

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For the years ended
31 December 2018 and 2017
With Independent Auditors' Audit Report

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Independent Auditors' Report

To Cathay Financial Holding Co., Ltd.

Opinion

We have audited the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries as of 31 December 2018 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended 31 December 2018 and 2017, and notes to the consolidated financial statements, including the summary of significant accounting policies (together "the consolidated financial statements").

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of 31 December 2018, and 2017, in conformity with the requirements of the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies", "Regulation Governing the Preparation of Financial Reports by Securities Issuers" and "International Financial Reporting Standards", "International Accounting Standards", "Interpretations developed by the International Financial Reporting Interpretations Committee" as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

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

Financial instruments valuation

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

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

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

Measurement of insurance liabilities

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

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

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

Investment properties measured at fair value

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

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

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

Loan loss provision

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

Our audit procedures included (but not limited to) assessing and testing the internal controls relating to the underlying loan loss provision, including assessing the source of the bad debt and the bad debt assessment system, and reviewing whether the allowance for bad debt assessment approach has been approved by management. For loan loss provisions calculated on a collective basis, we reviewed whether the models of impairment were approved by management and relied on our experts to verify the accuracy of those models. We also tested the appropriateness and accuracy of the inputs used in those models on a sampling basis, such as expected duration, exposure at default, probability of default, recovery rates, loss given default and whether there is a collateral. For loan loss provisions calculated on an individual basis, we tested the assumptions which were used to identify and quantify the impairments, on a sampling basis, including estimates of future cash flows, valuation of collateral and estimates of recovery on default. We reviewed the classification of loans and the provision of allowance for loans comply to ensure that management complied with the related regulations issued by the authorities of the Republic of China.

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

Assessment of goodwill impairment

International Financial Reporting Standards requires entities to perform an impairment test for goodwill annually. However, the calculation made by the management is complex and involves major judgments and assumptions. Therefore, we determined assessment of goodwill impairment a key audit matter.

Our audit procedures included (but not limited to) assessing the rationality of financial forecasts and using internal experts to assist in the audit procedure of goodwill impairment assessment, including the rationality of the assumptions and approaches used by the management.

Please refer to Notes 4, 5. (2) and 6. (11) for information about the Company and its subsidiaries' assessment of goodwill impairment.

Emphasis of Matter – Application of New Accounting Standards

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

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

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

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

/s/ CHANG, CHENG-TAO
/s/ HUANG, CHIEN-CHE
Ernst & Young, Taiwan
21 March 2019

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdiction. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated Balance Sheets

As of 31 December 2018 and 31 December 2017

(Expressed in thousands of New Taiwan Dollars)

	Notes	2018.12.31	2017.12.31
Assets			
Cash and cash equivalents	4, 6.(1)	\$206,576,054	\$245,354,768
Due from the Central Bank and call loans to banks		104,223,315	125,163,780
Financial assets at fair value through profit or loss	4, 6.(2)	1,428,824,049	365,808,158
Available-for-sale financial assets - net	4, 6.(3)	-	1,681,125,738
Financial assets at fair value through other comprehensive income	4, 6.(4)	1,127,810,270	-
Financial assets measured at amortized cost	4, 6.(5)	2,688,221,788	-
Financial assets for hedging/Derivative financial assets for hedging - net	4	216,611	246,444
Securities purchased under agreements to resell	4	59,212,899	99,703,578
Receivables - net	4, 6.(6)	161,216,190	169,202,260
Current income tax assets	4	6,438,062	4,362,608
Loans - net	4, 6.(7)	2,176,775,907	2,038,528,190
Reinsurance assets - net		7,623,707	7,237,144
Held-to-maturity financial assets - net	4, 6.(8)	-	98,759,110
Investments accounted for using the equity method - net	4, 6.(9)	44,932,006	37,355,653
Other financial assets - net	4, 6.(10)	555,740,531	3,347,907,301
Investment properties - net	4, 6.(11)	319,222,554	318,106,325
Property and equipment - net	4, 6.(12)	166,458,327	165,095,690
Intangible assets - net	4, 6.(13)	53,826,467	55,802,976
Deferred tax assets	4, 6.(27)	40,806,934	31,243,778
Other assets - net		76,357,835	50,506,788
Total assets		\$9,224,483,506	\$8,841,510,289

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Balance Sheets - (continued)
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)

	Notes	2018.12.31	2017.12.31
Liabilities & equity			
Liabilities			
Due to the Central Bank and call loans from banks		\$81,432,233	\$90,417,859
Financial liabilities at fair value through profit or loss	4, 6.(14)	129,698,896	90,514,268
Securities sold under agreements to repurchase	4	59,307,037	112,643,582
Commercial paper payable - net	4, 6.(15)	62,989,367	51,468,158
Payables		66,727,399	57,943,815
Current income tax liabilities	4	2,543,689	8,879,563
Deposits	6.(16)	2,187,203,086	2,062,953,012
Bonds payable	4, 6.(17)	90,600,000	98,350,000
Other borrowings		336,381	441,199
Provisions	4, 6.(19)	5,341,935,726	4,972,427,256
Other financial liabilities	4, 6.(18)	627,815,178	623,527,312
Deferred tax liabilities	4, 6.(27)	27,091,143	34,828,440
Other liabilities		17,514,376	28,645,282
Total liabilities		8,695,194,511	8,233,039,746
Equity attributable to owners of parent			
Capital stock	6.(21)		
Common stock		125,632,102	125,632,102
Preferred stock		15,333,000	8,333,000
Capital surplus	6.(22)	165,449,364	130,452,105
Retained earnings	6.(23)		
Legal reserve		40,976,121	35,339,841
Special reserve		149,346,119	149,106,971
Undistributed earnings		95,553,376	99,296,739
Other equity		(72,558,752)	50,906,313
Non-controlling interests	4, 6.(24)	9,557,665	9,403,472
Total equity		529,288,995	608,470,543
Total liabilities and equity		\$9,224,483,506	\$8,841,510,289

