30	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	$924,323	$-
	HKD+1%	3,200	2
	JPY+1%	6,061	-
	AUD+1%	47,453	-
	CNY+1%	310,929	2,267
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	(34,722)	(25,786)
	Yield curves (HKD) parallel shift+1bp	76	-
	Yield curves (JPY) parallel shift+1bp	-	(175)
	Yield curves (AUD) parallel shift+1bp	(521)	(282)
	Yield curves (CNY) parallel shift+1bp	(2,992)	(9,013)
Equity securities price factor sensitivity (Equity Delta)	Equity securities price +1%	2,852	124,819

		2017.12.31	
		Sensitivity of profit or loss	Sensitivity 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 +1%	-	177,875

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

		2017.6.30	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	$726,736	$1,253
	HKD+1%	3,153	1,316
	JPY+1%	6,288	-
	AUD+1%	109,636	-
	CNY+1%	359,874	9,728
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	(24,677)	(12,120)
	Yield curves (HKD) parallel shift+1bp	(8)	-
	Yield curves (JPY) parallel shift+1bp	(230)	-
	Yield curves (AUD) parallel shift+1bp	(604)	(992)
	Yield curves (CNY) parallel shift+1bp	(4,567)	(15,866)
Equity securities price factor sensitivity (Equity Delta)	Equity securities price +1%	-	113,266

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.

The credit risk strategy and material risk policy of Cathay United Bank and Indovina Bank are approved by the board of directors.Cathay United Bank and Indovina Bank perform periodic and systematic detailed reviews of its Department of Market Risk Management, department of credit and operation risk management, department of consumer banking review, department of corporate banking review and department of internation review under department of risk management, and distributed the procedure of credit approving, management of limit, credit rating, the information of collateral, periodic review, and remedial management. The departments related to credit risk of credit business, investment business, and financial instrument or contract are the departments of performing credit risk management, that manage the credit quality and follow rules to review and track the missing of auditing to strenghen management of afterwards risk.

Cathay United Bank and Indovina Bank maintain a strict policy to evaluate customers' credit ratings when providing loans, loan commitments and guarantees. Certain customers are required to provide appropriate collateral for the related loans, and Cathay United Bank retains the legal right to foreclose on or liquidate the collateral. The disclosure of the maximum credit exposure shall not take into account any collateral held or other enhancements.

The board of directors of CUBC Bank resolved that a risk management department would be established to manage the credit risk. The board of directors sets the counterparty credit limits, which are then implemented by the credit committee

Loan Committee is the top lending authority within CUBC Bank. It is in charged with approval of all credit in excess of CUBC Bank lending authorities. Certain customers are required to provide appropriate collateral for the related loans, and CUBC Bank retains the legal right to foreclose on or liquidate the collateral. The disclosure of the maximum credit exposure shall not take account of any collateral held or other enhancements.

The management procedure and measurement methodology of credit risk in Cathay United Bank's main business are as follows:

(A) The judgement of significant increase in credit risk after the initial recognition

Cathay United Bank

Cathay United Bank assesses the movement in default risk during the expected lifetime of various types of credit assets at each reporting date to determine if the credit risk has increased significantly since the initial recognition. To make this assessment, Cathay United Bank and its subsidiaries have considered to show the reasonable and corroborative information (including prospective information) on the significant increase in credit risk after the initial recognition. The key indicators for consideration include:

a. Quantitative indicators

(a) Changes on credit rating

Where the credit rating at the reporting date has decreased to some extent compared with that on initial recognition and the credit rating has not met the investment grade (i.e. the credit rating is lower than the credit rating Baa3 of Moody's, an international credit rating agency), it is determined that the credit risk has increased significantly since the initial recognition.

(b) Information on the overdue status of the contract

Where the contract payment was overdue for more than 30 days as at the reporting date, it is determined that the credit risk has increased significantly since the initial recognition.

b. Qualitative indicators

Where the information observed at the reporting date meets the following conditions, it is determined that the credit risk has increased significantly since the initial recognition.

(a) The refund records are reported
(b) Accountants have expressed significant doubt on its ability to continue as a going concern
(c) Other internal or external information on judging the credit quality changes

Indovina Bank

Indovina Bank assesses the movement in default risk during the expected lifetime of various types of financial assets at each reporting date to determine if the credit risk has increased significantly since the initial recognition:

a. Notch downgrade

A downgrade of credit ratings from the day of initial recognition that’s greater than a specific threshold would be classified as a significant increase in credit risk since initial recognition.

b. Low credit risk criteria

An exposure rated below Moody’s investment grade (i.e. below Baa3 of Moody’s ratings) at the reporting date would be classified as a significant increase in credit risk since initial recognition.

c. Past Due Information

The contract payment over 30 days past due would be classified as a significant increase in credit risk since initial recognition.

d. Internal Credit Assessment Indicators

The indicators with credit quality information that is weaker than upon initial recognition would be classified as a significant increase in credit risk since initial recognition.

CUBC Bank

CUBC Bank assesses the movement in default risk during the expected lifetime of various types of financial assets at each reporting date to determine if the credit risk has increased significantly since the initial recognition

a. Past Due Information

The contract payment over 30 days past due would be classified as a significant increase in credit risk since initial recognition.

b. Loan Classification from NBC

A loan contract with special mention position at reporting date would be classified as a significant increase in credit risk since initial recognition.

c. Internal Credit Assessment Indicators

The indicators with credit quality information that is weaker than upon initial recognition would be classified as a significant increase in credit risk since initial recognition.

(B) Default and credit impairment of financial asset

Cathay United Bank

Cathay United Bank 's definition of financial assets default is the same as with that of the credit impairment of financial assets. Where one or more of the following conditions are met, Cathay United Bank determines the financial assets to be subject to default and credit impairment.

a. Quantitative indicator

(a) Changes on credit rating

Where the credit rating at the reporting date fell into the default level, it is determined as credit impairment.

(b) Information on the overdue status of the contract

Where the contract payment was overdue for more than 90 days as at the reporting date, it is determined as credit impairment.

b. Qualitative indicator

Where the information observed at the reporting date meets the following conditions, it is determined as credit impairment.

(a) Bailout, reorganization, individual agreement due to debtor's financial difficulties
(b) Lawsuit action has been taken
(c) Debt settlement, debt negotiation
(d) Issuer or borrower has gone bankrupt or may file bankruptcy or financial reorganization
(e) Principal or interest failed to be paid according to the issuing terms
(f) Other internal or external information on judging the deterioration in credit quality

The aforementioned definition of default and credit impairment applies to all financial assets held by Cathay United Bank, and is consistent with the definition applied on the significant financial assets for the purpose of internal credit risk management, and is also applied in the relevant impairment assessment model.

<u>Indovina Bank</u>

Indovina Bank assesses the following indicators to determine if the financial assets at each reporting date is credit-impaired:

a. Notch downgrade

An obligor who is rated as default at the reporting date is considered to be credit-impaired.

b. Past Due Information

The contract payment over 90 days past due would be classified as a credit-impaired loan.

c. Internal Credit Assessment Indicators

The indicators with credit deterioration information used for internal credit risk management purpose at the reporting date would be recognized as credit-impaired assets.

CUBC Bank

CUBC Bank assesses the following indicators to determine if the financial assets at each reporting date is credit-impaired:

a. Past Due Information

The contract payment over 90 days past due would be classified as a credit-impaired loan.

b. Loan Classification from NBC

A loan contract with specific positions, such as substandard, doubtful and loss, at reporting date would be classified as credit-impaired.

c. Internal Credit Assessment Indicators

The indicators with credit deterioration information used for internal credit risk management purpose at the reporting date would be recognized as credit-impaired assets.

(C) The measurement of expected credit loss

Cathay United Bank

For the purpose of assessing the expected credit losses, Cathay United Bank classifies the credit assets into the following groups based on credit category, credit rating, risk characteristics, enterprise size, product category and so on.

Credit category	Definition
Corporate loan	Grouped by risk characteristics, corporate size and internal/external credit rating
Consumer loan	Grouped by product category and internal credit rating
Credit card	Grouped by product category and internal credit rating

Where the credit risk of the financial instrument has not increased significantly after the initial recognition (Stage 1), the allowance for losses should be measured at the expected credit losses over 12 months by Cathay United Bank. Where the credit risk of the financial instrument has increased significantly (Stage 2) or the credit impairment has existed (Stage 3) after the initial recognition, the allowance for losses should be measured at the expected credit losses over the remaining term to maturity by Cathay United Bank.

For the measurement of the expected credit losses, Cathay United Bank calculates its expected credit losses over 12 months and the remaining term to maturity separately by multiplying three factors, i.e. probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") of the borrower over the next 12 months and the remaining term to maturity, also considering the effect of the time value of money.

The PD and LGD applied in the impairment assessment of the credit business of Cathay United Bank are adjusted and calculated based on the internal and external information of each group as well as the currently observable data and the overall economic outlook (such as economic growth rate, etc.).

Cathay United Bank assessed the EAD of loan at the reporting date. According to internal and external information, the Bank considers the portion of the loan commitment that is expected to be drawn on over 12 months after the reporting date and the remaining term to maturity, to determine the EAD for calculating the expected credit losses.

The PD used in the impairment assessment of Cathay United Bank's debt instrument measured at fair value through other comprehensive income and measured at amortized cost, represents the PD of the issuer, guarantee agency or borrower. The LGD represents the loss rate resulted from the default of the issuer, guarantee agency or borrower. The LGD used in Cathay United Bank's relevant impairment assessment is based on the information regularly published by Moody's, an international credit rating agency; the PD is based on the information regularly published by Taiwan Ratings and Moody's, and calculated after adjusting the historical data based on the currently observable data and the overall economic information (e.g. gross domestic product and economic growth rate, etc.). The EAD is measured at the amortized cost of financial assets and interests receivable.

The valuation techniques or significant assumptions for assessing the expected credit losses have no significant change in 2018.

Indovina Bank

Indovida Bank estimated the portfolio expected credit loss incorporating product types, borrower types and counterparty types based on the credit risk characteristics the Bank is exposed to.

Category	Description
Loan portfolio	Grouped by borrower types and enterprise size.
Bond portfolio	Grouped by product class, external credit rating and payment ranks.

a. Loan portfolio

The segmentation of the bank's loan portfolio is based on its risk characteristics, such as product class, counterparty type and enterprise size. The measurement of expected credit loss is estimated by three main parameters, including probability of default, loss given default and exposure at default. The probability of default and loss given default were built by the bank's historical delinquent information and recovery data and calibrated by selected macroeconomic factors for forward-looking adjustment. The estimated amounts of exposure at default were calculated by the amortized cost and interest receivable. At each financial reporting date, the above criteria for a significant increase in credit risk since initial recognition are not hit, the allowance loss shall be measured on the basis of the 12-month expected credit loss method. If financial assets meet the foregoing conditions of significant increases in credit risk or credit deterioration since initial recognition, the allowance losses shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

b. Bond portfolio

The segmentation of the bank's bond portfolio is based on its product class, external rating and payment rank. The measurement of expected credit loss is estimated by three main parameters, including probability of default, loss given default and exposure at default. The probability of default and loss given default were built by external information with sufficient historical default data and recovery rates and calibrated by selected macroeconomic factors for forward-looking adjustment. The estimated amounts of exposure at default were calculated by the amortized cost and interest receivable. At each financial reporting date, the above criteria for a significant increase in credit risk since initial recognition are not hit, the allowance loss shall be measured on the basis of the 12-month expected credit loss method. If financial assets meet the foregoing conditions of significant increases in credit risk or credit deterioration since initial recognition, the allowance losses shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

Cathay United Bank Cambodia (CUBC)

CUBC measures their expected credit losses by the following segments.

Category	Description
Loan	Grouped by product, counterparty types and loan classification by NBC, such as retail annuity and non-retail annuity.
Debt Instrument	Grouped as a whole to estimate by product characteristic

The segmentation of CUBC's loan portfolio is based on its risk characteristics, such as product class, counterparty type and loan classification by NBC. The measurement of expected credit loss is estimated by three main parameters, including probability of default, loss given default and exposure at default. The probability of default and loss given default were built by the internal and external historical delinquent information, default rates and written-off amounts and calibrated by selected macroeconomic factors for forward-looking adjustment. The estimated amounts of exposure at default were calculated by the amortized cost and interest receivable. At each financial reporting date, the above criteria for a significant increase in credit risk since initial recognition are not hit, the allowance loss shall be measured on the basis of the 12-month expected credit loss method. If financial assets meet the foregoing conditions of significant increases in credit risk or credit deterioration since initial recognition, the allowance losses shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

(D) Write-off policy

If any of the following conditions apply, the Group writes off its non-performing and nonaccrual loans as uncollectible, less the estimated recoverable amount.

The Bank can't expect reasonably to collect the financial assets that including the following index:

a. The recovery activity has stopped.
b. Assessed the borrower doesn't have sufficient assets or sources of income to pay the overdraft.

   Financial assets have been written-off by the Group may still have ongoing recovery activity, and continue to follow the relevant policies to litigation proceedings.

(E) The consideration of prospective information

Cathay United Bank

Cathay United Bank uses historical data to analyze and identify the significant economic factors that affect the credit risks and expected credit losses of each group of assets, and uses the regression model or imputation adjustment method to estimate the impairment parameter after the prospective adjustment. The significant economic factors and their impact on PD and LGD differ depending on the type of financial instruments.

The significant economic factors identified by Cathay United Bank in 2018 are as follows:

Credit category	Probability of Default (PD)	Loss Given Default (LGD)
Enterprise loan	GDP% Inflation Index Proportion of investment in GDP(%)	GDP%
Consumer loan	Growth rate of GDP(%) Proportion of savings in GDP(%) Unemployment rate % Implied Purchasing Power Parities("PPP") rate	
Credit card	Growth rate of GDP(%) Proportion of government revenue in GDP(%)	

Indovina Bank

Based on the qualitative and quantitative analysis of historical default data and macroeconomic factors, the bank applies the selected local and global economic factors in different portfolios. Regression models and interpolation adjustment were used to estimate the forward-looking parameters complied with regulatory requirements. The selected economic factors and their effects on PDs and LGDs varied from different types of portfolios.

The macroeconomic factors selected by the bank for the forward-looking adjustments in 2018 are as follows.

Segment	Selected Factors
Loan portfolio	Grouped by product characteristic and borrower
Bond portfolio	Global GDP growth rate Global inflation index

Cathay United Bank Cambodia (CUBC)

Based on the qualitative and quantitative analysis of historical default data and regional macroeconomic factors, CUBC chooses the local macroeconomic factor for parameter adjustments. The weighted average method and interpolation adjustment were used to estimate the forward-looking parameters complied with regulatory requirements. The selected economic factors and their effects on PDs varied from different groups of products.

The macroeconomic factors selected by CUBC for the forward-looking adjustments in 2018 are as follows.

Segment	Selected Factors
Corporate loan	Cambodia GDP growth rate
Consumer loan	Cambodia GDP growth rate
Credit Card	Cambodia GDP growth rate

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(F) Loss allowance

a. Movement of allowance for doubtful accounts of discounts and loans

The reconciliation form beginning balance to ending balance of allowance for bad debts of discounts and loans for the six-month period ended 30 June 2018 are as follows:

	Stage 1	Stage 2		Stage 3		Subtotal		
	12-month expected credit losses	Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)	Lifetime expected credit losses (Not purchased or originated credit-impaired financial asset)	Lifetime expected credit losses (Purchased or originated credit-impaired financial assets)	Impairment charged in accordance with IFRS 9	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	Total
Beginning balance	$3,724,645	$1,036,509	$-	$4,690,540	$-	$9,451,694	$13,788,238	$23,239,932
Changes due to financial instruments recognized as at 1 January								
Transfer to lifetime expected credit losses	(104,779)	1,001,072	155	(18,292)	-	878,156	-	878,156
Transfer to credit-impaired financial assets	(4,446)	(17,730)	(27,669)	742,894	-	693,049	-	693,049
Transfer to 12-month expected credit losses	148,366	(421,501)	(8)	(66,279)	-	(339,422)	-	(339,422)
Financial assets that have been derecognized during the period	(709,870)	(109,099)	(8)	(89,395)	-	(908,372)	-	(908,372)
New financial assets originated or purchased	1,249,214	133,521	1	273,325	-	1,656,061	-	1,656,061
Difference from impairment charged in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans"	-	-	-	-	-	-	101,164	101,164
Bad Loans Write-offs	-	-	-	(556,070)	-	(556,070)	-	(556,070)
Foreign exchange and other movements	(27,937)	(7,360)	27,690	(274,951)	-	(282,558)	15,770	(266,788)
Ending balance	$4,275,193	$1,615,412	$161	$4,701,772	$-	$10,592,538	$13,905,172	$24,497,710

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Movement of allowance for doubtful accounts of receivables

The reconciliation form beginning balance to ending balance of allowance for doubtful accounts of receivables for the six-month period ended 30 June 2018 are as follows:

	Stage 1	Stage 2		Stage 3		Subtotal		
	12-month expected credit losses	Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)	Lifetime expected credit losses (Not purchased or originated credit-impaired financial asset)	Lifetime expected credit losses (Purchased or originated credit-impaired financial assets)	Impairment charged in accordance with IFRS 9	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	Total
Beginning balance	$78,157	$63,923	$-	$2,106,749	$-	$2,248,829	$14,830	$2,263,659
Changes due to financial instruments recognized as at 1 January								
Transfer to lifetime expected credit losses	(2,127)	76,037	-	(2,867)	-	71,043	-	71,043
Transfer to credit-impaired financial assets	(434)	(1,038)	-	62,720	-	61,248	-	61,248
Transfer to 12-month expected credit losses	1,534	(19,961)	-	(3,163)	-	(21,590)	-	(21,590)
Financial assets that have been derecognized during the period	(45,585)	(31,059)	-	(405,744)	-	(482,388)	-	(482,388)
New financial assets originated or purchased	75,007	28,012	-	128,844	-	231,863	-	231,863
Difference from impairment charged in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans"	-	-	-	-	-	-	22,474	22,474
Bad loans write-offs	-	-	-	(215,081)	-	(215,081)	-	(215,081)
Foreign exchange and other movements	22,124	(17,058)	-	56,029	-	61,095	(491)	60,604
Ending balance	$128,676	$98,856	$-	$1,727,487	$-	$1,955,019	$36,813	$1,991,832