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

	Notes	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Interest income	4	\$202,714,029	\$186,087,791
Less: Interest expenses		(22,085,810)	(17,627,041)
Net interest income	4	180,628,219	168,460,750
Net income other than interest			
Net commission and handling fee		2,883,459	1,069,774
Net premiums from insurance business		208,155,213	329,113,923
(Losses) gains on financial assets and liabilities at fair value through profit or loss		(120,944,083)	97,018,698
Gains from investment properties		9,763,523	9,393,781
Realized gains on available-for-sale financial assets		-	71,735,163
Realized gains on financial assets at fair value through other comprehensive income		14,687,183	-
Realized gains on held-to-maturity financial assets		-	203,906
Gains from derecognition of financial assets measured at amortized cost		4,751,007	-
Gains (losses) on foreign exchange		57,450,748	(116,155,990)
Impairment losses on assets		(1,150,946)	(130,099)
Share of profit of associates and joint ventures accounted for using the equity method		1,003,585	1,297,864
Gains from reclassification using overlay approach		118,076,539	-
Net other non-interest (losses) gains		(1,378,401)	22,445,504
Total income		473,926,046	584,453,274
Bad debt expenses, commitments and provision for premiums reserve		(4,599,086)	(3,459,544)
Changes in insurance liabilities and provisions		(334,121,938)	(445,832,540)
Operating expenses	6.(25)		
Employee benefits expenses		(49,829,957)	(46,118,276)
Depreciation and amortizations expenses		(5,674,622)	(5,424,248)
Other general and administration expenses		(24,101,669)	(23,983,049)
Subtotal		(79,606,248)	(75,525,573)
Profit before income tax from continuing operations		55,598,774	59,635,617
Income tax expense	4, 6.(27)	(3,776,518)	(2,962,393)
Net income		51,822,256	56,673,224
Other comprehensive income	4, 6.(26)		
Not to be reclassified to profit or loss in subsequent periods:			
Remeasurements of defined benefit plans		274,469	(798,222)
Revaluation gains on property		-	308,226
Valuation losses on equity instruments at fair value through other comprehensive income		(3,411,158)	-
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk		2,402,577	(1,579,937)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method - not to be reclassified to profit or loss in subsequent periods		(37,030)	183,172
Income tax relating to the components not to be reclassified to profit or loss in subsequent periods		132,936	339,698
To be reclassified to profit or loss in subsequent periods:			
Exchange differences resulting from translating the financial statements of a foreign operation		(1,214,591)	(2,957,083)
Unrealized gains from available-for-sale financial assets		-	53,167,715
Losses on hedging instruments/Effective portion of gains on hedging instruments in cash flow hedges		(28,747)	14,595
Valuation losses on debt instruments at fair value through other comprehensive income		(78,386,306)	-
Share of other comprehensive income of associates and joint ventures accounted for using the equity method - to be reclassified to profit or loss in subsequent periods		(392,263)	(1,201,786)
Other comprehensive losses reclassified using overlay approach		(118,076,539)	-
Income tax relating to the components to be reclassified to profit or loss in subsequent periods		23,553,489	(3,122,032)
Other comprehensive (loss) income, net of tax		(175,183,163)	44,354,346
Total comprehensive (loss) income		\$(123,360,907)	\$101,027,570
Net income attributable to:			
Owners of parent		\$51,467,243	\$56,306,735
Non-controlling interests		355,013	366,489
Subtotal		\$51,822,256	\$56,673,224
Total comprehensive income attributable to:			
Owners of parent		\$(123,867,466)	\$100,990,096
Non-controlling interests		506,559	37,474
Subtotal		\$(123,360,907)	\$101,027,570
Earnings per share (expressed in dollars) :	6.(28)		
Basic earnings per share:		\$3.95	\$4.47

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

English Translation of Financial Statements Originally Issued in Chinese
Canbay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars)

Items	Equity attributable to owners of parent										Non-controlling interests	Total equity				
	Common stock	Preferred stock	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of a foreign operation	Unrealized gains (losses) from financial assets at fair value through other comprehensive income	Unrealized gains (losses) from available-for-sale financial assets	Effective portion of gains (losses) on hedging instruments in cash flow hedges			Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	Remeasurements of defined benefit plans	Revaluation gains on property	Other comprehensive income (losses) reclassified using overlay approach
Balance on 1 January 2017	\$125,632,102	\$8,333,000	\$130,448,697	\$30,577,724	\$149,108,336	\$75,001,761	\$7,274,912	\$4,023,159	\$19,534	\$120,321	\$10,108,783	\$6,499,449	\$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)	
Cash dividends of preferred stock						(124,585)									(124,585)	
Reversal of special reserve						1,365										
Other additional paid-in capital																
Share of changes in net assets of associates and joint ventures accounted for using the equity method			(894)												(894)	
Net income for the years ended 31 December 2017 (Note 1)						56,306,735		49,766,641	12,113	(1,311,348)	268,031				56,306,735	
Other comprehensive income for the years ended 31 December 2017						(3,548,330)		49,766,641	12,113	(1,311,348)	268,031				44,683,361	
Comprehensive income for the years ended 31 December 2017						52,758,405		99,533,282	24,226	(2,622,696)	536,062				101,178,062	
Share-based payment									12,113						12,113	
Increase in non-controlling interests																4,212
Balance on 31 December 2017	\$125,632,102	\$8,333,000	\$130,452,105	\$35,339,841	\$149,106,971	\$99,296,739	\$10,823,242	\$5,789,800	\$203,647	\$1,191,027	\$10,376,814	\$9,403,472	\$999,067,071	\$9,403,472	\$608,470,543	2,866,549
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	\$5,789,800	\$203,647	\$1,191,027	\$10,376,814	\$9,403,472	\$999,067,071	\$9,403,472	\$608,470,543	2,866,549
Effects on retrospective application and restatement						(3,653,038)		(3,789,800)							(3,653,038)	
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)		203,647	(1,191,027)	10,376,814	9,412,376	634,909,486	9,412,376	644,321,862	2,866,549
Appropriations and distribution for 2017																
Legal reserve				5,656,280		(5,656,280)										
Special reserve				234,146		(234,146)										
Cash dividends						(31,408,025)									(31,408,025)	
Cash dividends of preferred stock						(1,899,924)									(1,899,924)	
Other additional paid-in capital																
Share of changes in net assets of associates and joint ventures accounted for using the equity method			(5,066)												(5,066)	
Net income for the years ended 31 December 2018 (Note 2)						51,467,243		67,359,757	(30,358)	1,965,111	46,241				51,467,243	
Other comprehensive income for the years ended 31 December 2018						(12,429,335)		12,429,335	(30,358)	1,965,111	46,241				(12,429,335)	
Comprehensive income for the years ended 31 December 2018						39,037,908		79,789,092	(60,716)	3,930,222	92,482				39,037,908	
Issue of preferred stock		7,000,000							(30,358)						7,000,000	
Share-based payment transaction																2,325
Disposal of equity instrument at fair value through other comprehensive (losses) income																
Decrease in non-controlling interests																(361,270)
Others						50,142									50,142	
Balance on 31 December 2018	\$125,632,102	\$15,333,000	\$165,449,364	\$40,976,121	\$149,346,119	\$95,553,376	\$12,149,871	\$17,586,946	\$173,389	\$774,084	\$10,367,911	\$52,816,081	\$519,731,330	\$9,557,665	\$529,288,995	2,866,549

Note 1: For the year ended 2017, the remuneration to directors and supervisors in the amount of \$5,812 thousand have been deducted from the Statement of Comprehensive Income.