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

c. Movement of impairment loss of financial assets at fair value through other comprehensive income

The reconciliation form beginning balance to ending balance of impairment loss of financial assets at fair value through other comprehensive income for the six-month period ended 30 June 2018 are as follows:

	Stage 1	Stage 2		Stage 3		Total
	12-month expected credit losses	Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)	Lifetime expected credit losses (Non-purchased or originated credit-impaired financial assets)	Lifetime expected credit losses (Purchased or originated credit-impaired financial assets)	Impairment charged in accordance with IFRS 9
Beginning balance	$24,182	$-	$-	$-	$-	$24,182
Changes due to financial instruments recognized as at 1 January						
Transfer to lifetime expected credit losses	-	-	-	-	-	-
Transfer to credit-impaired financial assets	-	-	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-	-	-
Financial assets that have been derecognized during the period	(17,210)	-	-	-	-	(17,210)
New financial assets originated or purchased	85,612	-	-	-	-	85,612
Foreign exchange and other movements	11,690	-	-	-	-	11,690
Ending balance	$104,274	$-	$-	$-	$-	$104,274

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

d. Movement of the allowance for impairment debt instrument investments measured at amortized cost

The reconciliation form beginning balance to ending balance of allowance for impairment of the debt instrument investments measured at amortized cost for the six-month period ended 30 June 2018 are as follows:

	Stage 1	Stage 2		Stage 3		Total
	12-month expected credit losses	Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)	Lifetime expected credit losses (Not purchased or originated credit-impaired financial asset)	Lifetime expected credit losses (Purchased or originated credit-impaired financial assets)	Impairment charged in accordance with IFRS 9
Beginning balance	$14,852	$-	$-	$-	$-	$14,852
Changes due to financial instruments recognized as at 1 January						
Transfer to lifetime expected credit losses	-	-	-	-	-	-
Transfer to credit-impaired financial assets	-	-	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-	-	-
Financial assets that have been derecognized during the period	(11,712)	-	-	-	-	(11,712)
New financial assets originated or purchased	53,741	-	-	-	-	53,741
Foreign exchange and other movements	(9,178)	-	-	-	-	(9,178)
Ending balance	$47,703	$-	$-	$-	$-	$47,703

e. Movement of Reserve for losses on guarantees, the letters of credit receivables and reserve for financing commitments

The reconciliation form beginning balance to ending balance of the reserve for losses on guarantees, the letters of credit receivables and reserve for financing commitments for the six-month period ended 30 June 2018 are as follows:

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	Stage 1	Stage 2		Stage 3		Subtotal		
	12-month expected credit losses	Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)	Lifetime expected credit losses (Not purchased or originated credit-impaired financial asset)	Lifetime expected credit losses (Purchased or originated credit-impaired financial assets)	Impairment charged in accordance with IFRS 9	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	Total
Beginning balance	$114,406	$21,997	$	$23,394	$	$159,797	$52,952	$212,749
Changes due to financial instruments recognized as at 1 January								
Transfer to lifetime expected credit losses	(1,186)	21,759	-	-	-	20,573	-	20,573
Transfer to credit-impaired financial assets	(10)	(26)	-	3,577	-	3,541	-	3,541
Transfer to 12-month expected credit losses	1,047	(12,210)	-	(299)	-	(11,462)	-	(11,462)
Financial assets that have been derecognized during the period	(29,912)	(7,193)	-	(7,738)	-	(44,843)	-	(44,843)
New financial assets originated or purchased	139,103	23,554	-	10,569	-	173,226	-	173,226
Difference from impairment charged in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans"	-	-	-	-	-	-	(5,630)	(5,630)
Foreign exchange and other movements	5,337	673	-	(19,240)	-	(13,230)	-	(13,230)
Ending balance	$228,785	$48,554	$-	$10,263	$-	$287,602	$47,322	$334,924

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

f. Movement of the allowance for impairment other financial assets

The reconciliation form beginning balance to ending balance of allowance for bad debts of the other financial assets for the six-month period ended 30 June 2018 are as follows:

	Stage 1	Stage 2		Stage 3		Subtotal		
	12-month expected credit losses	Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)	Lifetime expected credit losses (Not purchased or originated credit-impaired financial asset)	Lifetime expected credit losses (Purchased or originated credit-impaired financial assets)	Impairment charged in accordance with IFRS 9	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	Total
Beginning balance	$19,028	$-	$-	$-	$-	$19,028	$9	$19,037
Changes due to financial instruments recognized as at 1 January								
Transfer to lifetime expected credit losses	-	-	-	-	-	-	-	-
Transfer to credit-impaired financial assets	-	-	-	-	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-	-	-	-	-
Financial assets that have been derecognized during the period	-	-	-	-	-	-	-	-
New financial assets originated or purchased	16,895	-	-	-	-	16,895	-	16,895
Difference from impairment charged in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans"	-	-	-	-	-	-	13	13
Foreign exchange and other movements	-	-	-	-	-	-	-	-
Ending balance	$35,923	$-	$-	$-	$-	$35,923	$22	$35,945

Other financial assets assessed by Cathay United Bank in estimating expected credit losses include cash and cash equivalents, due from the Central Bank and call loans to banks, securities purchased under agreements to resell, guarantee deposits paid and exchange bills negotiated.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

g. Movement of the gross carrying amounts of discounts and loans

The movement of the gross carrying amounts of discounts and loans for the six-month period ended 30 June 2018 are as follows:

	Stage1	Stage2		Stage3		
	12-month expected credit losses	Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)	Lifetime expected credit losses (Not purchased or originated credit-impaired financial asset)	Lifetime expected credit losses (Purchased or originated credit-impaired financial assets)	Total
Beginning balance	$1,399,416,842	$47,415,416	$558,373	$10,407,468	$-	$1,457,798,099
Transfer to lifetime expected credit losses	(29,607,318)	29,626,223	36,562	(55,467)	-	-
Transfer to credit-impaired financial assets	(1,117,360)	(434,563)	(547,595)	2,099,518	-	-
Transfer to 12-month expected credit losses	21,281,019	(20,937,413)	(4,940)	(338,666)	-	-
Financial assets that have been derecognized during the period	(279,021,246)	(10,831,390)	(4,081)	(1,125,540)	-	(290,982,257)
New financial assets originated or purchased	364,921,492	6,194,346	17,156	544,329	-	371,677,323
Foreign exchange and other movements	2,455,006	220,825	(17,947)	48,956	-	2,706,840
Bad loans write-offs	-	-	-	(556,070)	-	(556,070)
Ending balance	$1,478,328,435	$51,253,444	$37,528	$11,024,528	$-	$1,540,643,935

h. Movement of the gross carrying amounts of receivables

The movement of the gross carrying amounts of receivables for the six-month period ended 30 June 2018 are as follows:

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	Stage1	Stage2		Stage3		
	12-month expected credit losses	Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)	Lifetime expected credit losses (Not purchased or originated credit-impaired financial asset)	Lifetime expected credit losses (Purchased or originated credit-impaired financial assets)	Total
Beginning balance	$74,426,480	$2,069,732	$354	$2,915,898	$-	$79,412,464
Transfer to lifetime expected credit losses	(666,124)	669,730	314	(3,920)	-	-
Transfer to credit-impaired financial assets	(77,258)	(13,471)	(240)	90,969	-	-
Transfer to 12-month expected credit losses	277,209	(272,644)	(97)	(4,468)	-	-
Financial assets that have been derecognized during the period	(37,461,873)	(1,762,378)	(12,753)	(525,974)	-	(39,762,978)
New financial assets originated or purchased	57,456,974	450,056	12,591	224,118	-	58,143,739
Foreign exchange and other movements	7,507	484	(2)	264	-	8,253
Bad loans write-offs	-	-	(167)	(215,456)	-	(215,623)
Ending balance	$93,962,915	$1,141,509	$-	$2,481,431	$-	$97,585,855

i. Movement of the gross carrying amounts of financial assets at fair value through other comprehensive income

The movement of the gross carrying amounts of financial assets at fair value through other comprehensive income for the six-month period ended 30 June 2018 are as follows:

	Stage1	Stage2		Stage3		
	12-month expected credit losses	Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)	Lifetime expected credit losses (Not purchased or originated credit-impaired financial asset)	Lifetime expected credit losses (Purchased or originated credit-impaired financial assets)	Total
Beginning balance	$159,385,272	$-	$-	$-	$-	$159,385,272
Transfer to lifetime expected credit losses	-	-	-	-	-	-
Transfer to credit-impaired financial assets	-	-	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-	-	-
Financial assets that have been derecognized during the period	(30,368,226)	-	-	-	-	(30,368,226)
New financial assets originated or purchased	57,404,465	-	-	-	-	57,404,465
Foreign exchange and other movements	2,343,101	-	-	-	-	2,343,101
Ending balance	$188,764,612	$-	$-	$-	$-	$188,764,612

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

j. Movement of the gross carrying amounts of the debt instrument investments measured at amortized cost and off-balance sheet debt instruments

The movement of the gross carrying amounts of the debt instrument investments measured at amortized cost and off-balance sheet debt instruments for the six-month period ended 30 June 2018 are as follows:

	Stage1	Stage2		Stage3		
	12-month expected credit losses	Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)	Lifetime expected credit losses (Not purchased or originated credit-impaired financial asset)	Lifetime expected credit losses (Purchased or originated credit-impaired financial assets)	Total
Beginning balance	$376,068,060	$-	$-	$-	$-	$376,068,060
Transfer to lifetime expected credit losses	-	-	-	-	-	-
Transfer to credit-impaired financial assets	-	-	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-	-	-
Financial assets that have been derecognized during the period	(265,517,150)	-	-	-	-	(265,517,150)
New financial assets originated or purchased	237,052,293	-	-	-	-	237,052,293
Foreign exchange and other movements	(8,158,435)	-	-	-	-	(8,158,435)
Ending balance	$339,444,768	$-	$-	$-	$-	$339,444,768

k. Movement of the gross carrying amounts of reserve for losses on guarantees, the letters of credit receivables and reserve for financing commitments

The movement of the gross carrying amounts of the reserve for losses on guarantees, the letters of credit receivables and reserve for financing commitments for the six-month period ended 30 June 2018 are as follows:

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	Stage1	Stage2		Stage3		
	12-month expected credit losses	Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)	Lifetime expected credit losses (Not purchased or originated credit-impaired financial asset)	Lifetime expected credit losses (Purchased or originated credit-impaired financial assets)	Total
Beginning balance	$1,159,174,758	$20,791,905	$-	$2,720,794	$-	$1,182,687,457
Transfer to lifetime expected credit losses	(18,735,897)	18,739,140	-	(3,243)	-	-
Transfer to credit-impaired financial assets	(74,120)	(20,999)	-	95,119	-	-
Transfer to 12-month expected credit losses	9,430,002	(9,403,153)	-	(26,849)	-	-
Financial assets that have been derecognized during the period	(171,790,716)	(5,602,557)	-	(271,940)	-	(177,665,213)
New financial assets originated or purchased	210,179,994	10,674,796	-	198,884	-	221,053,674
Foreign exchange and other movements	1,924,480	244,261	-	9	-	2,168,750
Ending balance	$1,190,108,501	$35,423,393	$-	$2,712,774	$-	$1,228,244,668

l. Movement of the gross carrying amounts of other financial assets

The movement of the gross carrying amounts of other financial asset for the six-month period ended 30 June 2018 are as follows:

	Stage1	Stage2		Stage3		
	12-month expected credit losses	Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)	Lifetime expected credit losses (Not purchased or originated credit-impaired financial asset)	Lifetime expected credit losses (Purchased or originated credit-impaired financial assets)	Total
Beginning balance	$275,151,890	$-	$-	$-	$-	$275,151,890
Transfer to lifetime expected credit losses	-	-	-	-	-	-
Transfer to credit-impaired financial assets	-	-	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-	-	-
Financial assets that have been derecognized during the period	(16,854,526)	-	-	-	-	(16,854,526)
New financial assets originated or purchased	57,268,125	-	-	-	-	57,268,125
Ending balance	$315,565,489	$-	$-	$-	$-	$315,565,489

Other financial assets contained cash and cash equivalents, due from the Central Bank and call loans to banks, securities purchased under agreements to resell, guarantee deposits paid and exchange bills negotiated.

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.

(B) Grade of credit quality

Cathay United Bank sets the level of credit quality based on the characteristics and scale of business (such as establishing the internal rating model of credit risk, setting the credit rating table or relevant rules to classify) to proceed with the risk management.

In order to measure the credit risk of the clients, Cathay United Bank employs the statistical methods and the professional judgment from the experts. Cathay United Bank develops the rating model of business credit after considering the clients’ relevant information. The model shall be reviewed periodically to verify if the calculated results conformed to the reality and revised every parameter to optimize the results.

With respect to consumer credit assets such as mortgages, credit cards, and small-amount credit loans, Cathay United Bank also evaluates default risk of clients by using the credit rating scores developed by Cathay United Bank and the external due diligence services.

The credit quality of Cathay United Bank’s corporate borrowers is classified as excellent, good, average and bad.

To ensure the reasonable estimated values of credit rating system’s design, process, and relevant risk factors, Cathay United Bank executes the relevant verification and test in the model according to the actual default every year so that the calculated results will be close to actual default.

Cathay United Bank evaluates the counterparties’ credit quality before transactions and refers to the domestic and foreign credit rating agencies, when rendering different lines of credit based on the credit quality.

(C) Hedge of credit risk and easing policy

a. Collateral

Cathay United Bank adopts a series of policies to lower the credit risk, and one of the frequently-used methods is requesting borrowers to provide collaterals. To ensure the creditor's rights, Cathay United Bank sets the scope available as collaterals and the procedures of appraising, managing, and disposing of the collaterals. In addition, a credit contract is in place to provide the credit claim preservation, collaterals, and offset provisions to stipulate when a credit trigger event occurs, Cathay United Bank may reduce the limit, cut down the payback period, or deem all debts mature. Also, Cathay United Bank will use the deposits that the borrowers lodged in Cathay United Bank to offset the liabilities to lower the credit risk.

Other non-credit business collaterals shall depend on the characteristics of the financial instruments. Only the asset-backed securities and other similar financial instruments are secured by an asset pool of financial instruments.

b. Limit of credit risk and control of credit risk concentration

To avoid the excessive risk concentration, Cathay United Bank limits the credit amounts of single counterparties and groups; Cathay United Bank also sets the investment guide and regulation of risk control of equity investment to restrict the investment limits of single person (company) or related company (group). Furthermore, Cathay United Bank establishes relevant regulations to control the concentration risk of assets, and sets the credit limits by industry, group, country, and stock types to monitor the credit concentration risk.

c. Net settlement agreement

Cathay United Bank usually settles by the gross balance, but signs contract with some counterparties to settle by net balance. If a default happens, Cathay United Bank will terminate all transactions with the counterparty and settle by net balance in order to lower the credit risk.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

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

a. Cathay United Bank and its subsidiaries' discounts and loans

	Stage 1	Stage 2	Stage 3			
2018.6.30	12-month expected credit loss	Lifetime expected credit losses	Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	Total
Rating grade						
Consumer banking						
Excellent	$559,828,205	$485,489	$-	$-	$-	$560,313,694
Good	359,109,989	712,833	-	-	-	359,822,822
General	10,744,731	4,871,505	-	-	-	15,616,236
Bad	-	-	5,635,391	-	-	5,635,391
Corporate banking						
Excellent	344,080,899	14,880,240	-	-	-	358,961,139
Good	189,074,947	24,933,901	-	-	-	214,008,848
General	12,750,661	5,393,872	-	-	-	18,144,533
Bad	-	-	5,247,578	-	-	5,247,578
Credit card						
Excellent	1,540,380	-	-	-	-	1,540,380
Good	1,195,299	13,132	-	-	-	1,208,431
General	3,324	-	-	-	-	3,324
Bad	-	-	141,559	-	-	141,559
Total carrying amount	1,478,328,435	51,290,972	11,024,528	-	-	1,540,643,935
Less: Allowance impairment	(4,275,193)	(1,615,573)	(4,701,772)	-	-	(10,592,538)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	(13,905,172)	(13,905,172)
Total	$1,474,053,242	$49,675,399	$6,322,756	$-	$(13,905,172)	$1,516,146,225

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

b. Cathay United Bank and its subsidiaries' receivables

	Stage 1	Stage 2	Stage 3			
2018.6.30	12-month expected credit loss	Lifetime expected credit losses	Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	Total
Rating grade						
Consumer banking						
Excellent	$151,570	$1,452	$-	$-	$-	$153,022
Good	407,478	4,023	-	-	-	411,501
General	22,281	11,446	-	-	-	33,727
Bad	-	-	18,327	-	-	18,327
Corporate banking						
Excellent	4,665,669	43,297	-	-	-	4,708,966
Good	1,785,207	71,224	-	-	-	1,856,431
General	98,424	9,465	-	-	-	107,889
Bad	-	-	25,121	-	-	25,121
Credit card						
Excellent	47,023,031	19,908	-	-	-	47,042,939
Good	20,673,338	72,681	-	-	-	20,746,019
General	1,432,264	908,013	-	-	-	2,340,277
Bad	-	-	1,703,769	-	-	1,703,769
Others	17,703,653	-	734,214	-	-	18,437,867
Total carrying amount	93,962,915	1,141,509	2,481,431	-	-	97,585,855
Less: Allowance impairment	(128,676)	(98,856)	(1,727,487)	-	-	(1,955,019)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	(36,813)	(36,813)
Total	$93,834,239	$1,042,653	$753,944	$-	$(36,813)	95,594,023

c. The amounts of the financial assets maximum exposures to credit risk that the impairment regulations are invalid to Cathay United Bank and its subsidiaries are as follow:

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2018.6.30	2017.12.31 (Note)	2018.6.30 (Note)
Financial assets at fair value through profit or loss			
Common stocks	$840,964		
Short-term notes	135,237,364		
Funds and beneficiary Securities			
Bonds	77,764,559		
Derivative financial instruments	68,440,484		
Financial assets at fair value through comprehensive profit or loss			
Equity instruments	18,332,616		

Note: Cathay United Bank and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay United Bank and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9

Without taking into account the collateral or other credit enhancement instrument, the maximum credit risk exposure of on-balance-sheet financial assets equals their carrying values. The maximum credit risk exposure of off-balance-sheet items (without considering the collaterals or other credit enhancement is irrevocable) are as follows:

a. Cathay United Bank

Off balance sheet items	Maximum exposure to credit risk		
	2018.6.30	2017.12.31	2017.6.30
Irrevocable loan commitments	$217,327,593	$211,222,089	$214,690,233
Credit card commitments	648,674,248	626,829,201	609,343,939
Unused commercial letters of credit	4,670,912	3,765,996	3,319,618
Guarantees on duties and contracts	7,926,004	7,167,460	6,539,311
Total	$878,598,757	$848,984,746	$833,893,101

b. Indovina Bank

Off balance sheet items	Maximum exposure to credit risk		
	2018.6.30	2017.12.31	2017.6.30
Unused commercial letters of credit	$1,412,617	$1,629,282	$577,289
Finance guarantee contracts	3,143,095	2,587,848	3,615,970
Total	$4,555,712	$4,217,130	$4,193,259

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

c. CUBC Bank

Off balance sheet items	Maximum exposure to credit risk		
	2018.6.30	2017.12.31	2017.6.30
Irrevocable loan commitments	$-	$647,417	$774,569
Credit card commitments	428,708	403,120	371,544
Unused commercial letters of credit	-	-	3,289
Finance guarantee contracts	78,841	60,673	46,850
Total	$507,549	$1,111,210	$1,196,252

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.