Note 2: For the year ended 2018, the remuneration to directors and supervisors in the amount of \$5,307 thousand have been deducted from the Statement of Comprehensive Income.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended 31 December 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31	Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Cash flows from operating activities			Cash generated from operations		
Profit before income tax from continuing operations	\$55,598,774	\$59,635,617	Interest received	197,642,031	181,281,421
Adjustments:			Dividends received	27,398,355	25,553,382
Income and other adjustments with no cash flow effects			Interest paid	(21,430,883)	(16,301,176)
Depreciation expenses	2,613,388	2,455,658	Income taxes paid	(86,525,669)	121,638,818
Amortization expenses	3,061,034	2,968,590	Net cash (used in) flows from operating activities		
Expected credit impairment losses/Bad debt expense	4,599,086	3,459,544	Cash flows from investing activities		
Net losses (gains) on financial assets and liabilities at fair value through profit or loss	150,840,786	(89,225,729)	Acquisition of financial assets at fair value through other comprehensive income	(25,434,215)	-
Interest expenses	22,085,810	17,627,041	Disposal of financial assets at fair value through profit or loss	(891,465)	(55,986)
Net gains on financial assets measured at amortized cost	(4,751,007)	(186,087,791)	Disposal of financial assets at fair value through other comprehensive income	(891,465)	103,091
Interest revenue	(202,714,029)	(24,966,314)	Disposal of financial assets available for sale	254,582	(852,826)
Dividend income	(26,655,496)	373,941,773	Disposal of financial assets measured at cost	-	739,288
Net changes in insurance liabilities and provisions	364,185,279	1,717,660	Acquisition of financial assets measured at cost	-	(8,241)
Net changes of other liabilities and provisions	5,486,151	(1,297,864)	Acquisition of investments accounted for using the equity method	(7,312,307)	(2,676,067)
Share of gain of associates and joint ventures accounted for using the equity method	(1,003,385)	(104,460)	Disposal of investments accounted for using the equity method	19,873	49,503
Other comprehensive income reclassified using overlay approach	(118,076,539)	830,441	Cash returned by capital deduction from investments accounted for using equity method	123,600	258,202
Losses on disposal or scrapping of property and equipment	31,906	24,546	Acquisition of property and equipment	(3,507,295)	(4,004,004)
Gains on disposal of investment properties	(28,263)	(71,271)	Disposal of property and equipment	35,992	22,643
Losses on disposal of intangible assets	-	42	Increase in guarantee deposits paid	(46,449)	(15,600)
Gains on disposal of investments	(10,421,220)	(64,750,343)	Decrease in guarantee deposits paid	-	837
Losses on disposal of investments accounted for using the equity method	10,773	130,099	Decrease in guarantee deposits paid	(386,589)	(409,008)
Impairment losses on financial assets	1,150,946	(104,460)	Acquisition of intangible assets	(4,681,144)	(7,078,139)
Unrealized foreign exchange losses (gains)	45,334	830,441	Disposal of investment properties	616,032	362,453
Revaluation losses on investment properties	998,435	6,471	Increase in other assets	(8,643,908)	(66,980)
Others	2,325	36,658,093	Decrease in other assets	-	9,947,501
Subtotal	191,461,614	36,658,093	Dividends received	94,642	73,518
Changes in operating assets and liabilities			Net cash used in investing activities	(27,580,661)	(3,609,815)
Changes in operating assets	(4,155,043)	(1,745,444)	Cash flows from financing activities		
Increase in due from the Central Bank and call loans to banks	83,799,548	(28,862,398)	(Decrease) increase in short-term borrowings	(116,829)	373,758
Decrease (increase) in financial assets at fair value through profit or loss	10,538,572	-	Increase in commercial paper payable	11,520,000	9,890,000
Decrease in financial assets at fair value through other comprehensive income	(439,727,572)	-	Issue of corporate bonds	-	35,000,000
Increase in debt instruments investments measured at amortized cost	-	8,729,797	Decrease in bills and bonds sold under agreements to repurchase	-	(46,444)
Decrease in available-for-sale financial assets	-	419	Issue of financial debentures	-	11,450,000
Decrease in derivative financial assets for hedging	1,087	20,689,901	Repayment of financial debentures	(7,750,000)	-
Decrease (increase) in accounts receivable	20,689,901	(15,197,878)	(Decrease) increase in other liabilities	(1,855,319)	934,650
(Increase) decrease in loans	(41,377,587)	1,076,679	Cash dividends paid	(33,679,517)	(25,544,994)
(Increase) decrease in reinsurance contract assets	(384,386)	1,509,584	Increase in cash capital	42,000,000	-
Increase in financial assets held to maturity	(1,003,385)	(17,319,381)	Net cash flows from financing activities	10,118,335	32,056,970
Increase in other financial assets	(235,919)	(235,789,020)	Effects of exchange rate changes on cash and cash equivalents		
Increase in other financial liabilities	(16,639,689)	5,838,196	(Decrease) increase in cash and cash equivalents	(431,676)	542,862
(Increase) decrease in other assets	(487,489,688)	(281,759,446)	Cash and cash equivalents at the beginning of periods	(104,419,671)	150,628,835
Subtotal	(487,489,688)	(281,759,446)	Cash and cash equivalents at the end of periods	\$310,298,346	\$415,226,793
Changes in operating liabilities			The components of cash and cash equivalents		
(Decrease) increase in due to the Central Bank and call loans from banks	(9,178,733)	14,125,626	Cash and cash equivalents presented in balance sheet	\$206,576,054	\$245,354,768
Decrease in financial liabilities at fair value through profit or loss	(100,551,949)	(28,521,989)	Due from the Central Bank and call loans to banks satisfied the definition of cash and cash equivalents under IAS No.7	45,009,393	70,168,447
(Decrease) increase in securities purchased under agreements to repurchase	(53,336,545)	53,550,968	Bills sold under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7	59,212,899	99,703,578
(Decrease) increase in payables	(559,247)	4,713,247	Subtotal	\$310,298,346	\$415,226,793
Increase in deposits	123,020,644	65,913,584			
(Increase) decrease in provisions for the liabilities of employee benefits	238,063	(571,994)			
(Decrease) increase in reserves for the operations and liabilities	(246,726)	47,776			
Increase in other financial liabilities	10,558,949	4,490,837			
(Decrease) increase in other liabilities	(7,290,767)	11,174,414			
Subtotal	(57,346,811)	125,122,469			
Subtotal of Changes in operating assets and liabilities	(524,835,899)	(156,656,977)			
Subtotal of Adjustment	(533,374,285)	(119,978,884)			

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

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Cathay Financial Holding Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

31 December 2018 and 2017

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

1. Organization and business scope

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

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

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

The consolidated financial statements of the Company and subsidiaries (the Group) for the years ended 31 December 2018 and 2017 were authorized for issue in accordance with a resolution of the board of directors on 21 March 2019.

3. Newly issued or revised standards and interpretations

- (1) Changes in accounting policies resulting from applying for the first time certain standards and amendments.

The Group applied for the first time International Financial Reporting Standards (“IFRS”), International Accounting Standards (“IAS”), and interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after 1 January 2018. The nature and the impact of each new standard and amendment is described below. Only paragraph A has a material effect on the Group.

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

- (A) The Group adopted IFRS 9 “*Financial Instruments*” on 1 January 2018 and they adopted IAS 39 “*Financial Instruments: Recognition and Measurement*” before 1 January 2018. Please refer to Note 4 for more details on accounting policies.
- (B) In accordance with the transition provision in IFRS 9 “*Financial Instruments*”, the assessment of the business model and classification of financial assets to the appropriate categories are based on the facts and circumstances that existed as at 1 January 2018. The classifications of financial assets and their carrying amounts as at 1 January 2018 are as follows:

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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	<u>366,054,602</u>	Subtotal	<u>1,519,069,468</u>
Fair value through other comprehensive income		Fair value through other comprehensive income	
Available-for-sale financial assets	<u>1,681,125,738</u>	Financial assets at fair value through other comprehensive income	<u>1,208,739,971</u>
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	<u>37,656,509</u>		
Subtotal	<u>6,143,953,353</u>	Subtotal	<u>5,506,265,731</u>
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	<u>(78,890)</u>	Subtotal	<u>(195,737)</u>
Total	<u><u>\$8,191,054,803</u></u>	Total	<u><u>\$8,233,879,433</u></u>

(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:

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IAS 39	Carrying amounts	IFRS 9	Carrying amounts	Differences	Retained earnings adjustments	Other equity adjustments
Items		Items				
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)	\$-
		Debt instruments at fair value through other comprehensive income	3,054,578	(1)	(21,366)	21,365
Held for trading	365,568,790	Subtotal	365,808,016	(142)	(21,507)	21,365
Subtotal	365,808,158	Financial assets for hedging	246,444	-	-	-
Derivative 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

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(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			Balance of loss allowance under IFRS 9
	IAS 39	Reclassifications	Remeasurements	
Due from the Central Bank and call loans to banks	\$-	\$-	\$8,955	\$8,955
Receivables	2,631,722	-	(167,541)	2,464,181
Loans	29,392,495	-	-	29,392,495
Financial assets at fair value through profit or loss (Note 1)				
Classified to financial assets at fair value through other comprehensive income (Note 2)	-	-	781	781
Available-for-sale financial assets (Note 1)				
Classified to financial assets at fair value through profit or loss (Note 2)	185,987	(185,987)	-	-
Classified to financial assets at fair value through other comprehensive income (Note 2)	146,379	(146,379)	195,295	195,295
Classified to financial assets measured at amortized cost (Note 2)	-	-	24,309	24,309
Debt instrument investments for which no active market exists (Note 1)				
Classified to financial assets at fair value through profit or loss (Note 2)	388,024	(388,024)	-	-
Classified to financial assets at fair value through other comprehensive income (Note 2)	-	-	376,440	376,440
Classified to financial assets measured at amortized cost (Note 2)	-	-	1,446,117	1,446,117
Held-to-maturity financial assets (Note 1)				
Classified to financial assets at fair value through profit or loss (Note 2)	15,932	(15,932)	-	-
Classified to financial assets at fair value through other comprehensive income (Note 2)	-	-	4,588	4,588
Classified to financial assets measured at amortized cost (Note 2)	-	-	7,923	7,923
Other financial assets	-	-	901	901
Reserve for financing commitments	-	-	116,847	116,847
Other (Note 3)	13	-	10,069	10,082
Total	\$32,760,552	\$(736,322)	\$2,024,684	\$34,048,914

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.

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(E) Effects on the date of initial application

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

a. Classification and measurement of financial assets

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

Financial assets at fair value through profit or loss

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

Available-for-sale financial assets

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

(a) Beneficiary certificates

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

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(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*”.

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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*”.

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

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

b. Impairment assessment of financial assets

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

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

c. Hedge Accounting

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

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

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

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

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

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

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

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

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

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

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- (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:

<u>Items</u>	<u>Newly issued revised or amended standards and interpretations</u>	<u>Effective date issued by IASB</u>
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.

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IFRS 11 “*Joint Arrangements*”

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

IAS 12 “*Income Taxes*”

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

IAS 23 “*Borrowing Costs*”

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

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

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

The abovementioned standards and interpretations issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after 1 January 2019. Apart from item A. explained below, the remaining standards and interpretations have no material impact on the Group.

A. IFRS 16 “Leases”

IFRS 16 “Leases” replaces IAS 17 “Lease”. IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leasing - Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. The impact arising from the adoption of IFRS 16 on the Group are summarized as follows:

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- (A) For the definition of a lease, the Group elects not to reassess whether a contract is, or contains, a lease at the date of initial application (1 January 2019) in accordance with the transition provision in IFRS 16. Instead, the Group is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Group recognizes the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

The Group expects that on 1 January 2019, the leases classified as operating lease when applying IAS 17 will be measure and recognize the lease liability at the present value of the remaining lease payment (using the interest rate of the lessee on 1 January 2019); And chooses one of the following amounts to measure and recognize the right-of-use asset based on individual leases:

For leases that were classified as operating leases applying IAS 17, the Group expects to measure and recognize those leases as lease liability on 1 January 2019 at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on 1 January 2019 and; the Group chooses, on lease liability basis, to measure all prepaid lease or lease payable (balance sheet which is recognized before 1 January 2019) and recognize the right-of-use asset.

The Group expects the investment property will increase by \$9,014,035 thousand, the right-of-use asset will increase by \$4,143,676 thousand, prepayment will reduce by \$362,993 thousand, the lease liability will increase by \$12,865,946 thousand and other payable will reduce by \$71,288 thousand, respectively, on 1 January 2019.

- (B) The additional disclosures of lessee and lessor required by IFRS 16 will be disclosed in the relevant notes.
- (3) Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Group's financial statements are listed below.

Items	Newly issued revised or amended standards and interpretations	Effective date issued by IASB
A.	Amendments to IFRS 10 " <i>Consolidated Financial Statements</i> " and IAS 28 " <i>Investments in Associates and Joint Ventures</i> " - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
B.	IFRS 17 " <i>Insurance Contracts</i> "	1 January 2021
C.	Amendments to IFRS 3 " <i>Business Combinations</i> " – Definition of a Business	1 January 2020
D.	Amendments to IAS 1 and 8 – Definition of Material	1 January 2020

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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:

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- (A) estimates of future cash flows;
- (B) Discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and
- (C) a risk adjustment for non-financial risk.

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts. IFRS 17 is effective for annual periods beginning on or after 1 January 2021.

C. Amendments to IFRS 3 “*Business Combinations*” – Definition of a Business

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

IFRS 3 continues to adopt a market participant’s perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

D. Amendments to IAS 1 and 8 – Definition of Material

The main amendment is to clarify new definition of material. It states that “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Group’s financial statements were authorized for issue, the local effective dates are to be determined by FSC. The Group is still currently determining the potential impact of the standards and interpretations.

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4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Group for the years ended 31 December 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.

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Subsidiaries are fully consolidated from the acquisition date, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Group loses control of a subsidiary, it:

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	2018.12.31	2017.12.31	Notes
The Company	Cathay Life Insurance Co., Ltd. ("Cathay Life")	Life insurance	100.00	100.00	Cathay Life was incorporated in Taiwan on 23 October 1962, under the ROC Company Act (the "Company Act").
The Company	Cathay United Bank Co., Ltd. ("Cathay United Bank")	Commercial banking operations	100.00	100.00	UWCCB was enfranchised by the ROC government on 4 January 1975. On 27 October 2003, UWCCB was merged with the former Cathay United Bank which was dissolved after the merger; the merged entity was renamed Cathay United Bank. The new Cathay United Bank merged with Lucky Bank on 1 January 2007.
The Company	Cathay Century Insurance Co., Ltd. ("Cathay Century")	Property and casualty insurance	100.00	100.00	Cathay Century was incorporated in Taiwan on 19 July 1993, under the Company Act. Cathay Century changed its name from "Tong Tai Insurance Co., Ltd." to "Cathay Century Insurance Co., Ltd." on 2 August 2002.

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Investor	Subsidiary	Business nature	2018.12.31	2017.12.31	Notes
The Company	Cathay Securities Corporation (“Cathay Securities”)	Securities	100.00	100.00	Cathay Securities was incorporated on 12 May 2004, under the Company Act. The securities department and the securities agent (Taipei branch) of Cathay United Bank were assigned to Cathay Securities along with its business, assets and liabilities. The assignment date was 13 August 2004.
The Company	Cathay Venture Inc. (“Cathay Venture”)	Venture capital investment	100.00	100.00	Cathay Venture was incorporated on 10 April 2003, under the Company Act. Cathay Venture is the surviving company from the merger with Cathay Venture, Cathay II Venture and Cathay Capital Management on 10 August 2009.
The Company	Cathay Securities Investment Trust Co., Ltd. (“Cathay Securities Investment Trust”)	Securities investment trust	100.00	100.00	Cathay Securities Investment Trust was incorporated on 11 February 2000.
Cathay Life	Cathay Lujiazui Life Insurance Company Limited. (“Cathay Lujiazui Life”)	Life insurance	50.00	50.00	Cathay Lujiazui Life was incorporated on 29 December 2004. Cathay Life and Shanghai Lujiazui Finance Trade Zone Development Co., Ltd. each owns 50% interest in Cathay Lujiazui Life.
Cathay Life	Cathay Life Insurance (Vietnam) Co., Ltd. (“Cathay Life (Vietnam)”)	Life insurance	100.00	100.00	Cathay Life (Vietnam) was incorporated on 21 November 2007.
Cathay Life	Lin Yuan (Shanghai) Real Estate Co., Ltd (“Lin Yuan”)	Office equipment leasing company	100.00	100.00	Lin Yuan was incorporated on 15 August 2012.
Cathay Life	Cathay Woolgate Exchange Holding 1 Limited	Real estate investment and management	100.00	100.00	Cathay Woolgate Exchange Holding 1 Limited was incorporated on 30 July 2014.
Cathay Life	Cathay Woolgate Exchange Holding 2 Limited	Real estate investment and management	100.00	100.00	Cathay Woolgate Exchange Holding 2 Limited was incorporated on 30 July 2014.
Cathay Life	Cathay Walbrook Holding 1 Limited	Real estate investment and management	100.00	100.00	Cathay Walbrook Holding 1 Limited was incorporated on 31 March 2015.
Cathay Life	Cathay Walbrook Holding 2 Limited	Real estate investment and management	100.00	100.00	Cathay Walbrook Holding 2 Limited was incorporated on 31 March 2015.