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:

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2018.6.30		2017.12.31		2017.6.30	
Items	amount	%	amount	%	amount	%
Industry type						
Manufacturing	$104,537,124	6.75	$98,481,993	6.72	$81,118,782	5.60
Financial institutions and insurance	86,708,015	5.59	67,599,101	4.61	57,090,447	3.94
Leasing and real estate	129,033,672	8.33	122,798,794	8.38	120,989,541	8.34
Individuals	863,714,068	55.74	822,631,846	56.14	781,729,632	53.91
Others	365,584,996	23.59	353,911,306	24.15	409,087,923	28.21
Total	$1,549,577,875	100.00	$1,465,423,040	100.00	$1,450,016,325	100.00

	2018.6.30		2017.12.31		2017.6.30	
Items	amount	%	amount	%	amount	%
Geographic Region						
Domestic	$1,282,320,026	82.75	$1,223,249,877	83.47	$1,227,409,811	84.65
Asia	133,795,282	8.64	130,593,968	8.91	121,988,511	8.41
America	50,349,818	3.25	28,077,424	1.92	28,884,139	1.99
Others	83,112,749	5.36	83,501,771	5.70	71,733,864	4.95
Total	$1,549,577,875	100.00	$1,465,423,040	100.00	$1,450,016,325	100.00

(F) Credit quality analysis of the financial assets

Before 1 January 2018, some of the financial assets held by Cathay United Bank and its subsidiaries, such as cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at fair value through profit and loss, securities purchased under agreements to resell, refundable deposits, operating deposits and settlement fund, are excluded from this analysis since the counterparty is normally with good credit quality and is considered as low credit risk.

In addition to all of the above, the credit quality analysis of the financial assets was shown as follows:

a. Credit quality analysis to loans and receivables of Cathay United Bank

2018.6.30: Cathay United Bank and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay United Bank and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	Neither past due nor impaired							Impairment allowances (D)		
2017.12.31	Excellent	Good	Average	Subtotal(A)	Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	With objective evidence of impairment individual	Without objective evidence of impairment individual	Net balance (A)+(B)+(C)-(D)
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							Impairment allowances (D)		
2017.6.30	Excellent	Good	Average	Subtotal(A)	Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	With objective evidence of impairment individual	Without objective evidence of impairment individual	Net balance (A)+(B)+(C)-(D)
Receivables										
Credit card business	$49,463,141	$9,979,433	$3,395,855	$62,838,429	$168,559	$168,157	$63,175,145	$135,650	$1,257,550	$61,781,945
Others	21,318,196	2,385,997	53,793	23,757,986	6,541	53,842	23,818,369	20,983	1,392,743	22,404,643
Loans	923,217,332	434,404,716	29,903,212	1,387,525,260	1,181,968	17,263,042	1,405,970,270	3,510,241	17,564,614	1,384,895,415

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

2018.6.30: Cathay United Bank and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay United Bank and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

2017.12.31	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	$288,306,859	$61,393,161	$9,757,389	$359,457,409
Unsecured personal loans	33,796,775	19,384,730	5,789,780	58,971,285
Others	362,886,985	68,568,088	9,065,468	440,520,541
Corporate banking				
Secured	41,310,306	162,034,535	20,899,707	224,244,548
Unsecured	214,939,628	102,204,671	2,944,446	320,088,745
Total	$941,240,553	$413,585,185	$48,456,790	$1,403,282,528

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.6.30	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	$282,922,278	$68,294,940	$11,039,548	$362,256,766
Unsecured personal loans	29,164,802	16,322,454	4,611,414	50,098,670
Other	326,456,354	64,510,679	9,212,323	400,179,356
Corporate banking				
Secured	39,533,240	182,033,620	3,489,737	225,056,597
Unsecured	245,140,658	103,243,023	1,550,190	349,933,871
Total	$923,217,332	$434,404,716	$29,903,212	$1,387,525,260

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

2018.6.30: Cathay United Bank and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay United Bank and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9

2017.12.31	Neither past due nor impaired							
	Investment grade	Non-investment grade or non-credit rating	Subtotal (A)	Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment (D)	Net balance (A)+(B)+(C)-(D)
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

2017.6.30	Neither past due nor impaired							
	Investment grade	Non-investment grade or non-credit rating	Subtotal (A)	Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment (D)	Net balance (A)+(B)+(C)-(D)
Available-for-sale financial assets								
Bonds	$126,075,023	$1,858,893	$127,933,916	$-	$-	$127,933,916	$-	$127,933,916
Stocks	2,870,377	11,470,814	14,341,191	-	146,379	14,487,570	146,379	14,341,191
Others	87,368	127,511	214,879	-	-	214,879	-	214,879
Held-to-maturity financial assets								
Bonds	29,533,302	2,139,523	31,672,825	-	-	31,672,825	-	31,672,825
Others	7,726,583	-	7,726,583	-	-	7,726,583	-	7,726,583
Investments in debt securities with no active market								
Bonds	78,545,381	54,759	78,600,140	-	490,184	79,090,324	490,184	78,600,140
Others	318,690,000	-	318,690,000	-	-	318,690,000	-	318,690,000

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

d. Aging analysis on past due but not impaired financial assets of Cathay United Bank

Past due but not impaired loans might result from some temporary administration reasons so the customers is in the early stages of delinquency but no actual impairment has occurred yet. Unless there is other objective evidence shown otherwise, according to the internal credit risk assets impairment evaluation guideline, a loan that is past due for no more than 30 days is typically not to be treated as impairment.

2018.6.30: Cathay United Bank and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay United Bank and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9

2017.12.31	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

2017.6.30	Less than 60 days	61 - 90 days	Total
Receivables			
Credit card business	$100,608	$67,951	$168,559
Others	3,821	2,720	6,541
Discounts and loans			
Consumer banking			
Residential mortgage loans	341,874	106,470	448,344
Unsecured personal loans	82,298	73,327	155,625
Others	222,454	43,789	266,243
Corporate banking			
Secured	-	-	-
Unsecured	263,094	48,662	311,756

(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 all in the amount of $146,379 thousand as of 31 December 2017 and 30 June 2017, due to the existence of objective impairment evidence.

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 $394,598 thousand as of 31 December 2017 and 30 June 2017, respectively, due to credit deterioration of securitization products and financial debentures.
Cathay United Bank had recognized accumulated impairment loss for investment in debt securities with no active market in the amount of $0 and $95,586 thousand as of 31 December 2017 and 30 June 2017, 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

Foreclosed properties will be sold when they are available for sale. The proceeds are used to reduce or repay the outstanding claim. Foreclosed properties are classified under other assets in the consolidated balance sheets.

Cathay United Bank and its subsidiary Indovina Bank have no foreclosed properties. The foreclosed properties in CUBC Bank exhibited objective impairment evidence. CUBC Bank has no recognized impairment loss for foreclosed properties for the six-month periods ended 30 June 2018 and 2017. The accumulated impairment loss amounted to $54,900 thousand, $53,726 thousand and $54,785 thousand as of 30 June 2018, 31 December 2017 and 30 June 2017, respectively.

D. Liquidity risk

The purpose of liquidity risk management is to ensure the availability of funds to meet present and future financial obligations. Liquidity risk is also managed by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds the Bank believes it can generate within that period. The management systems and systems includes the measurement of liquidity risk, Interest rate sensitivity analysis, scenario analysis and emergency response plan. And adopt quantitative management to adjust the liquidity gap in order to ensure proper liquidity in response to changes in daily capital flows and market conditions. The strategic planning of the Bank's liquidity management is under the responsibility of the Asset and Liability Management Committee, and the daily operation and execution are the responsibility of the Treasury Marketing Unit Department. As part of our liquidity risk management, the Group focuses on a number of components, including tapping available sources of liquidity, preserving necessary funds at reasonable cost and continuous contingency planning.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(A) Analysis of financial assets and non-derivative financial liabilities by remaining contractual maturities

a. Financial assets were held to manage liquidity risk

Cathay United Bank and its subsidiaries hold highly marketable and diverse financial assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The financial assets were held to manage liquidity risk including cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at fair value through profit and loss, financial assets at fair value through other comprehensive income, financial assets measured at amortized cost, discounts and loans.

b. Maturity analysis of non-derivative financial liabilities of Cathay United Bank

The table below shows the analysis of the cash outflow of non-derivative financial liabilities on time remaining until the contractual maturity date. The amount disclosed is based on the contractual cash flows and may be different from that included in the consolidated balance sheets.

2018.6.30	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	$49,180,594	$16,742,014	$17,470,153	$124,240	$83,517,001
Non-derivative financial liabilities at fair value through profit or loss	1,020,937	299,815	-	50,782,500	52,103,252
Securities sold under agreements to repurchase	69,360,083	21,884,397	-	11,198,380	102,442,860
Payables	17,577,654	1,821,447	5,670,386	510,227	25,579,714
Deposits and remittances	299,994,115	883,504,842	812,005,832	110,598,298	2,106,103,087
Financial debentures payable	7,693	90,667	323,687	55,400,000	55,822,047
Other capital outflow at maturity	25,745,822	43,564,176	7,418,715	1,416,599	78,145,312

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

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.6.30	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	$29,803,456	$23,593,871	$13,998,782	$16,030	$67,412,139
Non-derivative financial liabilities at fair value through profit or loss	1,327,057	293,504	-	41,545,140	43,165,701
Securities sold under agreements to repurchase	64,266,804	-	-	7,102,149	71,368,953
Payables	24,619,003	1,502,158	4,432,928	467,839	31,021,928
Deposits and remittances	279,376,492	864,436,952	758,308,007	113,214,308	2,015,335,759
Financial debentures payable	7,693	85,925	7,873,687	55,600,000	63,567,305
Other capital outflow at maturity	17,387,175	33,315,076	8,903,768	455,279	60,061,298

(B) Maturity analysis of derivative financial liabilities

a. Net settled derivative financial instruments

Net settled derivatives engaged by Cathay United Bank include:

(a) Foreign exchange derivative instruments: foreign exchange options, non-delivery forwards;
(b) Interest rate derivative instruments: swap options, net settled interest rate swaps and other interest rate agreements.

The table below shows the net settled derivative financial instruments on time remaining until the contractual maturity date. Analysis of contractual maturity date helps to illustrate all derivative financial instruments listed in the consolidated balance sheet. The amount disclosed is based on contractual cash flow and may be different from that included in the consolidated balance sheet. Maturity analysis of net settled derivative financial liabilities was as follows:

2018.6.30	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	$75,347	$747,129	$8,991	$541	$832,008
- Interest rate derivative instruments	3,294,893	57,205	441,592	19,893,790	23,687,480
Total	$3,370,240	$804,334	$450,583	$19,894,331	$24,519,488

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	$98,475	$14,663	$213,193	$463	$326,794
- Interest rate derivative instruments	3,061,667	292,540	147,564	11,944,700	15,446,471
Total	$3,160,142	$307,203	$360,757	$11,945,163	$15,773,265

2017.6.30	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	$25,664	$184,302	$100,338	$8,156	$318,460
- Interest rate derivative instruments	1,529,878	136,877	308,852	16,632,683	18,608,290
Total	$1,555,542	$321,179	$409,190	$16,640,839	$18,926,750

b. Maturity analysis of gross settled derivative financial instruments

Gross settled derivatives engaged by Cathay United Bank include:

(a) Foreign exchange derivative instruments: currency futures and swaps
(b) Interest rate derivative instruments: cross currency swaps
(c) Credit derivative instruments: all derivatives shown in gross pay a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of such a credit event

The contract maturity date is the basic element to understand Cathay United Bank's gross settled derivative instruments as at balance sheet dates. The disclosed amounts are based on the contractual cash flows and part of the disclosed are not in conformity with related items on consolidated balance sheet. Maturity analysis of gross settled derivative financial liabilities was as follows:

2018.6.30	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	$(7,819,971)	$(11,273,190)	$(3,074,699)	$(276,464)	$(22,444,324)
- Cash inflow	13,620	7	-	-	13,627
- Interest rate derivative instruments					
- Cash outflow	(26,124)	(98,050)	(59,210)	(328,312)	(511,696)
- Cash inflow	-	-	-	-	-
Cash outflow subtotal	(7,846,095)	(11,371,240)	(3,133,909)	(604,776)	(22,956,020)
Cash inflow subtotal	13,620	7	-	-	13,627
Net cash flow	$(7,832,475)	$(11,371,233)	$(3,133,909)	$(604,776)	$(22,942,393)

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
- Cash outflow	$(2,282,100)	$(4,014,702)	$(744,683)	$(111,439)	$(7,152,924)
- Cash inflow	11,422	7,488	-	-	18,910
- Interest rate derivative instruments					
- Cash outflow	(59,474)	(233,906)	(130,287)	(205,167)	(628,834)
- Cash inflow	-	-	-	-	-
Cash outflow subtotal	(2,341,574)	(4,248,608)	(874,970)	(316,606)	(7,781,758)
Cash inflow subtotal	11,422	7,488	-	-	18,910
Net cash flow	$(2,330,152)	$(4,241,120)	$(874,970)	$(316,606)	$(7,762,848)

2017.6.30	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	$(2,050,701)	$(3,364,691)	$(1,220,379)	$(90,899)	$(6,726,670)
- Cash inflow	-	32,789	6,271	2,623	41,683
- Interest rate derivative instruments					
- Cash outflow	(52,643)	(1,774,414)	(365,723)	(134,252)	(2,327,032)
- Cash inflow	-	-	-	-	-
Cash outflow subtotal	(2,103,344)	(5,139,105)	(1,586,102)	(225,151)	(9,053,702)
Cash inflow subtotal	-	32,789	6,271	2,623	41,683
Net cash flow	$(2,103,344)	$(5,106,316)	$(1,579,831)	$(222,528)	$(9,012,019)

(C) Maturity analysis of off-balance sheet items

a. Irrevocable commitments: include Cathay United Bank’s irrevocable loan commitments and credit card commitments.

b. Financial guarantee contracts: Cathay United Bank acts as a guarantor or an issuer of credit line in a financing guarantee agreement.

c. Leasing commitments: Cathay United Bank acts as a lessee in an irrevocable operating lease agreement and the minimum lease payments are shown as follows:

2018.6.30	Not later than 1 year	1~5 years	Later than 5 years	Total
Irrevocable loan commitments	$184,736,892	$28,779,308	$3,811,393	$217,327,593
Credit card commitments	28,005,908	237,772,385	382,895,955	648,674,248
Financial guarantee contracts	11,345,387	1,204,277	47,251	12,596,915
Leasing commitments				
Non-cancellable operating lease payments	1,351,652	1,935,662	62,510	3,349,824
Total	$225,439,839	$269,691,632	$386,817,109	$881,948,580

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.12.31	Not later than 1 year	1~5 years	Later than 5 years	Total
Irrevocable loan commitments	$191,776,099	$18,595,520	$850,470	$211,222,089
Credit card commitments	52,188,926	285,821,408	288,818,867	626,829,201
Financial guarantee contracts	9,933,790	940,456	59,210	10,933,456
Leasing commitments				
Non-cancellable operating lease payments	1,666,530	2,938,921	75,995	4,681,446
Total	$255,565,345	$308,296,305	$289,804,542	$853,666,192

2017.6.30	Not later than 1 year	1~5 years	Later than 5 years	Total
Irrevocable loan commitments	$166,315,438	$47,206,962	$1,167,833	$214,690,233
Credit card commitments	27,376,723	284,474,447	297,492,769	609,343,939
Financial guarantee contracts	8,750,348	1,084,495	24,086	9,858,929
Leasing commitments				
Non-cancellable operating lease payments	1,618,866	3,086,867	66,441	4,772,174
Total	$204,061,375	$335,852,771	$298,751,129	$838,665,275

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 activates. Cathay Century and its subsidiaries identifies, measures and manages the aforementioned risks based on the Company's policy and risk appetite.