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Investor	Subsidiary	Business nature	2018.12.31	2017.12.31	Notes
Cathay Life	Conning Holdings Limited	Holding company	100.00	100.00	Conning Holdings Limited was incorporated on 10 June 2015.
Conning Holdings Limited	Conning U.S. Holdings, Inc.	Holding company	100.00	100.00	Conning U.S. Holdings, Inc. was incorporated on 10 June 2015.
Conning Holdings Limited	Conning Asset Management Ltd.	Wealth Management	100.00	100.00	Conning Asset Management Ltd. was incorporated on 16 October 1998.
Conning Holdings Limited	Conning Japan Limited	Wealth Management	100.00	100.00	Conning Japan Limited was incorporated on 3 September 2015.
Conning Holdings Limited	Conning (Germany) GmbH	Risk management software	100.00	100.00	Conning (Germany) GmbH was incorporated on 10 January 2012.
The Company & Conning Holdings Limited	Conning Asia Pacific Limited	Wealth Management	100.00	100.00	Cathay Conning Asset Management Limited was incorporated on 6 July 2011.
Conning U.S. Holdings, Inc.	Conning Holdings Corp.	Holding company	100.00	100.00	Conning Holdings Corp. was incorporated on 5 June 2009.
Conning Holdings Corp.	Conning & Company	Holding company	100.00	100.00	Conning & Company was incorporated on 10 July 1986.
Conning & Company	Conning Inc.	Wealth Management	100.00	100.00	Conning Inc. was incorporated on 13 September 1982.
Conning & Company	Goodwin Capital Advisors, Inc.	Wealth Management	100.00	100.00	Goodwin Capital Advisors, Inc. was incorporated on 14 March 1930.
Conning & Company	Conning Investments Products, Inc.	Securities	100.00	100.00	Conning Investments Products, Inc. was incorporated on 13 February 2002.
Conning & Company	Octagon Credit Investors, LLC	Investment consulting services	81.8946	82.05	Octagon Credit Investors, LLC was incorporated on 29 December 1998.
Octagon Credit Investors, LLC	Octagon Multi-Strategy Corporate Credit GP, LLC	Fund management services	100.00	100.00	Octagon Multi-Strategy Corporate Credit GP, LLC was incorporated on 13 June 2014.
Octagon Credit Investors, LLC	Octagon Funds GP LLC	Fund management services	100.00	100.00	Octagon Funds GP LLC was incorporated on 13 November 2014.
Octagon Credit Investors, LLC	Octagon Funds GP II LLC	Fund management services	100.00	100.00	Octagon Funds GP II LLC was incorporated on 21 January 2016.
Octagon Credit Investors, LLC	Octagon Funding I, LLC	Fund management services	100.00	100.00	Octagon Funding I, LLC was incorporated on 17 January 2017.
Octagon Credit Investors, LLC	Octagon Funding II, LLC	Fund management services	100.00	100.00	Octagon Funding II, LLC was incorporated on 16 June 2017.

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Investor	Subsidiary	Business nature	2018.12.31	2017.12.31	Notes
Octagon Credit Investors, LLC	Octagon Funding III, LLC	Fund management services	100.00	100.00	Octagon Funding III, LLC was incorporated on 19 December 2017.
Cathy Century	Cathay Insurance (Vietnam) Co., Ltd. (“Cathay Century (Vietnam)”)	Property and casualty insurance	100.00	100.00	Cathay Century (Vietnam) was incorporated on 2 November 2010.
Cathay United Bank	Indovina Bank Limited (“Indovina Bank”)	Wholesale banking	50.00	50.00	Indovina Bank was incorporated in Vietnam on 29 October 1992. Cathay United Bank and Vietinbank each owns 50% interest of Indovina Bank.
Cathay United Bank	Cathay United Bank (Cambodia) Corporation Limited (“CUBC Bank”)	Wholesale banking	100.00	100.00	SBC Bank was incorporated in Cambodia on 25 July 1993 and renamed CUBC Bank on 14 January 2014.
Cathay United Bank	Cathay United Bank (China) Coporation Limited (“CUBCN Bank”)	Wholesale banking	100.00	-	CUBCN Bank was incorporated in China on 3 September 2018. (Note)
Cathay Securities	Cathay Futures Co., Ltd. (“Cathay Futures”)	Futures related business	99.99	99.99	Cathay Futures, former Seaward Futures Agency Co., Ltd., was incorporated on 29 December 1993, under the Company Act and was renamed Seaward Futures Corp. on 6 March 1998. On 24 December 2003, Seaward Futures Corp. changed its name to Cathay Futures Corp. On 10 February 2006, Cathay United Bank sold all stocks of Cathay Futures to Cathay Securities.
Cathay Securities	Cathay Securities (Hong Kong) Corporation Limited (“Cathay Securities (Hong Kong)”)	Securities agent	100.00	100.00	Cathay Securities (Hong Kong), formerly Horizon Securities (Hong Kong) Co., Ltd., was incorporated on 22 March 2007 and was renamed as Cathay Securities (Hong Kong) Co., Ltd. after the acquisition on 4 September 2015.
Cathay Securities Investment Trust	Cathay Private Equity Co., Ltd. (“Cathay Private Equity”)	Private equity	100.00	100.00	Cathay Private Equity was incorporated on 15 November 2017.

Note: CUBCN was combined form Cathay United Bank’s Shanghai branch, Cathay United Bank’s Qingdao branch and Cathay United Bank’s Shenzhen branch that was approved by authority. Related combination information refer to Note 5.

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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	2018.12.31 Ownership interest	2017.12.31 Ownership interest	Notes
Cathay Life	Cathay Insurance (Bermuda) Co., Ltd. (Note1) (“Cathay Insurance (Bermuda)”)	Class 3 general business insurers and Class C long-term insurer	-	100.00	Cathay Insurance (Bermuda) was incorporated on 10 November 1999.
Cathay Life	Cathay Securities Investment Consulting Co., Ltd. (“Cathay Securities Investment Consulting”)	Securities investment consulting	100.00	100.00	Cathay Securities Investment Consulting was incorporated on 25 November 2002.
Cathay Securities	Cathy Investment Consulting (Shanghai) Co., Ltd.(Note2)	Investment Consulting	100.00	100.00	Cathy Investment Consulting (Shanghai) Co., Ltd. was incorporated on 11 June 2014.

Note1: Cathay Insurance (Bermuda) Co., Ltd was dissolved on 8 May 2018, and has completed liquidation on 21 May 2018.

Note2: Cathay Investment Consulting (Shanghai) Co., Ltd has completed liquidation on 26 February 2019.

(4) Foreign currency transactions

The Group’s consolidated financial statements are presented in NT\$, which is also the Company’s functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

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- 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.

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(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

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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.

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

- (A) A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- (B) When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
- (C) Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:
 - a. Purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
 - b. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

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

Financial assets at fair value through profit or loss

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

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

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

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

The accounting policy before 1 January 2018 is as follows:

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

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

Financial assets at fair value through profit or loss

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

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A financial asset is classified as held for trading if:

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

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

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

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

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

Available-for-sale financial assets

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

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

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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.

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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.

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

The accounting policy before 1 January 2018 is as follows:

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

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

Other loss events include:

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

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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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.

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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.

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Equity instruments

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

Compound instruments

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

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

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

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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.

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

Financial liabilities at amortized cost

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

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

Derecognition of financial liabilities

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

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

F. Offsetting of financial instruments

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

(9) Derivative instrument

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

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

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

(10) Fair value measurement

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

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

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

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

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

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

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(11) Investments accounted for using the equity method

The Group's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Group has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

Under the equity method, the investment in the associate or an investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group's related interest in the associate or joint venture.

When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affect the Group's percentage of ownership interests in the associate or joint venture, the Group recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a pro rata basis.

When the associate or joint venture issues new stock, and the Group's interest in an associate or a joint venture is reduced or increased as the Group fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in additional paid in capital and investment accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Group disposes of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 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.

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

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

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

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

(13) Investment property

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

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

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

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.

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(14) Leases

Group as a lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

The depreciation policy for depreciable leased assets is consistent with the Company and Subsidiaries' normal depreciation policy for similar assets, and depreciation is calculated in accordance with IAS 16 "*Property, Plant and Equipment*" and IAS 38 "*Intangible Assets*".

Lease income from operating leases is recognized in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

(15) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

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The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Licenses

The licenses were acquired in business combination. The costs of the two licenses are amortized on a straight-line basis over the useful life (6.5 and 20 years).

Customer relationships

Customer relationships were acquired in business combination and are amortized on a straight-line basis over the useful life (5 to 15 years).

Computer software

The cost of computer software is amortized on a straight-line basis over the estimated useful life (2 to 10 years).

Other intangible assets

Other intangible assets were acquired in business combination and are amortized on a straight-line basis over the useful life (3 to 6 years).

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(16) Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 “*Impairment of Assets*” may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (“CGU”) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset’s or cash-generating unit’s recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(17) Provisions

Insurance liabilities

A. Cathay Life

Business reserved funds for insurance contracts and financial instruments whether with or without discretionary participation feature are made in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises.” Furthermore, they have been validated by the certified actuarial professionals approved by FSC. The required amount to be reserved for short-term group insurance is based upon the greater of premium received or calculated premium following the regulations established by the authorities. Reserved amount for the rest of other provisions is addressed below:

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Moreover, an insurance contract with discretionary participation feature is classified as liability.

(A) Unearned premium reserve

For the insurance policy which period is within one year and has not met the due date or accidental insurance policy over one year, the amount of reserve required is based upon the risk calculation.

(B) Reserve for claims

It is mainly a reserve for the unpaid claims and unreported claims. The unpaid claims reserve is assessed upon the basis that the relevant information of each case and the amount deposited is further classified by the type of insurance. Unreported claims reserve is calculated and deposited based upon the past experiences and expenses occurred and in accordance with the actuarial principles for each injury insurance and health or life insurance with a policy period within 1 year.

(C) Reserve for life insurance liabilities

Based upon the life table and projected interest rates in the manual provided by the authority for each type of insurance, life insurance reserve is calculated and recognized according to the calculation method provided in Article 12 of “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises”, the manual of each insurance product reported to the competent authority and the relevant calculation methods approved by the competent authority.

Starting from policy year 2003, for valid insurance contract whose bonus calculation is stipulated by the regulations established by the competent authorities, the downward adjustments of bonus due to the offset between mortality gain (loss) and gain (loss) from difference of interest rates should be calculated and recognized according to the regulations provided by the competent authorities.

In accordance with Jin-Guan-Bao-Cai-Zi No. 10102500530 announced on 19 January 2012, life insurance enterprises shall reclassify allowance for doubtful account originally recognized in special reserve to “life insurance reserve - allowance for doubtful account pertinent to 3% business tax cut” account. The allowance was recognized as a result of the 3% business tax cut. Also, life insurance enterprises shall reclassify the recoverable special reserve for major incidents defined in Article 19 of “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” to “life insurance reserve - recover from major incident reserve” account.

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When an insurer that opts to measure investment property at fair value, the value of its insurance liabilities at the same time must also be measured at fair value. If the results of the measurements indicate that the fair value of the insurance liabilities exceeds book value, the life insurer must set aside the difference to reserve for life insurance liabilities and decrease retained earnings. Cathay Life changes its accounting policy for subsequent measurement of investment property from cost to fair value starting from 2014. The value of insurance liabilities at the same time is measured at fair value in accordance with Jin-Guan-Bao-Cai-Zi No. 10302501161 announced on 21 March 2014. The results of the measurements indicate that the fair value of the insurance liabilities doesn't exceed book value, therefore insurance liabilities doesn't have to be increased.

(D) Special reserve

- a. For the retained businesses with policy period within one year and injury insurance with policy period longer than one year, the special reserve is classified into two categories, "Special Capital Reserve—Special Reserve for Major Incidents" and "Special Capital Reserve—Special Reserve for Fluctuation of Risks." The dollar amount of reserve required is addressed as follows:

- (a) Special capital reserve—Special reserve for major incidents

All types of insurance should follow the special catastrophe reserve rates set by authorities. Upon occurrence of the catastrophic events, actual claims on retained business in excess of \$30,000 thousand can be withdrawn from the reserve. If the reserve has been set aside for over 15 years, the Company could have its plan of the recovering process of the reserve assessed by certified actuaries and submit the plan to the authority for reference. The post-tax amount of the recovery determined in accordance with IAS 12 *Income Taxes* can be recorded in the special capital reserve for major incidents under equity.

- (b) Special capital reserve—Special reserve for fluctuation of risks

When the actual amount paid for indemnity minus the offsetting amount from special reserve for major incidents is less than the anticipated dollar amount need to be paid, the 15% of this difference should be reserved in special reserve for fluctuation of risks.

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When the actual amount paid for indemnity minus the offsetting amount from special reserve for major incidents is greater than the anticipated dollar amount need to be paid, the exceeded amount can be used for writing down the special reserve for fluctuation of risks. If the total amount of special reserves for fluctuation of risks is not enough to be written down, special reserve for major incidents for other types of insurance can be used. Also, the type of insurance and total dollar amount written-down should be reported to the authority for inspection purposes. When accumulative dollar amount of special reserve for fluctuation of risks exceeds 30% of self-retention earned premium, the exceeded amount will be recovered. To promote the sustainable development of insurance industry, the authority may designate or restrict the use of the recovered amount. The post-tax amount of written-down or recovery determined in accordance with IAS 12 *Income Taxes* can be recorded in the special capital reserve for fluctuation of risks under equity.

For special reserves addressed previously, the balance of the annual reserve net of tax (in accordance with IAS 12 “*Income Taxes*”) needs to be recorded in special capital reserve under equity.

- b. Cathay Life sells participating life insurance policy. According to the “Rule Governing application of revenues and expenses related to participating / non-participating policy”, Cathay Life is required to set aside special reserve for dividend participation based on income before tax and dividend. On the date of declaration, dividend should be withdrawn from this account. The excess dividend should be accounted as special reserve for dividend risks.
- c. According to Article 32 of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, if there are increments after estimating property in fair value, in addition to offsetting adverse effects of the first-time adoption of TIFRS on other accounts, the exceeds shall be recognized as special reserve for revaluation increments of property under liabilities.

According to the regulations established by the authorities on 30 November 2012, the aforementioned special reserve for revaluation increments of property can be transferred to the reserve for life insurance liabilities — fair value of insurance contract liabilities after strengthening the reserve for life insurance liabilities calculated based on the regulations established by the authorities on 27 November 2012. If there is excess, 80% of it can be recovered in the first year or next five years and reserved to special capital reserve under equity. The amount which can be recovered and reserved to special capital reserve under equity each year, is limited to NT\$10 billion.

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(E) Premium deficiency reserve

For the contracts over one year of life insurance, health insurance, or annuities contracts commencing on 1 January 2001, the following rules applied: If the written premiums are lower than those of providing policy reserves, the special premium deficiency reserve will be set aside based on the premium deficiencies.