Cathay Century and its subsidiaries have established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the board of directors and audit committee must be carried out based on related protocols and internal control procedures. Cathay Century and its subsidiaries comply with its financial risk management policies at all times.

A. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk (such as equity 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 financial assets at fair value through profit and loss and financial assets at fair value through other comprehensive income.

(C) Equity price risk

Cathay Century and its subsidiaries hold equity securities of local and foreign listed companies. Their prices are affected by uncertainties about the future values of the investment securities. Equity securities of listed companies held by Cathay Century and its subsidiaries are classified under financial assets at fair value through profit and loss or financial assets at fair value through other comprehensive income. Cathay Century and its subsidiaries manage the equity price risk through diversification and placing limits on individual and total equity instruments.

B. Credit risk

(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.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Cathay Century and its subsidiaries' secured lending operations must be approved and verified by performing credit verification procedures, and obtain real property security provided by the counterparty. In the event the counterparty's creditworthiness deteriorates, Cathay Century and its subsidiaries may exercise under their own discretion the relevant security rights upon presentation, to protect Cathay Century and its subsidiaries' interests.

Cathay Century and its subsidiaries' credit risk exposure of financial transaction include: issuer risk, counterparty risk and the credit risk of underlying assets.

a. Issuer risk is the risk that the issuer of the debt instrument held by Cathay Century and its subsidiaries or banks with which Cathay Century and its subsidiaries maintain deposits fail to deliver in accordance with the agreement due to default, bankruptcy or settlement, and Cathay Century and its subsidiaries incur financial losses as a result.

b. Counterparty risk is the risk that a counterparty of Cathay Century and its subsidiaries fail to deliver as obligated before the settlement date which then cause losses to Cathay Century and its subsidiaries

c. Credit risk of the underlying assets is the risk of loss due to weakened credit quality, increase in credit premium, credit rating downgrade or default of underling 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:

2018.6.30	The amount of credit risk exposure - by area					
Financial assets	Taiwan	Asia	Europe	North Americas	Emerging market and others	Total
Cash and cash equivalents	$7,108,841	$126,507	$131,609	$429,096	$1,416,391	$9,212,444
Financial assets at fair value through profit or loss	778,105	-	-	-	-	778,105
Financial assets at fair value through other comprehensive income	1,046,349	-	-	-	-	1,046,349
Financial assets measured at amortized cost (Note)	2,620,573	354,966	1,482,205	3,282,406	1,824,839	9,564,989
Total	$11,553,868	$481,473	$1,613,814	$3,711,502	$3,241,230	$20,601,887
Proportion	56.08%	2.34%	7.83%	18.02%	15.73%	100.00%

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.12.31	The amount of credit risk exposure - by area					
Financial assets	Taiwan	Asia	Europe	North Americas	Emerging market and others	Total
Cash and cash equivalents	$5,891,152	$95,401	$87,956	$541,678	$912,916	$7,529,103
Financial assets at fair value through profit or loss	90,521	-	-	-	-	90,521
Available-for-sale financial assets (Note)	2,138,591	79,416	-	-	221,805	2,439,812
Debt instruments investments with no active market exists	1,100,000	272,655	321,203	304,210	10,512	2,008,580
Held-to-maturity investments	999,988	-	1,130,412	2,942,947	1,532,959	6,606,306
Total	$10,220,252	$447,472	$1,539,571	$3,788,835	$2,678,192	$18,674,322
Proportion	54.73%	2.40%	8.24%	20.29%	14.34%	100.00%

2017.6.30	The amount of credit risk exposure - by area					
Financial assets	Taiwan	Asia	Europe	North Americas	Emerging market and others	Total
Cash and cash equivalents	$6,600,518	$121,769	$97,357	$86,997	$886,659	$7,793,300
Financial assets at fair value through profit or loss	51,209	-	-	-	-	51,209
Available-for-sale financial assets (Note)	2,072,742	82,007	-	-	225,691	2,380,440
Debt instruments investments with no active market exists	1,100,000	278,678	327,414	311,623	-	2,017,715
Held-to-maturity investments	999,968	-	1,153,268	3,068,138	1,563,097	6,784,471
Total	$10,824,437	$482,454	$1,578,039	$3,466,758	$2,675,447	$19,027,135
Proportion	56.89%	2.54%	8.29%	18.22%	14.06%	100.00%

Note: Guarantee deposits paid in bonds are included.

(C) Determinants for whether the credit risk has increased significantly since initial recognition

a. Cathay Century and its subsidiaries assesses, at each reporting date, whether the credit risk of a financial instrument in the scope of impairment requirements under IFRS 9 has increased significantly since initial recognition. To make this assessment, Cathay Century and its subsidiaries considered reasonable and supportable information (including forward-looking information) which indicated that credit risk has increased significantly since initial recognition. The main indicators included external credit rating, past due information, credit spread and other market information which showed that the credit risk related to borrowers and issuers has increased significantly.

b. Low credit risk: If the credit risk at the reporting date is determined to be low, an entity can assume that the credit risk of the financial instrument has not increased significantly since initial recognition.

(D) Definitions of a default occurring on a financial asset and a credit-impaired financial asset

The definition of a default occurring on financial assets of Cathay Century and its subsidiaries is the same as a credit-impaired financial asset. If one or more of the criteria below are met, a default occurs and a financial asset is credit-impaired:

a. Quantitative factor: when contractual payments are more than 90 days past due, a default occurs and a financial asset is credit-impaired.
b. Qualitative factor: an evidence indicates that the issuers or borrowers cannot pay the contractual payments or that they have significant financial difficulties, for example:

(a) The issuers and borrowers have entered bankruptcy or are probable to file bankruptcy or financial reorganization.
(b) The borrowers fail to make interest or principal payments based on original terms and conditions.
(c) The collaterals of the borrowers are seized provisionally or enforced.
(d) The borrowers file for a change in credit conditions due to financial difficulties.

c. The abovementioned definitions of default and credit impairment are applicable to all financial assets held by Cathay Century and its subsidiaries, and are aligned with those of financial assets for internal credit risk management. The definitions are also applicable to related impairment assessment model.

(E) Measurement of expected credit losses

a. Methods and assumptions adopted

For financial instruments on which the credit risk has not increased significantly since initial recognition, Cathay Century and its subsidiaries measured loss allowance for financial instruments at an amount equal to 12-month expected credit losses; for financial instruments on which the credit risk has increased significantly since initial recognition or are credit-impaired, Cathay Century and its subsidiaries measured loss allowance for financial instruments at an amount equal to the lifetime expected credit losses.

To measure expected credit losses, Cathay Century and its subsidiaries multiply exposure at default by 12-month and the lifetime probability of default of the issuers, guarantee agencies and counterparties and loss given default. Cathay Century and its subsidiaries also considered the effect of the time value of money to calculate 12-month expected credit losses and the lifetime expected credit losses respectively.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Default rate is the rate that an on issuer, guarantee agency or counterparty defaults. Loss given default is the loss rate resulted from the default of issuers, guarantee agencies and counterparties. Loss given default used by Cathay Century and its subsidiaries in impairment assessment is based on information regularly issued by Moody's. Probability of default is based on information regularly issued by Taiwan Ratings and Moody's and is determined based upon current observable information and macroeconomic information (gross domestic product and economic growth rate, for example) with adjustments of historic data. Exposure at default is measured at the amortized cost and interest receivables of the financial assets.

b. Consideration of forward-looking information

Cathay Century and its subsidiaries take forward-looking information into consideration while measuring expected credit losses of the financial assets.

(F) Gross carrying amount of maximum credit risk exposure and category of credit quality

a. Financial assets of Cathay Century

2018.6.30

		Stage 1	Stage 2	Stage 3			
		12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Loss allowance	Gross carrying amount
Investment grade	Debt instruments at fair value through other comprehensive income	$1,046,349	$-	$-	$-	$-	$1,046,349
	Financial assets measured at amortized cost	9,419,414	-	-	-	(3,390)	9,416,024
Non-investment grade	Financial assets measured at amortized cost	150,000	-	-	-	(1,035)	148,965

Financial assets	Credit quality of financial assets 2017.12.31 (Note 1)					
	Normal assets (Note 2)					
	Investment grade	Non-investment grade	Past due but not impaired	Impaired	Impaired reserve	Total
Cash and cash equivalents	$7,529,103	$-	$-	$-	$-	$7,529,103
Financial assets at fair value through profit or loss	90,521	-	-	-	-	90,521
Available-for-sale financial assets (Note 3)	2,439,812	-	-	-	-	2,439,812
Debt instruments investments with no active market exists	2,008,580	-	-	-	-	2,008,580
Held-to-maturity investments	6,606,306	-	-	-	-	6,606,306
Total	$18,674,322	$-	$-	$-	$-	$18,674,322
Proportion	100.00%	0.00%	0.00%	0.00%	0.00%	100.00%

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Financial assets	Credit quality of financial assets 2017.6.30 (Note 1) Normal assets (Note 2) Investment grade	Non-investment grade	Past due but not impaired	Impaired	Impaired reserve	Total
Cash and cash equivalents	$7,793,300	$-	$-	$-	$-	$7,793,300
Financial assets at fair value through profit or loss	51,209	-	-	-	-	51,209
Available-for-sale financial assets (Note 3)	2,380,440	-	-	-	-	2,380,440
Debt instruments investments with no active market exists	2,017,715	-	-	-	-	2,017,715
Held-to-maturity investments	6,784,471	-	-	-	-	6,784,471
Total	$19,027,135	$-	$-	$-	$-	$19,027,135
Proportion	100.00%	0.00%	0.00%	0.00%	0.00%	100.00%

Note 1: Cathay Century adopted IFRS 9 on 1 January 2018. Cathay Century elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Note 2: Investment grade assets refer to those with credit rating of at least BBB- granted by a credit rating agency; non-investment grade assets are those with credit rating lower than BBB- granted by a credit rating agency.

Note 3: Guarantee deposits paid in bonds are included.

b. Loans of Cathay Century

		2018.6.30 Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Loss allowance	Gross carrying amount
Non-investment grade	Loans	$231,103	$-	$-	$-	$(2,773)	$228,330

Secured loans	2017.12.31(Note) Neither past due nor impaired Excellent	Great	Normal	Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
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

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2017.6.30(Note)							
	Neither past due nor impaired			Past due but		Total	Loss	
Secured loans	Excellent	Great	Normal	not impaired	Impaired	(EIR principal)	reserve	Net
Consumer Finance	$243,343	$-	$-	$-	$-	$243,343	$2,900	$240,443
Corporate Finance	-	-	-	-	13,500	13,500	270	13,230
Total	$243,343	$-	$-	$-	$13,500	$256,843	$3,170	$253,673

Note: Cathay Century adopted IFRS 9 on 1 January 2018. Cathay Century elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(G) Movement of loss allowance is summarized below:

a. Debt instruments at fair value through other comprehensive income

		Lifetime expected credit losses				
	12-month expected credit losses	Collectively assessed	Individually assessed	Not purchased or originated credit-impaired financial assets	Purchased or originated credit-impaired financial assets	Total of impairment charged in accordance with IFRS 9
2018.1.1	$150	$-	$-	$-	$-	$150
Changes in models/risk parameters	26	-	-	-	-	26
2018.6.30	$176	$-	$-	$-	$-	$176

b. Financial assets measured at amortized cost

		Lifetime expected credit losses				
	12-month expected credit losses	Collectively assessed	Individually assessed	Not purchased or originated credit-impaired financial assets	Purchased or originated credit-impaired financial assets	Total of impairment charged in accordance with IFRS 9
2018.1.1	$3,571	$-	$-	$-	$-	$3,571
Changes in models/risk parameters	778	-	-	-	-	778
2018.6.30	$4,349	$-	$-	$-	$-	$4,349

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

c. Other assets

	12-month expected credit losses	Lifetime expected credit losses: Collectively assessed	Lifetime expected credit losses: Individually assessed	Lifetime expected credit losses: Not purchased or originated credit-impaired financial assets	Lifetime expected credit losses: Purchased or originated credit-impaired financial assets	Total of impairment charged in accordance with IFRS 9
2018.1.1	$68	$-	$-	$-	$-	$68
Changes in models/risk parameters	8	-	-	-	-	8
2018.6.30	$76	$-	$-	$-	$-	$76

d. Loans

	12-month expected credit losses	Lifetime expected credit losses: Collectively assessed	Lifetime expected credit losses: Individually assessed	Lifetime expected credit losses: Not purchased or originated credit-impaired financial assets	Lifetime expected credit losses: Purchased or originated credit-impaired financial assets	Subtotal of impairment charged in accordance with IFRS 9	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	Total
2018.1.1	$45	$-	$-	$-	$-	$45	$3,079	$3,124
Changes in models/risk parameters	6	-	-	-	-	6	-	6
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	-	(357)	(357)
2018.6.30	$51	$-	$-	$-	$-	$51	$2,722	$2,773

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”.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

D. Liquidity risk

(A) Source of liquidity risk

Liquidity risks of the financial instruments are classified as “funding liquidity risk” and “market liquidity risk”. “Funding liquidity risk” represents the default risk that Cathay Century is unable to turn assets into cash or obtain sufficient funds. “Market liquidity risk” represents the risk of significant changes in fair value that Cathay Century faces when it sells or offsets its assets during market disorder.

(B) Liquidity risk management

Cathay Century and its subsidiaries established a capital liquidity management mechanism based on the business features and monitoring short-term cash flow. Considering the trading volume and holing 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.

	2018.6.30					
Liabilities	Book value	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Payables	$3,848,251	$3,828,113	$9,276	$5,548	$5,314	$-
Financial liabilities at fair value through profit or loss	207,418	186,186	21,232	-	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	-

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2017.12.31					
Liabilities	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	-	-	-

	2017.6.30					
Liabilities	Book value	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Payables	$4,087,708	$4,071,334	$2,513	$4,744	$9,117	$-
Financial liabilities at fair value through profit or loss	36,817	24,153	12,664	-	-	-
Preferred stock liability	1,000,000	-	-	1,000,000	-	-

E. Market risk analysis

Market risk is the risk of potential revenue and portfolio value reduction due to the fluctuations of market risk factors, such as exchange rates, commodity prices, interest rates, credit spreads, and stock prices.

Cathay Century and its subsidiaries continue to use market risk management tools such as value-at-risk and stress testing to completely and effetely 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

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

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2018.6.30	Stress testing	
Risk factors	Variation (+/−)	Changes in profit and loss
Equity price risk (Index)	-10%	$(609,900)
Interest rate risk (Yield curve)	20bp	(159,568)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(108,015)

2018.6.30		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	$209	$550
	CNY appreciate 1 %	15,366	-
	HKD appreciate 1 %	820	4,233
	USD appreciate 1 %	38,811	7,121
	VND appreciate 1 %	5,965	-
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(5,569)	-
	Yield curve (CNY) flat rises 1bp	(105)	-
	Yield curve (NTD) flat rises 1bp	(1,198)	(1,032)
Equity securities price sensitivity	Increase 1% in equity price	-	60,990

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

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.6.30	Stress testing	
Risk factors	Variation (+/−)	Changes in profit and loss
Equity price risk (Index)	-10%	$(431,777)
Interest rate risk (Yield curve)	20bp	(182,642)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(109,146)

2017.6.30		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	$120	$756
	CNY appreciate 1 %	9,278	742
	HKD appreciate 1 %	980	3,071
	VND appreciate 1 %	(29,402)	(8,138)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(6,287)	(79)
	Yield curve (CNY) flat rises 1bp	(65)	(53)
	Yield curve (NTD) flat rises 1bp	(1,477)	(1,083)
Equity securities price sensitivity	Increase 1% in equity price	54	43,123

Cathay Securities and its subsidiaries

A. Risk management policies

(A) Rick management objectives

Adhering to the risk management policies of the Company, Cathay Securities and its subsidiaries manage the risks efficiently and elastically on operating activities to maximize the profit in conformity with domestic and foreign regulations.

(B) Risk management policies

Cathay Securities and its subsidiaries uses “risk management policies” as a guiding principle to establish risk management objectives, coverage, organization duties and operating, management principles and reports etc.

The management policies of Cathay Securities and its subsidiaries cover different types of risk including market risk, credit risk, operation risk, liquidity risk, capital adequacy management, regulation risk and other risks related to operating activities. Cathay Securities and its subsidiaries identify relevant risks and have integrated planning of risk management in accordance with the management policies before operating business.

(C) Risk management organizational structure

a. Board of directors

The board of directors has the ultimate responsibilities for risk management. The board has the primary responsibility for the determination of the risk management strategies and for ensuring that approved risk management policies are in accordance with the nature of operating activities, types of operating business and they cover different types of risk. Also, the board is required to monitor that the implementation of risk management policies is effective.

b. Risk Management Committee

The Risk Management Committee is responsible for reviewing risk management policies, principles, and directions of trading management, and for determining the appropriate degree of risk exposures and monitoring the implementation of the risk management policies. Risk Management Committee is established by the board of directors and the members include general manager, finance executive, accounting executive, and risk management executive, as relevant trading executive. The committee meetings are typically held quarterly and provisional meetings are called by the chairman of the board.

c. Risk Management Department

Risk management department reports to the board of directors. The supervisor and staff of the department are prohibited from holding the positions at trading or settlement department simultaneously. Their responsibilities are to plan and implement risk management policies, principles and directions, review policies periodically to ensure that those policies are suitable for the business development. Risk management department also establishes online monitor and prevention system and reaction mechanism.

d. Business unit

Each business unit participates in the planning of risk management mechanism and executes daily risk management and report to ensure that the risk model services division implementation is with the same base of the consistency of credibility and is in accordance with the internal control procedures to comply with the regulations and risk management policies.

e. Auditing office

Auditing office participates in the planning of risk management mechanism and executes risk management and internal control procedures periodically. All staff members should be also responsible for monitoring and documenting problems of internal control procedures periodically to ensure that the appropriate actions of improvement have been taken in time.

f. Finance Department

Finance department participates in the planning of risk management mechanism. The department is responsible of executing liquidity risk management and providing the liquidity risk report to risk management department periodically.

g. Accounting Department

The accounting department participates in the planning of risk management mechanism and providing the form of capital adequacy to risk management department monthly.

h. Legal Affairs Office

Legal Affairs Office executes regulation risk management to ensure that business operations and risk management procedures all in comply with the regulations.

(D) Risk Management Workflows

Risk management workflows for Cathay Securities and its subsidiaries includes risk identification, risk measurement, risk management mechanism, and risk reporting. Risk assessment and response strategies to each risk are addressed as follows:

a. Market Risk

(a) Definition

Market risk is the risk of losses in positions that include stocks, bonds, and derivatives etc. arising from the movement in market prices.

(b) Controls:

Cathay Securities and its subsidiaries set up training directions including the limits of authorization, risk limitation, stop-loss rules, and responses to the exceeded limits by each product or service line and actual operations and implement those control procedures efficiently through the risk control staff in front desk and on-line monitor system. Furthermore, Cathay Securities and its subsidiaries provide market risk management report periodically that includes market price assessments, the dollar amounts of surplus/shortfall and arbitrage, Value at Risk, back-testing model and perform pressure test by each extreme scenario to control the risks that Cathay Securities and its subsidiaries face and manage all risks as a whole efficiently.

b. Credit Risk

(a) Definition

Credit risk is the risk that counterparty or debtor will not meet its obligations under a contract due to the aggravation of financial conditions or other factors, leading to a financial loss. The risk of losses incurred to Cathay Securities and its subsidiaries to its subsidiaries

(b) Controls

Cathay Securities and its subsidiaries check and review the credit position to each counterparty before trading and manage risk exposure after trading. Risks arising from securities trading are monitored and controlled based on the credit rating model. Investment concentration and risks are analyzed and documented periodically. Investment limit to each counterparty is established by its credit rating (TCRI, Taiwan Ratings, S&P, Moody's, and Fitch). In addition, the customers covered by the high-risk range of self-managed credit integrity and the credit balance of the underlying account for a certain percentage of the market credit balance are regularly reviewed and the credit risk emergency notification mechanism for the Company is established.

c. Operational Risk

(a) Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes the legal risk, but excludes strategy risk and credit risk.

(b) Controls

Cathay Securities and its subsidiaries establish authority levels and the segregation of duties for the processes of front, middle and back offices. Trading, confirmation, settlement, financial accounting, and trading document are archive for future reference. The strict processes are also established to prevent fraud and negligence. Cathay Securities and its subsidiaries request each department to establish and implement internal audit and control policies authentically. The reporting mechanism for loss events from operational risk and database are established to understand causes of the loss.

In addition, the auditing office is established and reports to the board of directors. The functions of the office are to implement daily process check to establish completed internal audit control and provide internal review report periodically to lower the loss arising from the operation failures.

d. Liquidity Risk

(a) Definition

Liquidity is defined as the capability of the company to acquire the sufficient capital and to support assets growth and payout the liabilities. Market liquidity is the risk of loss caused by significant changes in market prices when dealing with or offsetting the position of the market due to lack of market depth or disorder.

(b) Controls

Measurement index for liquidity risk is established and Cathay Securities compiles the liquidity risk management report periodically to review capital conditions and cash flow gap as of balance dates. Capital allocation planning is based on the compiled structure analysis as of balance sheet dates. Meanwhile, acquiring the credit line of short-term financing from other financial institutions and managing receipts and payments properly to sustain appropriate liquidity and ensure the ability to make the payment. The investment business unit shall conduct market liquidity risk control at the time of purchase according to market liquidity management indicators and specifications.

e. Legal Risk

(a) Definition

Legal risk is a risk of loss that results from a counterparty being unable to legally enter into a contract due to the defective contract or the qualification.

(b) Controls

The procedures of making and reviewing legal documentation are established. All the document related to the contracts is required to be reviewed and approved by the legal office and may be advised by the external lawyer' 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.

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

(A) Source of credit risk

Issuer credit risk is a risk that Cathay Securities and its subsidiaries may encounter Credit risks due to conducting financial transactions include the credit risks from issuers, counterparties, and underlying assets:

a. Issuer credit risk is a risk that Cathay Securities and its subsidiaries may encounter financial losses because the issuers (guarantors) or banks are not able to pay where it is obligated to do on financial liabilities instruments or bank savings which Cathay Securities and its subsidiaries invest in.
b. Counterparty credit risk is a risk that the counterparty will not live up to its obligations to perform or pay on the designated dates and Cathay Securities and its subsidiaries are exposed to the risk of financial losses.
c. Underlying asset credit risk is a risk that Cathay Securities and its subsidiaries may encounter the losses from the fact that the credit quality turns weak and credit charges increase, credit rating reduces, or the terms of contract are violated from underlying asset which is related to the certain financial instruments.

Financial assets which make Cathay Securities and its subsidiaries face the credit risk include bank accounts, debt securities, the trading from Over-the-Counter derivatives, repurchase and resell debts, trading from the securities lending, refundable deposits, futures deposit in bank, other refundable deposits and account receivables etc.

(B) Determinants for whether the credit risk has increased significantly since initial recognition

a. Cathay Securities and its subsidiaries assess, at each reporting date, whether the credit risk of a financial instrument in the scope of impairment requirements under IFRS 9 has increased significantly since initial recognition. To make this assessment, Cathay Securities and its subsidiaries consider reasonable and supportable information (including forward-looking information) which indicates that credit risk has increased significantly since initial recognition. Main indicators include external credit rating, past due information, credit spread and other market information which shows that the credit risk related to borrowers and issuers has increased significantly.
b. Low credit risk: If the credit risk at the reporting date is determined to be low, an entity can assume that the credit risk of the financial instrument has not increased significantly since initial recognition.

(C) Definitions of a default occurring on a financial asset and a credit-impaired financial asset

The definition of a default occurring on financial assets of Cathay Securities and its subsidiaries is the same as a credit-impaired financial asset. If one or more of the criteria below are met, a default occurs and a financial asset is credit-impaired:

a. Qualitative factor: an evidence indicates that the issuers or borrowers cannot pay the contractual payments or that they have significant financial difficulties, for example:

(a) The issuers and borrowers have entered bankruptcy or are probable to file bankruptcy or financial reorganization.
(b) The borrowers fail to make interest or principal payments based on original terms and conditions.

b. The abovementioned definitions of a default occurring on a financial asset and a credit impairment are applicable to all financial assets held by Cathay Securities and its subsidiaries, and are align with those of relevant financial assets for internal credit risk management. The definitions are also applicable to related impairment assessment model.

(D) Measurement of expected credit losses

a. Methods and assumptions adopted

For financial instruments on which the credit risk has not increased significantly since initial recognition, Cathay Securities and its subsidiaries measure loss allowance for financial instruments at an amount equal to 12-month expected credit losses; for financial instruments on which the credit risk has increased significantly since initial recognition or are credit-impaired, Cathay Securities and its subsidiaries measure loss allowance for financial instruments at an amount equal to the lifetime expected credit losses.

To measure expected credit losses, Cathay Securities and its subsidiaries multiply exposure at default by 12-month and the lifetime probability of default of the issuers, guarantee agencies and borrowers and loss given default. Cathay Securities and its subsidiaries also consider the effect of the time value of money to calculate 12-month expected credit losses and the lifetime expected credit losses respectively.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Default rate is the rate that an issuer, guarantee agency and a borrower defaults. Loss given default is the loss rate resulted from the default of issuers, guarantee agencies and borrowers. Loss given default used by Cathay Securities and its subsidiaries in impairment assessment is based on information regularly issued by Moody's. Probability of default is based on information regularly issued by Taiwan Ratings and Moody's and is determined based upon current observable information and macroeconomic information (gross domestic product and economic growth rate, for example) with adjustments of historic data. Exposure at default is measured at the amortized cost and interest receivables of the financial assets.

b. Consideration of forward-looking information

Cathay Securities and its subsidiaries take forward-looking information into consideration while measuring expected credit losses of the financial assets.

C. Capital Liquidity Risk Analysis:

(A) Cash flow analysis

Capital liquidity risk is the risk that Cathay Securities and its subsidiaries are unable to acquire the sufficient capital at the reasonable cost within the reasonable time and results in cash flow gap, or the risk that Cathay Securities and its subsidiaries sell assets at a loss to meet the cash flow requirement.

2018.6.30
Cash Flows Analysis of Financial Liabilities

	Payment Terms				
Financial Liabilities	Less than 1 month	1 to 3 months	3 to 6 months	More than 6 months	Total
Short-term loans	$218,389	$-	$-	$-	$218,389
Bonds payables	9,507,245	-	-	-	9,507,245
Financial liabilities at fair value through profit or loss – current	2,170,142	-	-	-	2,170,142
Liabilities for bonds with repurchase agreements	3,246,829	-	-	-	3,246,829
Deposits for securities borrowed	26,172	52,344	78,516	314,058	471,090
Securities lending margin – deposit received	330	660	990	3,954	5,934
Futures trader's equity	5,405,702	-	-	-	5,405,702
Account payables	7,473,171	-	-	396,857	7,870,028
Others	116,130	-	-	-	116,130
Total	$28,164,110	$53,004	$79,506	$714,869	$29,011,489
% to the total	97.08%	0.18%	0.27%	2.47%	100.00%

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

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.12.31

Cash Flow Gap

	Received Terms				
Financial Assets	Less than 1 month	1 to 3 months	3 to 6 months	More than 6 months	Total
Cash and cash equivalents	$2,814,073	$-	$-	$-	$2,814,073
Financial assets at fair value through profit or loss-current					
Operation Securities	8,417,192	-	-	-	8,417,192
Call option-futures	18,953	-	-	-	18,953
Futures trading margin	838,062	-	-	-	838,062
Financial assets at fair value through other comprehensive income-current	3,288,187	-	-	-	3,288,187
Securities financing receivables	256,279	512,558	768,837	3,075,352	4,613,026
Refinancing margin and refinancing deposits receivable	866	1,732	2,598	10,386	15,582
Security lending receivable	14,606	-	-	-	14,606
Client margin accounts	5,412,119	-	-	-	5,412,119
Security lending deposits price and security lending margin – deposits paid	83,985	167,970	251,955	1,007,820	1,511,730
Account receivables	6,372,336	-	-	22,554	6,394,890
Others	555,270	-	-	903,178	1,458,448
Subtotal	28,071,928	682,260	1,023,390	5,019,290	34,796,868
Residual cash	$(92,182)	$629,256	$943,884	$4,304,421	$5,785,379

(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.

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.

VaR at one single trading day within 99% confidence level

2018.1.1~2018.6.30	NT$ (in thousands)
Period Ended	$14,896
Average	50,109
Lowest	12,016
Highest	154,268

(C) Stress Test

Cathay Securities and its subsidiaries perform monthly Stress Test to assess the degree of impact on the asset portfolio arising from foreign and domestic significant events and find the risk simples which have more significant influence on the asset portfolio. Follow-up and review reports will be documented. Customized or extreme scenario which take rapid changes in foreign and domestic financial environment into consideration are also performed irregularly and measured the maximized losses arising from these scenarios for ensuring that Cathay Securities and its subsidiaries manage each potential scenario effectively.

Stress Test Scenario including Historical Scenario and Hypothesis Scenario:

a. Historical Scenario

Cathay Securities and its subsidiaries assess the dollar amount of losses for the investment portfolio by choosing a specific time frame of historical event and taking the fluctuation of risk simples into the consideration such as the immediate, significant, and comprehensive impact on financial market from bankruptcy of Lehman Brothers in 2008 and Great East Japan earthquake in 2011.

b. Hypothesis Scenario

Cathay Securities and its subsidiaries make hypothesis with rational expectations from the extreme market movements to assess the dollar amount of losses for the investment position by taking the movement of relevant risk simples into consideration including 10% drop on the total values of stock market arising from the global system breakdown.

2018.6.30
Table of Stress Test

Risk Simples	Price Risk	Changes (+/-)	Changes in profit and loss
Equity Risk	Stock index	-10%	$(53,090)
Interest Risk	Yield Curve	+100bps	(160,027)
Exchange Risk	Exchange Rate	+3%	(2,546)
Product Risk	Price	-10%	-

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(8) Structured entities

A. Consolidated structured entities

Cathay life and its subsidiaries own real estate investment and management organizations as consolidated structured entities. As of 30 June 2018, 31 December 2017 and 30 June 2017, Cathay life and its subsidiaries provides loans amounting to all GBP 345,000 thousand to the consolidated structured entities, respectively.

B. Unconsolidated structured entities

(A) The Group do not provide financial support or other support to the unconsolidated structured entities. The Group's maximum exposure to loss from its interests in the unconsolidated structured entities are limited to the carrying amount of assets the Group recognized. The information of the recognized unconsolidated structured entities is disclosed as follows:

Types of structured entity	Nature and purpose	Interests owned
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 30 June 2018, 31 December 2017 and 30 June 2017, the carrying amount of assets recognized by Cathay Life and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

	2018.6.30	
	Private equity funds	Asset-backed securities
Financial assets at fair value through profit or loss	$66,519,481	$25,676,203
Financial assets at fair value through other comprehensive income	-	70,788,730
Financial assets measured at amortized cost	-	141,897,214
Total	$66,519,481	$238,362,147

	2017.12.31	
	Private equity funds	Asset-backed securities
Available-for-sale financial assets	$51,152,449	$75,857,755
Debt instrument investments for which no active market exists	-	133,790,164
Held-to-maturity financial assets	-	6,175,423
Total	$51,152,449	$215,823,342

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2017.6.30	
	Private equity funds	Asset-backed securities
Available-for-sale financial assets	$44,184,066	$82,301,518
Debt instrument investments for which no active market exist	-	112,033,676
Held-to-maturity financial assets	-	3,100,654
Total	$44,184,066	$197,435,848

(C) As of 30 June 2018, 31 December 2017 and 30 June 2017 the carrying amount of assets recognized by Cathay United Bank and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

	2018.6.30	
	Private Fund	Asset Securitization commodity
Financial assets at fair value through other comprehensive income	$-	$2,714,099
Financial assets measured at amortized cost	-	42,034,161
Total	$-	$44,748,260

	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

	2017.6.30	
	Private Fund	Asset Securitization commodity
Available-for-sale financial assets	$-	$780,567
Held-to-maturity financial assets	-	10,803,844
Investments in debt securities with no active market	-	32,223,846
Total	$-	$43,808,257

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(D) As of 30 June 2018, 31 December 2017 and 30 June 2017 the carrying amount of assets recognized by Cathay Century and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

	2018.6.30	
	Private Fund	Asset Securitization commodity
Financial assets at fair value through profit or loss	$-	$148,772
Financial assets measured at amortized cost	-	662,635
Total	$-	$811,407

	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

	2017.6.30	
	Private Fund	Asset Securitization commodity
Available-for-sale financial assets	$-	$164,041
Held-to-maturity financial assets	-	770,881
Total	$-	$934,922

(9) Exchange rates used to translate material financial assets and liabilities denominated in foreign currencies are disclosed as follows at 30 June 2018, 31 December 2017 and 30 June 2017:

	2018.6.30			2017.12.31		
	Foreign Currency	Exchange Rate	NT$	Foreign Currency	Exchange Rate	NT$
Financial Assets						
Monetary Items						
USD	$112,476,873	30.5000	$3,430,544,627	$100,965,332	29.8480	$3,013,613,230
CNY	35,795,267	4.6005	164,676,126	31,634,624	4.5835	144,997,299
Non-Monetary Items						
USD	9,835,230	30.5000	299,974,515	13,110,182	29.8480	391,312,712
Financial Liabilities						
Monetary Items						
USD	14,417,421	30.5000	439,731,341	12,348,268	29.8480	368,571,103

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

	2017.6.30		
	Foreign Currency	Exchange Rate	NT$
Financial Assets			
Monetary Items			
USD	$90,102,442	30.4360	$2,742,357,925
CNY	27,243,097	4.4896	122,310,608
Non-Monetary Items			
USD	10,570,019	30.4360	321,709,098
Financial Liabilities			
Monetary Items			
USD	12,386,589	30.4360	376,998,223

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 three-month and six-month periods ended 30 June 2018 and 2017 were $84,263,348 thousand and 8,975,150 thousand, $45,566,290 thousand and $(86,970,071) thousand, respectively.