In addition, for the insurance policy which period is within one year and has not met the due date or accidental insurance policy over one year, the following rules applied: If the probable indemnities and expenses are greater than the aggregate of unearned premium serves and collectable premiums in the future, the premium deficiency reserve is set aside based on the difference thereof.

(F) Other reserve

Pursuant to IFRS 3 “*Business Combinations*”, the Company and subsidiaries will recognize other reserve in a business combination to reflect the fair value of life insurance contract assumed as long as the identifiable assets and assumed liabilities acquired from the business combination are recognized at fair value.

(G) Liability adequacy reserve

This is the reserve that is set aside based on the adequacy test of liability required by IFRS 4 “*Insurance Contracts*”.

(H) Reserves for insurance contract with feature of financial instruments

Reserve for non-separate account insurance product that is also classified as financial products without discretionary participation features follows “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and Depository Accounting.

(I) Foreign exchange volatility reserve

The beginning balance of foreign exchange volatility reserve of Cathay Life was \$4,511,406 thousand which was appropriated in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and “Direction for foreign exchange volatility reserve by Life Insurance Enterprises”. As of 31 December 2018, the amount set aside was \$17,075,289 thousand.

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(J) Liability adequacy test

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

B. Cathay Century

Insurance liabilities are set aside in accordance with “Regulations for the Management of the Various Reserves by Insurance Enterprises”, “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance” and “Regulations for the Management of the Various Reserves for Nuclear energy insurance”, “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.

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(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.

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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.

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D. Cathay Life (Vietnam)

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

Other provisions

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

(18) Treasury stocks

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

(19) Post-employment benefits

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

Defined contribution plan

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

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Defined benefit plan

Post-employment benefit plan that is classified as a defined benefit plan uses the projected unit credit method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to other equity in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

- A. the date of the plan amendment or curtailment, and
- B. the date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

Employee preferential interest rate deposits

Cathay United Bank offers its employees with preferential deposit, including providing finite amount preferential interest rate deposits to current employees and providing the preferential interest rate deposits to current employees and retired employees after their retirement. The difference between the interest rate of preferential deposits and the market rate is recognized as employee benefits.

The finite amount preferential deposits that Cathay United Bank paid to its current employees are calculated monthly on accrual basis. The difference between the interest rate of preferential deposit and the market rate is recorded as “Employee benefits expenses”. In accordance with Article 30 of the “Regulations Governing the Preparation of Financial Reports by Public Banks”, when the interest incurred from preferential interest rate deposits exceed the interest generated from market rate, it shall be considered the actuarial amount according to defined benefit plan regulated on IAS 19 “*Employee Benefits*” since the employee’s retirement date.

(20) Revenue recognition

Cathay Life and its subsidiaries

A. Cathay Life

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

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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.

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

The accounting treatments from 1 January 2018 are as follows:

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

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

The accounting treatments before 1 January 2018 are as follows:

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

Cathay Century's and its subsidiaries

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

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

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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:

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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.

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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.

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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.

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In accordance with Article 49 of the Financial Holding Company Act, the Company and its qualifying subsidiaries have selected the consolidated income tax return for tax filings and pay a surcharge on their undistributed retained earnings under the consolidated income tax return. If there are any tax effects due to the adoption of the consolidated tax system, the Company can proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable (tax refund receivable) among the Company and its subsidiaries.

Effective from 1 January 2006, the Company and subsidiaries have considered the impact of the “Alternative Minimum Tax Act” to estimate their income tax liabilities.

(23) Business combinations and goodwill

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

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

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

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

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

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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:

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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.

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E. The significant degree of risk transfer measured by the risk ratio of Cathay Century's re-insurance policy

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

When the risk ratio of a re-insurance policy is greater than 1%, the policy is defined as re-insurance contracts.

(2) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

A. Impairment losses on loans and receivables

The accounting policies from 1 January 2018 are as follows:

The estimate of impairment losses on loans and receivables of the Group is measured by the amount of expected credit losses during the remaining term to maturity. Under the contract, the present value of the difference between the contractual cash flow (carrying amount) and the expected cash flow (assessment of prospective information) is credit loss, which is measured by the undiscounted difference in case that the impact from discounting of short-term loans and receivables is insignificant. When the future actual cash flow is lower than expected, it may result in significant impairment loss. Please refer to Note 12 for further details.

The accounting policies before 1 January 2018 as follows:

The Group review their loans and receivables to assess whether an impairment loss should be recorded in profit or loss on a monthly basis. When the Group determines whether to recognize impairment losses, they mainly decide if there is any observable evidence indicating possible impairment. The evidence may include observable information indicating unfavorable changes in debtor payment status, or sovereign or the local economic situation related to debt payment. While analyzing expected cash flow, the estimates by the management are based on past losses experience on the assets of similar credit risk characteristics. The Group periodically reviews methods and assumptions behind the amount and schedule of expected cash flow, to reduce the difference between expected and actual loss.

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B. Impairment loss estimation on debt instruments investments

The accounting treatments from 1 January 2018 are as follows:

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

The accounting treatments before 1 January 2018 are as follows:

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

C. Fair value of financial instruments

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

D. Fair value of investment property

The fair value of investment property is derived from valuation techniques, including earning value method (such as discounted cash flow model and direct capitalization approach), comparison approach, cost approach, and market method, and assumptions which are used in applying valuation techniques will have impacts on the fair value of investment property.

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E. Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs that would be directly attributable to the disposal of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Cathay United Bank and Cathay Securities test the impairment of goodwill every year and whenever an impairment of goodwill is possible. Cathay United Bank and Cathay Securities need to estimate the recoverable amounts of cash generating units that are appropriated from the goodwill. Cash flows derived from the cash generating units require projections and the appropriate discount rate should be determined to calculate the present value of the future cash flows.

F. Pension benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions including the determination of the discount rate, future salary increases, mortality rates and future pension increases.

According to internal regulation of Cathay United Bank or hiring agreement, IAS 19 "*Employee Benefit*" applies to the excess interest of retiring employee preferential interest rate deposits once the employee is retired.

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

Cathay Life

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

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

Cathay Century's and its subsidiaries

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

H. Award credits and deferred income

The accounting policy after 1 January 2018 is as follows:

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

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The accounting policy before 1 January 2018 is as follows:

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

I. Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

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

6. Contents of significant accounts

(1) Cash and cash equivalents

	2018.12.31	2017.12.31
Petty cash and cash on hand	\$17,257,240	\$18,322,143
Cash in banks	80,146,106	98,762,675
Time deposits	52,709,964	74,298,091
Cash equivalents	5,608,762	6,119,932
Checks for clearance	7,060,146	7,025,587
Due from commercial banks	43,812,218	40,826,340
Less: allowance for doubtful accounts	(18,382)	(Note)
Total	<u>\$206,576,054</u>	<u>\$245,354,768</u>

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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

	<u>2018.12.31</u>	<u>2017.12.31</u>
		(Note)
Mandatorily measured at fair value through profit or loss:		
Common stock	\$673,969,471	
Funds and beneficiary certificates	293,491,136	
Government bonds	25,763,954	
Corporate bonds	7,429,409	
Financial debentures	25,818,154	
Overseas debentures	188,524,736	
Short-term notes	162,478,515	
Margin for futures trading-own funds	433,813	
Derivative financial instruments	50,914,861	
Total	<u>\$1,428,824,049</u>	
	<u>2018.12.31</u>	<u>2017.12.31</u>
	(Note)	
Designated financial assets at fair value through profit or loss at initial recognition:		
Beneficiary certificates		\$155,197
Overseas stocks		84,171
Subtotal		<u>239,368</u>
Held for trading:		
Common stock		17,846,019
Funds and beneficiary certificates		17,703,649
Government bonds		39,912,927
Corporate bonds		32,125,221
Financial debentures		37,411,528
Overseas debentures		98,240
Short-term notes		170,563,632
Margin for futures trading-own funds		538,593
Derivative financial instruments		49,368,981
Subtotal		<u>365,568,790</u>
Total		<u>\$365,808,158</u>