(10) Discretionary account management

As of 30 June 2018, 31 December 2017 and 30 June 2017, Cathay Life contracts with securities investment trust business for discretionary investments management. The investment details are disclosed as follows:

	2018.6.30		2017.12.31		2017.6.30	
Items	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Listed stocks	$135,043,322	$135,043,322	$146,469,572	$146,469,572	$130,364,304	$130,364,304
Overseas stocks	56,245,889	56,245,889	55,439,633	55,439,633	41,712,358	41,712,358
Reverse repurchase bonds	16,452,000	16,452,000	8,910,000	8,910,000	14,997,200	14,997,200
Cash in banks	36,644,877	36,644,877	34,384,975	34,384,975	39,317,154	39,317,154
Beneficiary certificates	992,017	992,017	318,911	318,911	943,673	943,673
Futures and options	116,568	116,568	138,296	138,296	520,022	520,022
Total	$245,494,673	$245,494,673	$245,661,387	$245,661,387	$227,854,711	$227,854,711

As of 30 June 2018, Cathay Life entered into discretionary account management contracts in the amounts of $111,612,149 thousand, US$1,540,000 thousand, and HK$2,395,000 thousand. As of 31 December 2017, Cathay Life entered into discretionary account management contracts in the amounts of $107,000,000 thousand, US$1,595,000 thousand, and HK$2,750,000 thousand. As of 30 June 2017, Cathay Life entered into discretionary account management contracts in the amounts of $107,000,000 thousand, US$1,425,000 thousand, and HK$2,750,000 thousand.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

As of 30 June 2018, 31 December 2017 and 30 June 2017, Cathay Century and its subsidiaries contract with securities investment trust business for discretionary investments management. The investment details are disclosed as follows:

	2018.6.30		2017.12.31		2017.6.30	
Items	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Listed stocks	$1,265,961	$1,265,961	$1,076,002	$1,076,002	$925,856	$925,856
Repurchase bonds	380,115	380,115	320,431	320,431	290,224	290,224
Cash in banks	231,444	231,444	203,770	203,770	213,910	213,910
Futures and options	2,009	2,009	2,008	2,008	2,008	2,008
Total	$1,879,529	$1,879,529	$1,602,211	$1,602,211	$1,431,998	$1,431,998

As of 30 June 2018, 31 December 2017 and 30 June 2017, Cathay Century and its subsidiaries entered into discretionary account management contracts in the amounts of $1,200,000 thousand, $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

2018.6.30

Items	Ownership interest	Eligible capital	Statutory capital
The Company	100.00%	$590,119,717	$668,310,019
Cathay United Bank	100.00%	253,034,049	169,270,925
Cathay Securities	100.00%	4,973,278	2,262,981
Cathay Life	100.00%	503,178,974	309,452,625
Cathay Century	100.00%	9,906,805	5,228,348
Cathay Venture	100.00%	3,597,119	1,813,677
Cathay Securities Investment Trust	100.00%	2,301,378	1,570,737
Less : Items		(700,393,950)	(654,877,367)
Subtotal		(A) $666,717,370	(B) $503,031,945
Consolidated capital adequacy ratios		(C) =(A)/(B)	132.54%

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.6.30

Items	Percentage of ownership interests	Qualifying capital	Registered capital
The Company	100.00%	$555,556,370	$621,873,655
Cathay United Bank	100.00%	237,560,160	148,297,022
Cathay Securities	100.00%	5,056,356	2,324,385
Cathay Life	100.00%	411,654,926	267,049,683
Cathay Century	100.00%	8,835,992	5,104,692
Cathay Venture	100.00%	3,639,572	1,826,754
Cathay Securities Investment Trust	100.00%	2,087,003	1,344,931
Less : Items		(645,548,862)	(597,836,032)
Subtotal		(A) $578,841,517	(B) $449,985,090
Consolidated capital adequacy ratios		(C) =(A)/(B)	128.64%

B. Eligible capital

2018.6.30

Items	Amount
Common stock	$125,632,102
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	15,333,000
Other preferred stocks and subordinated debts	-
Capital collected in advance	-
Capital reserves	165,452,143
Statutory surplus reserves	40,976,121
Special reserves	149,346,119
Accumulated profit or loss	86,636,398
Equity adjustment	7,114,564
Less : goodwill and other intangible asset	(3,989)
Less : deferred assets	(366,741)
Less : treasury stocks	-
Total qualifying capital	$590,119,717

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2017.6.30

Items	Amount
Common stock	$125,632,102
Non-cumulative perpetual preferred stock and non-cumulative perpetual subordinated debts according to the rules and limitation of Tier 1 capital	8,333,000
Other preferred stocks and subordinated debts	-
Capital collected in advance	-
Capital reserves	130,452,104
Statutory surplus reserves	35,339,841
Special reserves	149,106,971
Accumulated profit or loss	69,225,535
Equity adjustment	37,952,635
Less : goodwill and other intangible asset	-
Less : deferred assets	(485,818)
Less : treasury stocks	-
Total qualifying capital	$555,556,370

(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 698 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.

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 (146 locations).

(C) Cathay Security may engage in cross-selling activities in Cathay United Bank’s Xinban branch (and other 162 branches) and Cathay Life’s Zhongxiao branch (and other 32 branches). The shared business locations are available for account opening

E. Allocation of revenues, costs, expenses, profits and losses:

Revenue, costs, expenses, profits or losses arising from integrated business activities between the subsidiaries are allocated to each subsidiary based on the related business features or other reasonable allocation methods.

(14) Significant contracts

None

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 30 June 2018, 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 30 June 2018, Cathay Life's remittances to this general insurance company totaled approximately CNY 200,000 thousand and USD 28,140 thousand.

(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 30 June 2018, 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 30 June 2018, 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.

(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 30 June 2018, Cathay Securities Investment Trust remittances to CDBS Cathay Asset Management totaled approximately CNY 119,880 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.

(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.

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

(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.

Income information of reporting segment

2018.4.1~2018.6.30

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	$8,287,040	$35,582,611	$140,649	$48,701	$(63,293)	$43,995,708
Net income other than interest	(1,455,330)	86,229,769	1,749,262	833,726	2,795,505	90,152,932
Total income	6,831,710	121,812,380	1,889,911	882,427	2,732,212	134,148,640
Bad debt expenses, commitments and Provision for premiums reserve	(1,058,635)	32,632	-	(1,108)	-	(1,027,111)
The net change of insurance liabilities	-	(98,185,945)	(39,291)	-	-	(98,225,236)
Operating expenses	(7,356,882)	(4,762,751)	(870,516)	(582,305)	(5,570,108)	(19,142,562)
Income (loss) from continuing operations before income taxes	(1,583,807)	18,896,316	980,104	299,014	(2,837,896)	15,753,731
Income taxes (expense) benefit	(813,357)	366,352	(122,265)	(61,891)	(2,365,097)	(2,996,258)
Consolidated net income	(2,397,164)	19,262,668	857,839	237,123	(5,202,993)	12,757,473

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

2017.4.1~2017.6.30

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	$7,426,545	$33,671,807	$130,911	$41,107	$10,503	$41,280,873
Net income other than interest	2,478,075	99,895,072	1,690,997	618,070	1,724,103	106,406,317
Total income	9,904,620	133,566,879	1,821,908	659,177	1,734,606	147,687,190
Bad debt expenses and Provision for premiums reserve	(937,105)	76,889	(47)	(93,930)	-	(954,193)
The net change of insurance liabilities	-	(109,991,455)	(31,986)	-	-	(110,023,441)
Operating expenses	(6,277,590)	(8,545,205)	(941,078)	(512,486)	(1,645,713)	(17,922,072)
Income (loss) from continuing operations before income taxes	2,689,925	15,107,108	848,797	52,761	88,893	18,787,484
Income taxes (expense) benefit	(848,856)	(281,149)	(86,431)	(10,421)	(1,895,770)	(3,122,627)
Consolidated net income	1,841,069	14,825,959	762,366	42,340	(1,806,877)	15,664,857

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

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

2018.1.1~2018.6.30

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	$16,012,081	$68,834,417	$272,750	$91,067	$(110,224)	$85,100,091
Net income other than interest	4,653,476	156,123,557	2,985,623	1,522,058	4,907,895	170,192,609
Total income	20,665,557	224,957,974	3,258,373	1,613,125	4,797,671	255,292,700
Bad debt expenses, commitments and Provision for premiums reserve	(1,491,860)	49,403	-	(1,161)	-	(1,443,618)
The net change of insurance liabilities	-	(178,220,499)	85,885	-	-	(178,134,614)
Operating expenses	(14,179,736)	(13,618,277)	(1,703,775)	(1,193,242)	(7,467,151)	(38,162,181)
Income (loss) from continuing operations before income taxes	4,993,961	33,168,601	1,640,483	418,722	(2,669,480)	37,552,287
Income taxes (expense) benefit	(1,950,457)	3,173,220	(231,253)	(71,503)	(2,457,895)	(1,537,888)
Consolidated net income	3,043,504	36,341,821	1,409,230	347,219	(5,127,375)	36,014,399

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

2017.1.1~2017.6.30

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	$14,464,714	$66,988,585	$262,171	$80,045	$10,145	$81,805,660
Net income other than interest	7,660,441	177,693,045	2,868,182	1,145,170	3,441,074	192,807,912
Total income	22,125,155	244,681,630	3,130,353	1,225,215	3,451,219	274,613,572
Bad debt expenses, commitments and Provision for premiums reserve	(1,307,532)	127,913	27	(93,930)	-	(1,273,522)
The net change of insurance liabilities	-	(208,429,368)	(166,688)	-	-	(208,596,056)
Operating expenses	(12,603,878)	(16,625,615)	(1,623,199)	(962,102)	(3,283,131)	(35,097,925)
Income (loss) from continuing operations before income taxes	8,213,745	19,754,560	1,340,493	169,183	168,088	29,646,069
Income taxes (expense) benefit	(1,553,680)	553,881	(148,828)	(25,752)	(2,016,611)	(3,190,990)
Consolidated net income	6,660,065	20,308,441	1,191,665	143,431	(1,848,523)	26,455,079

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

(1) Revenues from each external customer are all less than 10% of total revenue of the Group.

(2) Income of operating segments is measured before taxes. Income of operating segments is the basis of resources distribution and performance evaluation.

English Translation of Financial Statements Originally Issued in Chinese

15.The company's financial statements

Cathay Financial Holding Co., Ltd.
Balance sheets
As of 30 June 2018, 31 December 2017, and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

	2018.6.30	2017.12.31	2017.6.30
Assets			
Cash and cash equivalents	$461,187	$1,212,677	$351,081
Financial assets at fair value through profit or loss	35,826,000	-	-
Financial assets at fair value through other comprehensive income	94,772	-	-
Financial assets measured at amortized cost	5,998,637	-	-
Receivables - net	13,290,046	527,534	23,916,961
Current income tax assets	2,506,359	4,341,510	4,215,434
Available-for-sale financial assets - net	-	91,136	84,596
Held-to-maturity financial assets - net	-	41,000,000	41,000,000
Investments accounted for using the equity method - net	619,051,367	605,207,073	561,636,032
Property and equipment - net	10,802	11,247	7,380
Intangible assets - net	3,989	6,649	9,309
Deferred tax assets	366,741	320,076	485,818
Other assets - net	37,032	31,797	19,378
Total assets	$677,646,932	$652,749,699	$631,725,989
Liabilities & Equity			
Liabilities			
Commercial paper payable - net	$44,340,000	$42,940,000	$37,420,000
Payables	35,013,358	1,156,176	25,508,887
Current income tax liabilities	6,396,204	8,262,477	11,440,137
Provisions	939,459	933,466	924,223
Deferred tax liabilities	266,714	226,707	226,707
Other liabilities	200,750	163,802	163,846
Total liabilities	87,156,485	53,682,628	75,683,800
Equity			
Capital stock			
Common stock	125,632,102	125,632,102	125,632,102
Perferred stock	15,333,000	8,333,000	8,333,000
Capital surplus	165,452,143	130,452,105	130,452,105
Retained earnings			
Legal reserve	40,976,121	35,339,841	35,339,841
Special reserve	149,346,119	149,106,971	149,106,971
Undistributed earnings	86,636,398	99,296,739	69,225,535
Other equity	7,114,564	50,906,313	37,952,635
Total equity	590,490,447	599,067,071	556,042,189
Total liabilities and equity	$677,646,932	$652,749,699	$631,725,989

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Statements of Comprehensive Income

For the three-month periods ended 30 June 2018 and 2017, and six-month periods ended 30 June 2018 and 2017

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

	2018.4.1~2018.6.30	2017.4.1~2017.6.30	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Income				
Gains on investment - equity method	$14,315,731	$17,252,951	$36,790,209	$27,783,667
Other operating income	614,879	361,618	1,552,488	721,646
	14,930,610	17,614,569	38,342,697	28,505,313
Expenses and loss				
Operating expenses	(232,642)	(183,954)	(530,712)	(370,343)
Other expenses and losses	(53,968)	(40,708)	(114,094)	(105,382)
	(286,610)	(224,662)	(644,806)	(475,725)
Profit before income tax from continuing operations	14,644,000	17,389,907	37,697,891	28,029,588
Income tax expense	(1,728,160)	(1,779,387)	(1,714,668)	(1,794,057)
Profit after income tax from continuing operations	12,915,840	15,610,520	35,983,223	26,235,531
Net Income	12,915,840	15,610,520	35,983,223	26,235,531
Other comprehensive income				
Not to be reclassified to profit or loss in subsequent periods:				
Unrealized gains from equity instruments investments measured at fair value through other comprehensive income	2,114	-	3,635	-
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	(1,529,327)	(865,930)	(768,157)	(858,548)
Income tax relating to the components not to be reclassified to profit or loss in subsequent periods	-	-	1,001	-
To be reclassified to profit or loss in subsequent periods:				
Unrealized losses from available-for-sale financial assets	-	645	-	(1,092)
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	(28,897,791)	29,518,806	(88,330,830)	32,589,323
Other comprehensive (loss) income, net of tax	(30,425,004)	28,653,521	(89,094,351)	31,729,683
Total comprehensive (loss) income	$(17,509,164)	$44,264,041	$(53,111,128)	$57,965,214
Earnings per share (expressed in dollars)				
Basic earnings per share:				
Net income	$0.87	$1.23	$2.71	$2.08

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Cathay Financial Holding Co., Ltd.

Statements of Changes in Equity

For the six-month periods ended 30 June 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

	Capital stock			Retained earnings			Other equity								
Items	Common stock	Preferred stock	Capital Surplus	Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of a foreign operation	Unrealized gains (losses) from financial assets at fair value through other comprehensive income	Unrealized gains (losses) from available-for-sale financial assets	Gains (losses) on hedging instruments/Effective portion of gains (losses) on hedging instruments in cash flow hedges	Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	Remeasurements of defined benefit plans	Revaluation gains on property	Other comprehensive (losses) income reclassified using overlay approach	Total
Balance on 1 January 2017	$125,632,102	$8,333,000	$130,448,697	$30,577,724	$149,108,336	$73,001,761	$(7,274,912)	$-	$4,023,159	$191,534	$120,321	$(945,933)	$10,108,783	$-	$523,324,572
Appropriations and distribution for 2016															
Legal reserve				4,762,117		(4,762,117)									-
Common stock cash dividends						(25,126,420)									(25,126,420)
Preferred stock cash dividends						(124,585)									(124,585)
Reversal of special reserve					(1,365)	1,365									-
Other additional paid-in capital															
Share of changes in net assets of associates and joint ventures accounted for using the equity method			(804)												(804)
Net income for the six-month periods ended 30 June 2017						26,235,531									26,235,531
Other comprehensive income for the six-month periods ended 30 June 2017							(3,535,392)		36,081,704	41,919	(1,050,152)	2,783	188,821		31,729,683
Comprehensive income for the six-month periods ended 30 June 2017	-	-	-	-	-	26,235,531	(3,535,392)	-	36,081,704	41,919	(1,050,152)	2,783	188,821	-	57,965,214
Share-based payment			4,212												4,212
Balance on 30 June 2017	$125,632,102	$8,333,000	$130,452,105	$35,339,841	$149,106,971	$69,225,535	$(10,810,304)	$-	$40,104,863	$233,453	$(929,831)	$(943,150)	$10,297,604	$-	$556,042,189
Balance on 1 January 2018	$125,632,102	$8,333,000	$130,452,105	$35,339,841	$149,106,971	$99,296,739	$(10,823,242)	$-	$53,789,800	$203,647	$(1,191,027)	$(1,449,679)	$10,376,814	$-	$599,067,071
Effects on retrospective application and restatement	-	-	-	-	-	(3,653,038)	-	37,343,476	(53,789,800)	-	-	-	-	55,941,777	35,842,415
Balance on 1 January 2018 (Adjusted)	125,632,102	8,333,000	130,452,105	35,339,841	149,106,971	95,643,701	(10,823,242)	37,343,476	-	203,647	(1,191,027)	(1,449,679)	10,376,814	55,941,777	634,909,486
Appropriations and distribution for 2017															
Legal reserve				5,636,280		(5,636,280)									-
Special reserve					234,146	(234,146)									-
Common stock cash dividends						(31,408,025)									(31,408,025)
Preferred stock cash dividends						(1,899,924)									(1,899,924)
Other additional paid-in capital															
Share of changes in net assets of associates and joint ventures accounted for using the equity method			38												38
Net income for the six-month periods ended 30 June 2018						35,983,223									35,983,223
Other comprehensive income for the six-month periods ended 30 June 2018							126,542	(57,180,515)		(29,446)	1,127,633	42,180	46,241	(33,226,986)	(89,094,351)
Comprehensive income for the six-month periods ended 30 June 2018	-	-	-	-	-	35,983,223	126,542	(57,180,515)	-	(29,446)	1,127,633	42,180	46,241	(33,226,986)	(53,111,128)
Issue of preferred stock		7,000,000	35,000,000												42,000,000
Disposal of equity instrument at fair value through other comprehensive (losses) income						(5,862,293)		5,862,293							-
Others					5,002	50,142							(55,144)		-
Balance on 30 June 2018	$125,632,102	$15,333,000	$165,452,143	$40,976,121	$149,346,119	$86,636,398	$(10,696,700)	$(13,974,746)	$-	$174,201	$(63,394)	$(1,407,499)	$10,367,911	$22,714,791	$590,490,447

<u>English Translation of Financial Statements Originally Issued in Chinese</u>

Cathay Financial Holding Co., Ltd.

Statements of Cash Flows

For the six-month periods ended 30 June 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Cash flows from operating activities		
Profit before income tax from continuing operations	$37,697,891	$28,029,588
Adjustments :		
Income and other adjustments with no cash flow effects		
Depreciation expenses	1,313	1,007
Amortization expenses	2,660	2,660
Net gains from financial assets and liabilities at fair value through profit or loss	(850,500)	-
Interest expenses	98,977	81,504
Interest income	(680,559)	(713,278)
Share of profit of associates and joint ventures accounted for using the equity method	(36,790,209)	(27,783,667)
Losses on disposal of property and equipment	89	191
Gains on reversal of impairment losses	(1,510)	-
Unrealized foreign exchange (gains) losses	(2,268)	9,040
Others	-	4,212
Changes in operating assets and liabilities		
Decrease in other financial assets	-	430,111
Increase in other assets	(900)	(5,612)
Decrease in payables	(51,782)	(70,475)
Increase in provisions	5,993	5,459
Increase (decrease) in other liabilities	36,948	(22,019)
Cash generated from operations		
Interest received	583	38,039
Interest paid	(103,311)	(81,504)
Income taxes paid	(1,516,216)	(906,415)
Net cash flows used in operating activities	(2,152,801)	(981,159)
Cash flows from investing activities		
Acquisition of investments accounted for using the equity method	(42,000,000)	(14,998,000)
Acquisition of property and equipment	(957)	(879)
Increase in other assets	-	(2,768)
Net cash flows usd in investing activities	(42,000,957)	(15,001,647)
Cash flows from financing activities		
Increase in commercial paper payable	1,400,000	1,440,000
Increase in cash capital	42,000,000	-
Net cash flows from financing activities	43,400,000	1,440,000
Effects of exchange rate changes on cash and cash equivalents	2,268	(9,040)
Decrease in cash and cash equivalents	(751,490)	(14,551,846)
Cash and cash equivalents at the beginning of periods	1,212,677	14,902,927
Cash and cash equivalents at the end of periods	$461,187	$351,081
The components of cash and cash equivalents		
Cash and cash equivalents presented in balance sheet	$461,187	$351,081
Cash and cash equivalents at the end of periods	$461,187	$351,081

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

Cathay Life Insurance Co., Ltd.
Condensed Balance Sheet
As of 30 June 2018 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.6.30	2017.6.30
Assets		
Cash and cash equivalents	$220,140,165	$325,707,191
Receivables	78,839,217	66,697,429
Financial assets at fair value through profit or loss	1,090,132,521	45,067,737
Financial assets at fair value through other comprehensive income	938,656,941	-
Available-for-sale financial assets	-	1,357,336,743
Financial assets for hedging/Derivative financial assets for hedging	217,899	283,105
Investments accounted for using the equity method	92,212,941	83,560,612
Financial assets measured at amortized cost	2,144,271,230	-
Investment in debt securities with no active market	-	2,189,799,863
Held-to-maturity financial assets	-	36,903,144
Other financial assets	3,497,769	4,500,000
Investment property	424,267,760	419,594,791
Loans	616,759,960	615,705,436
Reinsurance contract assets	1,317,427	797,088
Property and equipment	29,516,392	29,625,670
Intangible assets	34,607,313	36,645,287
Deferred tax assets	36,495,120	25,662,971
Other assets	48,784,306	24,343,216
Separate account product assets	573,581,651	532,907,443
Total assets	$6,333,298,612	$5,795,137,726
Liabilities		
Payables	$29,002,017	$33,448,304
Financial liability at fair value through profit or loss	55,410,128	9,373,244
Bonds payable	70,000,000	70,000,000
Preferred stock liability	5,000,000	5,000,000
Insurance liability	5,108,513,913	4,694,089,933
Reserve for insurance contract with feature of financial instruments	778,290	345,463
Foreign exchange volatility reserve	15,350,053	7,017,280
Liability reserve	56,245	56,245
Deferred tax liability	29,598,672	32,576,947
Other liability	7,948,401	8,406,619
Separate account product liabilities	573,581,651	532,907,443
Total liabilities	5,895,239,370	5,393,221,478
Stockholders' equity		
Capital stock	57,265,274	53,065,274
Capital surplus	51,541,029	13,767,663
Retained earnings	332,494,857	306,604,865
Other equity	(3,241,918)	28,478,446
Total stockholders' equity	438,059,242	401,916,248
Total liabilities and stockholders' equity	$6,333,298,612	$5,795,137,726

Cathay Life Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Operating income	$411,683,522	$411,883,400
Operating costs	(379,914,105)	(386,285,886)
Operating expenses	(10,506,656)	(10,824,373)
Operating profit	21,262,761	14,773,141
Non-operating income and expenses	700,282	725,562
Profit from continuing operations before income tax	21,963,043	15,498,703
Income tax profit	3,072,079	736,187
Profit from continuing operations after income tax	25,035,122	16,234,890
Net income	25,035,122	16,234,890
Other comprehensive (loss) income	(87,191,822)	32,365,321
Total comprehensive (loss) income	$(62,156,700)	$48,600,211
Primary earnings per share	$4.71	$3.06

English Translation of Financial Statements Originally Issued in Chinese

Cathay Lujiazui Life Insurance Co., Ltd.
Condensed Balance Sheet
As of 30 June 2018 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.6.30	2017.6.30
Assets		
Cash and cash equivalents	$1,681,448	$2,293,746
Receivables	823,162	471,848
Financial assets at fair value through profit or loss	25,711,067	834,014
Available-for-sale financial assets	-	4,464,567
Financial assets measured at amortized cost	1,575,963	-
Investment in debt securities with no active market	-	10,129,671
Held-to-maturity financial assets	-	851,862
Loans	278,725	149,909
Reinsurance contract assets	40,168	33,766
Property and equipment	111,807	87,522
Intangible assets	24,033	27,386
Other assets	2,845,913	1,503,123
Separate account product assets	131,939	141,791
Total assets	$33,224,225	$20,989,205
Liabilities		
Payables	$1,707,256	$1,236,289
Current income tax liabilities	205,447	-
Insurance liabilities	12,979,772	8,117,786
Reserve for insurance contract with feature of financial instruments	8,342,287	7,768,479
Other liabilities	40,081	40,068
Separate account product liabilities	131,939	141,791
Total liabilities	23,406,782	17,304,413
Stockholders' equity		
Capital stock	13,497,155	7,067,795
Retained earnings	(3,533,976)	(3,440,333)
Other equity	(145,736)	57,330
Total stockholders' equity	9,817,443	3,684,792
Total liabilities and stockholders' equity	$33,224,225	$20,989,205

Cathay Lujiazui Life Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Operating income	$6,195,084	$3,898,755
Operating costs	(5,039,477)	(3,278,872)
Operating expenses	(909,111)	(722,371)
Operating profit (loss)	246,496	(102,488)
Non-operating income and expenses	(1,533)	(7,418)
Profit (Loss) from continuing operations before income tax	244,963	(109,906)
Income tax expense	(256,297)	-
Loss from continuing operations after income tax	(11,334)	(109,906)
Net loss	(11,334)	(109,906)
Other comprehensive loss	(158,321)	(183,890)
Total comprehensive loss	$(169,655)	$(293,796)
Primary earnings per share	Note	Note

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Company (Vietnam)
Condensed Balance Sheet
As of 30 June 2018 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.6.30	2017.6.30
Assets		
Cash and cash equivalents	$435,396	$297,904
Receivables	310,798	282,545
Financial assets at fair value through profit or loss	7,803,066	-
Available-for-sale financial assets	-	6,548,507
Financial assets measured at amortized cost	186,060	-
Investment in debt securities with no active market	-	187,460
Loans	35,351	23,911
Property and equipment	12,243	15,286
Intangible assets	260	139
Other assets	76,443	50,687
Total assets	$8,859,617	$7,406,439
Liabilities		
Payables	$76,736	$60,984
Current income tax liabilities	-	9,222
Insurance liabilities	2,908,810	1,358,335
Other liabilities	255	358
Total liabilities	2,985,801	1,428,899
Stockholders' equity		
Capital stock	5,410,990	5,410,990
Retained earnings	(5,768)	468,287
Other equity	468,594	98,263
Total stockholders' equity	5,873,816	5,977,540
Total liabilities and stockholders' equity	$8,859,617	$7,406,439

Cathay Life Insurance Company (Vietnam)
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Operating income	$701,785	$546,454
Operating costs	(973,696)	(306,068)
Operating expenses	(213,122)	(153,747)
Operating (loss) profit	(485,033)	86,639
Non-operating income and expenses	1,831	810
(Loss) profit from continuing operations before income tax	(483,202)	87,449
Income tax expense	(1,008)	(17,431)
(Loss) profit from continuing operations after income tax	(484,210)	70,018
Net (loss) income	(484,210)	70,018
Other comprehensive income	392,407	84,238
Total comprehensive (loss) income	$(91,803)	$154,256
Primary earnings per share	Note	Note

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

English Translation of Financial Statements Originally Issued in Chinese

Lin Yuan (Shanghai) Real Estate Co., Ltd.
Condensed Balance Sheet
As of 30 June 2018 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.6.30	2017.6.30
Assets		
Current assets	$955,092	$719,295
Investment property	7,274,478	6,401,971
Property and equipment	61	546,817
Total assets	$8,229,631	$7,668,083
Liabilities		
Current liabilities	$1,594	$4,739
Deferred tax liabilities	371,637	279,959
Other liabilities	91,217	82,624
Total liabilities	464,448	367,322
Stockholders' equity		
Capital stock	7,223,435	7,223,435
Retained earnings	700,450	541,244
Other equity	(158,702)	(463,918)
Total stockholders' equity	7,765,183	7,300,761
Total liabilities and stockholders' equity	$8,229,631	$7,668,083

Lin Yuan (Shanghai) Real Estate Co., Ltd.
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Operating income	$133,273	$115,077
Operating expenses	(23,650)	(34,712)
Operating profit	109,623	80,365
Non-operating income and expenses	(10)	(11)
Profit from continuing operations before income tax	109,613	80,354
Income tax expense	(23,754)	(20,858)
Profit from continuing operations after income tax	85,859	59,496
Net income	85,859	59,496
Other comprehensive income (loss)	151,468	(250,283)
Total comprehensive income (loss)	$237,327	$(190,787)
Primary earnings per share	Note	Note

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Woolgate Exchange Holding 1 Limited
Condensed Balance Sheet
As of 30 June 2018 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.6.30	2017.6.30
Assets		
Current assets	$2,197,090	$1,768,529
Investment property	11,355,763	12,456,300
Total assets	$13,552,853	$14,224,829
Liabilities		
Current liabilities	$102,845	$77,648
Total liabilities	102,845	77,648
Stockholders' equity		
Capital stock	16,654,013	16,654,013
Retained earnings	590,983	1,433,479
Other equity	(3,794,988)	(3,940,311)
Total stockholders' equity	13,450,008	14,147,181
Total liabilities and stockholders' equity	$13,552,853	$14,224,829

Cathay Woolgate Exchange Holding 1 Limited
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Operating income	$(248,362)	$88,976
Operating expenses	(261)	(419)
Operating (loss) profit	(248,623)	88,557
(Loss) profit from continuing operations before income tax	(248,623)	88,557
Income tax expense	(60,920)	(74,410)
(Loss) profit from continuing operations after income tax	(309,543)	14,147
Net (loss) income	(309,543)	14,147
Other comprehensive loss	(66,569)	(10,568)
Total comprehensive (loss) income	$(376,112)	$3,579
Primary earnings per share	Note	Note

Note: Cathay Woolgate Exchange Holding 1 Limited is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Woolgate Exchange Holding 2 Limited
Condensed Balance Sheet
As of 30 June 2018 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.6.30	2017.6.30
Assets		
Current assets	$22,469	$18,477
Investment property	114,704	125,821
Total assets	$137,173	$144,298
Liabilities		
Current liabilities	$950	$705
Total liabilities	950	705
Stockholders' equity		
Capital stock	168,222	168,222
Retained earnings	6,353	15,201
Other equity	(38,352)	(39,830)
Total stockholders' equity	136,223	143,593
Total liabilities and stockholders' equity	$137,173	$144,298

Cathay Woolgate Exchange Holding 2 Limited
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Operating income	$(2,510)	$897
Operating expenses	(261)	(419)
Operating (loss) profit	(2,771)	478
(Loss) profit from continuing operations before income tax	(2,771)	478
Income tax expense	(499)	(674)
Loss from continuing operations after income tax	(3,270)	(196)
Net loss	(3,270)	(196)
Other comprehensive loss	(673)	(100)
Total comprehensive loss	$(3,943)	$(296)
Primary earnings per share	Note	Note

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 30 June 2018 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.6.30	2017.6.30
Assets		
Current assets	$624,782	$674,895
Investment property	21,714,880	21,683,875
Total assets	$22,339,662	$22,358,770
Liabilities		
Current liabilities	$94,966	$109,631
Other non-current liabilities	13,108,754	12,976,507
Total liabilities	13,203,720	13,086,138
Stockholders' equity		
Capital stock	10,189,090	10,189,090
Retained earnings	619,067	851,157
Other equity	(1,672,215)	(1,767,615)
Total stockholders' equity	9,135,942	9,272,632
Total liabilities and stockholders' equity	$22,339,662	$22,358,770

Cathay Walbrook Holding 1 Limited
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Operating income	$46,634	$299,191
Operating cost	(233,069)	(205,169)
Operating expense	(387)	(4,572)
Operating (loss) profit	(186,822)	89,450
(Loss) profit from continuing operations before income tax	(186,822)	89,450
Income tax expense	(1,281)	-
(Loss) profit from continuing operations after income tax	(188,103)	89,450
Net (loss) profit	(188,103)	89,450
Other comprehensive loss	(45,571)	(1,685)
Total comprehensive (loss) income	$(233,674)	$87,765
Primary earnings per share	Note	Note

Note: Cathay Walbrook Holding 1 Limited is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Walbrook Holding 2 Limited
Condensed Balance Sheet
As of 30 June 2018 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.6.30	2017.6.30
Assets		
Current assets	$30,577	$33,740
Investment property	1,142,888	1,141,256
Total assets	$1,173,465	$1,174,996
Liabilities		
Current liabilities	$4,973	$5,770
Other non-current liabilities	689,935	682,974
Total liabilities	694,908	688,744
Stockholders' equity		
Capital stock	536,268	536,268
Retained earnings	30,095	42,796
Other equity	(87,806)	(92,812)
Total stockholders' equity	478,557	486,252
Total liabilities and stockholders' equity	$1,173,465	$1,174,996

Cathay Walbrook Holding 2 Limited
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Operating income	$2,454	$15,744
Operating cost	(12,266)	(10,798)
Operating expenses	(335)	(491)
Operating (loss) profit	(10,147)	4,455
(Loss) profit from continuing operations before income tax	(10,147)	4,455
Income tax expense	(5)	-
(Loss) profit from continuing operations after income tax	(10,152)	4,455
Net (loss) profit	(10,152)	4,455
Other comprehensive loss	(2,383)	(94)
Total comprehensive (loss) income	$(12,535)	$4,361
Primary earnings per share	Note	Note

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 30 June 2018 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.6.30	2017.6.30
Assets		
Current assets	$3,192,342	$3,883,408
Financial assets at fair value through profit or loss	782,029	155,933
Financial assets at fair value through other comprehensive income	3,614	-
Financial assets measured at amortized cost	1,741,703	-
Investment in debt securities with no active market	-	3,065
Held-to-maturity financial assets	-	3,100,654
Investments accounted for using the equity method	2,679,234	-
Property and equipment	429,664	221,474
Intangible assets	10,597,791	11,026,178
Deferred tax assets	92,198	144,071
Other non-current assets	236,401	226,468
Total assets	$19,754,976	$18,761,251
Liabilities		
Current liabilities	$3,493,660	$3,604,516
Liability reserve	167,750	377,406
Deferred tax liabilities	400,966	658,020
Other non-current liabilities	348,876	344,163
Total liabilities	4,411,252	4,984,105
Stockholders' equity		
Capital stock	99,343	92,341
Capital surplus	15,624,196	14,414,718
Retained earnings	158,608	(134,079)
Other equity	(1,152,665)	(1,190,630)
Non-controlling interest	614,242	594,796
Total stockholders' equity	15,343,724	13,777,146
Total liabilities and stockholders' equity	$19,754,976	$18,761,251

Conning Holdings Limited
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Operating income	$3,108,818	$2,803,148
Operating costs	(322,475)	(366,220)
Operating expenses	(2,633,138)	(2,395,823)
Operating profit	153,205	41,105
Profit from continuing operations before income tax	153,205	41,105
Income tax expense	(65,417)	(82,151)
Profit (loss) from continuing operations after income tax	87,788	(41,046)
Net income (loss)	87,788	(41,046)
Other comprehensive income (loss)	299,620	(830,640)
Total comprehensive income (loss)	$387,408	$(871,686)
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 30 June 2018 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.6.30	2017.6.30
Assets		
Cash and cash equivalents	$9,079,034	$7,672,684
Receivables	2,677,848	2,173,045
Financial assets at fair value through profit or loss	8,405,122	880,562
Financial assets at fair value through other comprehensive income	1,449,549	-
Available-for-sale financial assets	-	9,532,559
Financial assets measured at amortized cost	8,453,686	-
Investments accounted for using the equity method	1,708,289	1,827,611
Investment in debt securities with no active market	-	2,017,715
Held-to-maturity financial assets	-	6,283,415
Loans	228,330	253,673
Reinsurance contract assets	6,106,603	6,993,563
Property and equipment	58,544	66,276
Intangible assets	53,384	31,441
Deferred tax assets	169,832	153,790
Other assets	697,589	621,811
Total assets	$39,087,810	$38,508,145
Liabilities		
Payables	$3,769,743	$4,045,018
Financial liability at fair value through profit or loss	207,418	36,817
Preferred stock liability	1,000,000	1,000,000
Insurance liabilities	22,965,869	23,589,523
Liability reserve	427,118	380,025
Deferred tax liabilities	295,699	235,233
Other liabilities	303,018	391,131
Total liabilities	28,968,865	29,677,747
Stockholders' equity		
Capital stock	3,057,052	2,889,552
Capital surplus	502,500	-
Retained earnings	6,936,444	6,351,836
Other equity	(377,051)	(410,990)
Total stockholders' equity	10,118,945	8,830,398
Total liabilities and stockholders' equity	$39,087,810	$38,508,145

Cathay Century Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Operating income	$9,248,309	$8,564,127
Operating costs	(6,044,092)	(5,752,396)
Operating expenses	(1,795,435)	(1,699,454)
Operating profit	1,408,782	1,112,277
Non-operating income and expenses	(9,402)	(10,233)
Profit from continuing operations before income tax	1,399,380	1,102,044
Income tax expense	(231,271)	(148,828)
Profit from continuing operations after income tax	1,168,109	953,216
Net income	1,168,109	953,216
Other comprehensive (loss) income	(223,842)	112,237
Total comprehensive income	$944,267	$1,065,453
Primary earnings per share	$3.82	$3.30

<u>**English Translation of Financial Statements Originally Issued in Chinese**</u>

Cathay Insurance Co., Ltd (Vietnam)
Condensed Balance Sheet
As of 30 June 2018 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.6.30	2017.6.30
Assets		
Cash and cash equivalents	$152,786	$138,379
Receivables	47,251	51,129
Financial assets measured at amortized cost	538,610	-
Held-to-maturity financial assets	-	501,056
Reinsurance contract assets	321,071	291,406
Property and equipment	5,183	6,435
Intangible assets	1,085	1,352
Other assets	48,706	34,937
Total assets	$1,114,692	$1,024,694
Liabilities		
Payables	$82,017	$46,034
Insurance liabilities	425,408	380,041
Deferred tax liabilities	108	111
Other liabilities	10,689	8,600
Total liabilities	518,222	434,786
Stockholders' equity		
Capital stock	845,585	845,585
Retained earnings	(116,418)	(127,608)
Other equity	(132,697)	(128,069)
Total stockholders' equity	596,470	589,908
Total liabilities and stockholders' equity	$1,114,692	$1,024,694

Cathay Insurance Co., Ltd (Vietnam)
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Operating income	$101,489	$103,879
Operating costs	(34,161)	(37,509)
Operating expenses	(69,105)	(56,159)
Operating (loss) profit	(1,777)	10,211
Non-operating income and expenses	1,956	1,364
Profit from continuing operations before income tax	179	11,575
Income tax expense	-	-
Profit from continuing operations after income tax	179	11,575
Net income	179	11,575
Other comprehensive income (loss)	6,733	(34,338)
Total comprehensive income (loss)	$6,912	$(22,763)
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 30 June 2018 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.6.30	2017.6.30
Assets		
Cash and cash equivalents	$106,608,451	$46,900,911
Due from the Central Bank and call loans to banks	105,873,266	127,240,446
Financial assets at fair value through profit or loss	281,083,641	214,422,602
Financial assets at fair value through other comprehensive income	197,095,405	-
Financial assets measured at amortized cost	337,343,309	-
Securities purchased under agreements to resell	84,495,935	67,178,004
Receivables	95,604,559	84,173,422
Discounts and loans	1,478,156,926	1,385,367,194
Available-for-sale financial assets	-	142,489,986
Held-to-maturity financial assets	-	39,399,408
Investments accounted for using the equity method	8,969,159	9,186,520
Other financial assets	3,124	5,465
Investment in debt securities with no active market	-	397,290,140
Property and equipment	24,512,073	24,073,592
Investment property	1,461,472	1,516,730
Intangible assets	7,418,383	7,419,009
Deferred tax assets	1,833,426	2,022,205
Other assets	35,805,019	24,110,770
Total assets	$2,766,264,148	$2,572,796,404
Liabilities		
Due to the Central Bank and call loans from banks	$83,341,138	$67,252,528
Financial liabilities at fair value through profit or loss	114,073,471	79,962,046
Securities sold under agreements to repurchase	102,442,860	71,301,969
Payables	25,332,790	33,597,218
Current income tax liabilities	20,096	30,959
Deposits and remittances	2,103,861,446	2,013,427,951
Financial debentures payable	55,600,000	63,350,000
Other financial liabilities	77,745,333	59,837,717
Liability reserve	3,364,915	2,990,358
Deferred tax liabilities	1,420,986	1,737,762
Other liabilities	8,005,532	9,035,436
Total liabilities	2,575,208,567	2,402,523,944
Stockholders' equity		
Capital stock	91,197,623	78,604,060
Capital surplus	33,610,983	33,610,983
Retained earnings	65,695,847	58,299,094
Other equity	551,128	(241,677)
Total stockholders' equity	191,055,581	170,272,460
Total liabilities and stockholders' equity	$2,766,264,148	$2,572,796,404

Cathay United Bank Co., Ltd.
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Interest income	$23,782,017	$20,559,773
Interest expenses	(8,915,507)	(7,147,770)
Net interest income	14,866,510	13,412,003
Non-interest income	13,399,051	12,139,495
Total income	28,265,561	25,551,498
Bad debt expense and reserve for loss on guarantees	(895,427)	(992,822)
Operating expenses	(14,261,124)	(12,644,546)
Profit from continuing operations before income tax	13,109,010	11,914,130
Income tax expense	(1,928,300)	(1,416,000)
Profit from continuing operations after income tax	11,180,710	10,498,130
Net income	11,180,710	10,498,130
Other comprehensive loss	(1,787,549)	(499,477)
Total comprehensive income	$9,393,161	$9,998,653
Primary earnings per share	$1.23	$1.22

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank (Cambodia) Corporation Limited
Condensed Balance Sheet
As of 30 June 2018 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.6.30	2017.6.30
Assets		
Cash and cash equivalents	$2,095,593	$2,703,237
Due from the Central Bank and call loans to banks	1,900,954	1,966,975
Financial assets at fair value through profit or loss	780	-
Available-for-sale financial assets	-	779
Receivables	131,134	120,667
Discounts and loans	6,250,552	5,426,945
Property and equipment	162,571	156,510
Intangible assets	64,131	49,882
Other assets	54,395	54,851
Total assets	$10,660,110	$10,479,846
Liabilities		
Payables	$108,195	$122,357
Current income tax liabilities	18,714	495
Deposits and remittances	7,321,815	7,293,397
Deferred tax liabilities	9,700	10,379
Other liabilities	36,141	34,675
Total liabilities	7,494,565	7,461,303
Stockholders' equity		
Capital stock	3,020,769	3,020,769
Retained earnings	128,096	(9,468)
Other equity	16,680	7,242
Total stockholders' equity	3,165,545	3,018,543
Total liabilities and stockholders' equity	$10,660,110	$10,479,846

Cathay United Bank (Cambodia) Corporation Limited
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Interest income	$274,723	$262,601
Interest expenses	(51,085)	(67,976)
Net interest income	223,638	194,625
Non-interest income	39,584	35,943
Total income	263,222	230,568
Bad debt expense and reserve for loss on guarantees	(40,477)	(62,196)
Operating expenses	(137,409)	(118,565)
Profit from continuing operations before income tax	85,336	49,807
Income tax expense	(18,716)	(3,106)
Profit from continuing operations after income tax	66,620	46,701
Net income	66,620	46,701
Other comprehensive income (loss)	68,338	(124,024)
Total comprehensive income (loss)	$134,958	$(77,323)
Primary earnings per share	$0.66	$0.53

English Translation of Financial Statements Originally Issued in Chinese

Indovina Bank Limited
Condensed Balance Sheet
As of 30 June 2018 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.6.30	2017.6.30
Assets		
Cash and cash equivalents	$6,009,014	$6,343,677
Due from the Central Bank and call loans to banks	4,773,358	5,827,330
Financial assets at fair value through profit or loss	1,199,730	2,493,858
Financial assets at fair value through other comprehensive income	8,504,848	-
Financial assets measured at amortized cost	2,053,756	-
Securities purchased under agreements to resell	4,336,162	1,519,818
Available-for-sale financial assets	-	6,355,134
Receivables	148,789	169,492
Discounts and loans	31,738,747	26,778,935
Held-to-maturity financial assets	-	3,434,461
Property and equipment	369,590	392,795
Intangible assets	12,094	16,915
Deferred tax assets	4,089	-
Other assets	552,838	569,981
Total assets	$59,703,015	$53,902,396
Liabilities		
Due to the Central Bank and call loans from banks	$12,138,603	$11,972,981
Financial liabilities at fair value through profit or loss	-	59,252
Payables	980,853	662,843
Current income tax liabilities	64,630	1,362
Deposits and remittances	39,089,860	33,025,928
Liability reserve	21,637	-
Deferred tax liabilities	-	128,413
Other liabilities	41,803	78,480
Total liabilities	52,337,386	45,929,259
Stockholders' equity		
Capital stock	6,094,911	6,094,911
Retained earnings	1,162,751	1,939,834
Other equity	107,967	(61,608)
Total stockholders' equity	7,365,629	7,973,137
Total liabilities and stockholders' equity	$59,703,015	$53,902,396

Indovina Bank Limited
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Interest income	$1,750,889	$1,506,533
Interest expenses	(868,795)	(672,684)
Net interest income	882,094	833,849
Non-interest income	(38,545)	311,108
Total income	843,549	1,144,957
Bad debt expense and reserve for loss on guarantees	(555,956)	(252,514)
Operating expenses	(326,621)	(313,776)
(Loss) profit from continuing operations before income tax	(39,028)	578,667
Income tax expense	(4,149)	(133,038)
(Loss) profit from continuing operations after income tax	(43,177)	445,629
Net (loss) income	(43,177)	445,629
Other comprehensive income (loss)	283,713	(226,805)
Total comprehensive income	$240,536	$218,824
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 Securities Corporation
Condensed Balance Sheet
As of 30 June 2018 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.6.30	2017.6.30
Assets		
Current assets	$26,900,086	$25,030,757
Financial assets at fair value through other comprehensive income - non current	121	-
Available-for-sale financial assets - non current	-	18
Investments accounted for using the equity method	1,975,946	1,556,799
Property and equipment	139,488	162,632
Intangible assets	52,020	43,650
Deferred tax assets	39,272	6,686
Other non-current assets	586,086	529,007
Total assets	$29,693,019	$27,329,549
Liabilities		
Current liabilities	$22,044,862	$20,230,158
Deferred tax liabilities	907	15,623
Other non-current liabilities	26,151	19,401
Total liabilities	22,071,920	20,265,182
Stockholders' equity		
Capital stock	5,700,086	5,510,000
Capital surplus	491,766	491,766
Retained earnings	1,116,678	825,882
Other equity	312,569	236,719
Total stockholders' equity	7,621,099	7,064,367
Total liabilities and stockholders' equity	$29,693,019	$27,329,549

Cathay Securities Corporation
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Revenues	$1,696,036	$1,273,977
Serivce fee expenses	(59,786)	(40,265)
Employee benefit expenses	(544,973)	(492,678)
Share of the profit of associates and joint ventures accounted for using the equity method	5,863	(3,812)
Operating expneses	(717,505)	(631,000)
Non-oprating income and expenses	11,189	10,423
Profit from continuing operations before income tax	390,824	116,645
Income tax expense	(71,503)	(25,752)
Profit from continuing operations after income tax	319,321	90,893
Net income	319,321	90,893
Other comprehensive income (loss)	56,746	(5,212)
Total comprehensive income	$376,067	$85,681
Primary earnings per share	$0.56	$0.16

English Translation of Financial Statements Originally Issued in Chinese

Cathay Futures Co., Ltd.
Condensed Balance Sheet
As of 30 June 2018 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.6.30	2017.6.30
Assets		
Current assets	$6,999,857	$5,012,666
Financial assets at fair value through other comprehensive income	370,725	-
Available-for-sale financial asseets	-	318,442
Property and equipment	69,111	72,424
Investment property	290,341	290,341
Intangible assets	29,033	27,481
Other non-current assets	145,723	153,900
Total assets	$7,904,790	$5,875,254
Liabilities		
Current liabilities	$6,665,190	$4,724,457
Deferred tax liabilities	7,011	6,869
Other non-current liabilities	1,675	1,675
Total liabilities	6,673,876	4,733,001
Stockholders' equity		
Capital stock	667,000	667,000
Retained earnings	223,858	187,181
Other equity	340,056	288,072
Total stockholders' equity	1,230,914	1,142,253
Total liabilities and stockholders' equity	$7,904,790	$5,875,254

Cathay Futures Co., Ltd.
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Operating income	$147,415	$97,669
Operating expenses	(153,668)	(113,770)
Operating loss	(6,253)	(16,101)
Non-operating income and expenses	47,236	29,023
Profit from continuing operations before income tax	40,983	12,922
Income tax (expense) profit	(1,769)	218
Profit from continuing operations after income tax	39,214	13,140
Net income	39,214	13,140
Other comprehensive income	42,489	12,926
Total comprehensive income	$81,703	$26,066
Primary earnings per share	$0.59	$0.20

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Cathay Securities (Hong Kong) Limited
Condensed Balance Sheet
As of 30 June 2018 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.6.30	2017.6.30
Assets		
Current assets	$2,182,309	$1,276,607
Property and equipment	18,263	18,959
Intangible assets	1,917	1,925
Other non-current assets	62,739	41,277
Total assets	$2,265,228	$1,338,768
Liabilities		
Current liabilities	$1,538,943	$944,216
Total liabilities	1,538,943	944,216
Stockholders' equity		
Capital stock	1,108,244	728,544
Retained earnings	(337,626)	(286,455)
Other equity	(44,333)	(47,537)
Total stockholders' equity	726,285	394,552
Total liabilities and stockholders' equity	$2,265,228	$1,338,768

Cathay Securities (Hong Kong) Limited
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Revenues	$39,038	$47,534
Serivce fee expenses	(2,270)	(2,738)
Employee benefit expenses	(20,300)	(19,002)
Operating expneses	(49,939)	(39,455)
Non-oprating income and expenses	973	706
Loss from continuing operations before income tax	(32,498)	(12,955)
Income tax expense	-	-
Loss from continuing operations after income tax	(32,498)	(12,955)
Net loss	(32,498)	(12,955)
Other comprehensive income (loss)	11,898	(27,224)
Total comprehensive loss	$(20,600)	$(40,179)
Primary earnings per share	Note	Note

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 30 June 2018 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.6.30	2017.6.30
Assets		
Current assets	$2,302,483	$2,064,070
Financial assets at fair value through other comprehensive income - non current	9,721	-
Available-for-sale financial assets	-	56,618
Financial assets carried at cost	-	5,745
Investments accounted for using the equity method	554,115	249,207
Property and equipment	46,038	57,773
Intangible assets	6,622	7,444
Deferred tax assets	19,374	16,626
Other non-current assets	294,451	272,289
Total assets	$3,232,804	$2,729,772
Liabilities		
Current liabilities	$803,809	$508,462
Other non-current liabilities	127,617	134,307
Total liabilities	931,426	642,769
Stockholders' equity		
Capital stock	1,500,000	1,500,000
Capital surplus	13,908	13,908
Retained earnings	829,870	605,110
Other equity	(42,400)	(32,015)
Total stockholders' equity	2,301,378	2,087,003
Total liabilities and stockholders' equity	$3,232,804	$2,729,772

Cathay Securities Investment Trust Co., Ltd.
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Operating income	$1,206,164	$802,720
Operating expenses	(753,230)	(572,315)
Operating gross profit	452,934	230,405
Non-operating income and expenses	(9,385)	(1,731)
Profit from continuing operations before income tax	443,549	228,674
Income tax expense	(88,561)	(39,264)
Profit from continuing operations after income tax	354,988	189,410
Net income	354,988	189,410
Other comprehensive income (loss)	1,866	(4,680)
Total comprehensive income	$356,854	$184,730
Primary earnings per share	$2.37	$1.26

Cathay Private Equity Co., Ltd.
Condensed Balance Sheet
As of 30 June 2018
(Expressed in thousands of New Taiwan Dollars)

Items	2018.6.30
Assets	
Current assets	$49,366
Other non-current assets	176
Total assets	$49,542
Liabilities	
Current liabilities	$269
Total liabilities	269
Stockholders' equity	
Capital stock	50,000
Retained earnings	(727)
Total stockholders' equity	49,273
Total liabilities and stockholders' equity	$49,542

Cathay Private Equity Co., Ltd.
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2018
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.6.30
Operating income	$-
Operating expenses	(799)
Operating loss	(799)
Non-operating income and expenses	18
Loss from continuing operations before income tax	(781)
Income tax profit	156
Loss from continuing operations after income tax	(625)
Net loss	(625)
Total comprehensive loss	$(625)
Primary earnings per share	$(0.13)

Note : Cathay Private Equity Co., Ltd. was incorporated to the consolidated financial statements on 15 November 2017.

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Cathay Venture Inc.
Condensed Balance Sheet
As of 30 June 2018 and 30 June 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.6.30	2017.6.30
Assets		
Current assets	$568,693	$790,586
Financial assets at fair value through other comprehensive income - non current	2,752,570	-
Available-for-sale financial assets	-	2,561,804
Investments accounted for using the equity method	286,412	280,461
Property and equipment	2,733	3,394
Deferred tax assets	18,106	18,960
Other non-current assets	1,126	1,126
Total assets	$3,629,640	$3,656,331
Liabilities		
Current liabilities	$26,648	$11,912
Other non-current liabilities	5,873	4,847
Total liabilities	32,521	16,759
Stockholders' equity		
Capital stock	3,359,087	3,173,235
Capital surplus	128,625	128,625
Retained earnings	109,705	275,567
Other equity	(298)	62,145
Total stockholders' equity	3,597,119	3,639,572
Total liabilities and stockholders' equity	$3,629,640	$3,656,331

Cathay Venture Inc.
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.6.30	2017.1.1~2017.6.30
Operating income	$59,518	$175,970
Operating costs	(15,896)	(16,166)
Operating expenses	(6,260)	(8,825)
Non-oprating income and expenses	362	(1,300)
Profit from continuing operations before income tax	37,724	149,679
Income tax profit (expense)	11,375	(5,415)
Profit from continuing operations after income tax	49,099	144,264
Net income	49,099	144,264
Other comprehensive income (loss)	11	(233,498)
Total comprehensive income (loss)	$49,110	$(89,234)
Primary earnings per share	$0.15	$0.43