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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:

	<u>2018.12.31</u>
Mandatorily measured at fair value through profit or loss	
Common stock	\$660,063,193
Funds and beneficiary certificates	277,643,018
Financial debentures	17,859,589
Overseas debentures	<u>187,795,448</u>
Total	<u><u>\$1,143,361,248</u></u>

Reclassification from profit or loss to other comprehensive income of the financial assets designated to apply overlay approach for the year ended 31 December 2018 is addressed below:

	2018.1.1~	<u>2018.12.31</u>
Gains due to applying IFRS 9 to profit or loss		\$(31,827,184)
Less: Gains if applying IAS 39 to profit or loss		<u>(86,249,355)</u>
Gains from reclassification due to the application of overlay approach		<u><u>\$(118,076,539)</u></u>

Loss from financial assets at fair value through profit or loss was \$120,944,083 thousand for the year ended 31 December 2018; gains from reclassification due to the application of overlay approach was \$118,076,539 thousand for the year ended 31 December 2018.

B. As of 31 December 2018 and 31 December 2017, Cathay United Bank and its subsidiaries sold certain financial assets at fair value through profit or loss under repurchase agreements with notional amounts of \$583,927 thousand and \$46,143,100 thousand, respectively. Such repurchase agreements amounting to \$523,342 thousand and \$43,634,657 thousand, were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements are settled at \$523,725 thousand and \$43,732,175 thousand, prior to 31 January 2019 and 28 February 2018, respectively.

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C. As of 31 December 2018 and 31 December 2017, Cathay Securities and its subsidiaries sold certain financial assets at fair value through profit or loss under repurchase agreements with notional amounts of \$0 thousand and \$2,700,000 thousand.

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

(3) Available-for-sale financial assets

	2018.12.31 (Note)	2017.12.31
Common stock		\$714,122,499
Beneficiary certificates		351,825,972
Funds and beneficiary Securities		541,355
Real Estate Investment Trust		12,136,777
Government bonds		163,947,314
Corporate bonds		43,332,216
Financial debentures		105,872,531
Asset-backed securities		581,533
Overseas debentures		289,856,391
Subtotal		1,682,216,588
Less: Litigation deposits		(57,075)
Less: Securities serving as deposits paid-bonds		(1,033,775)
Total		<u>\$1,681,125,738</u>

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

A. As of 31 December 2017, Cathay United Bank and its subsidiaries sold certain available-for-sale financial asset under repurchase agreement with notional amount of \$29,926,975 thousand. Such repurchase agreement amounting to \$29,338,529 thousand, was recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreement was settled at \$29,404,419 thousand, prior to 30 June 2018.

B. Cathay Life and its subsidiaries adopted IAS 39 for impairment assessment before 1 January 2018. An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with domestic stocks and beneficiary certificates held by Cathay Life and its Subsidiaries. As of 31 December 2017, Cathay Life and its subsidiaries have recognized impairment losses amounting to \$185,987 thousand.

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C. Cathay United Bank and its subsidiaries adopted IAS 39 for impairment assessment before 1 January 2018. An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with certain available-for-sale financial assets held by Cathay United Bank and its subsidiaries. As of 31 December 2018, Cathay United Bank and its subsidiaries have recognized impairment losses amounting to \$146,379 thousand.

D. Please refer to Note 8 for related information on the above available-for-sale financial assets pledged as collaterals as of 31 December 2017.

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

	2018.12.31	2017.12.31 (Note)
Equity instrument investments at fair value through other comprehensive income		
Common stock	<u>\$43,192,054</u>	
Debt instrument investments at fair value through other comprehensive income		
Government bonds	160,794,200	
Corporate bonds	45,668,682	
Financial debentures	76,406,003	
Asset-backed securities	3,191,683	
Overseas debentures	<u>800,838,518</u>	
Subtotal	1,086,899,086	
Less: Litigation deposits	(1,720)	
Less: Securities serving as deposits	(2,111,016)	
Less: Derivative instruments collateral	<u>(168,134)</u>	
Total	<u><u>\$1,127,810,270</u></u>	

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

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

B. For equity instrument investments measured at fair value through other comprehensive income, the Group recognized dividends in the amount of \$3,149,048 thousand for the year ended 31 December 2018, of which \$1,714,680 thousand related to investments held at the end of the reporting period and the remaining amount related to investments derecognized during the reporting period.

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In consideration of the Group's investment strategy, the Group disposed the investments which were reported under equity instrument investments measured at fair value through other comprehensive income during the period. Upon derecognition, the fair value of the investments was \$70,623,416 thousand, and transferred the cumulative disposal gain or loss of \$12,429,335 thousand from other components of equity to retained earnings for the year period ended 31 December 2018.

C. As of 31 December 2018, Cathay United Bank and its subsidiaries sold certain financial assets at fair value through other comprehensive income under repurchase agreement with notional amount of \$46,355,590 thousand. Such repurchase agreement amounting to \$42,613,744 thousand was recorded in the account "Securities sold under agreements to repurchase" on the balance sheets. Repurchase agreement was settled at \$42,764,361 thousand, as of 31 March 2019.

D. As of 31 December 2018, Cathay Securities and its subsidiaries sold certain financial assets at fair value through other comprehensive income under repurchase agreement with notional amount of \$3,325,000 thousand.

E. Please refer to Note 8 for related information on the above financial assets at fair value through other comprehensive income pledged as collaterals as of 31 December 2018.

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

(5) Financial assets measured at amortized cost

	2018.12.31	2017.12.31 (Note1)
	<hr/>	<hr/>
Time deposits	\$611,285	
Beneficiary certificates	1,143,199	
Government bonds	41,021,039	
Corporate bonds	32,239,336	
Financial debentures	73,300,796	
Overseas debentures	2,161,607,143	
Asset-backed securities	47,973,170	
Short-term notes	348,485,689	
Subtotal	<hr/> 2,706,381,657	
Less: Litigation deposits	(1,345,625)	
Less: Securities serving as deposits	(8,383,555)	
Less: Derivative instruments collateral	(6,075,419)	
Less: Loss allowance (Note 2)	(2,355,270)	
Total	<hr/> <hr/> \$2,688,221,788	

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

Note 2: Loss allowance for guarantee deposits paid in bonds amounting to \$910 thousand is not included.

A. As of 31 December 2018, Cathay United Bank and its subsidiaries sold certain available-for-sale financial asset under repurchase agreement with notional amount of \$19,718,692 thousand. Such repurchase agreement amounting to \$11,447,258 thousand was recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreement was settled at \$11,477,549 thousand as of 31 March 2019.

B. The Group early disposed of bonds and losses on the disposal amounting to \$1,027,382 thousand were incurred due to the increase in credit risk for the year ended 31 December 2018; bonds early disposed of because more than an infrequent number of such sales were made out of a portfolio and those sales were more than insignificant in value (either individually or in aggregate) resulted in gains on disposal amounting to \$5,906,106 thousand; bonds disposed of stemming from repayments due or other situations resulted in loss on disposal amounting to \$127,717 thousand.

C. Please refer to Note 8 for related information on the above financial assets measured at amortized cost pledged as collaterals as of 31 December 2018.

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

(6) Receivable – net

	2018.12.31	2017.12.31
Notes receivable	\$527,630	\$755,878
Accounts receivable	78,908,803	72,261,539
Interest receivable	54,509,930	49,248,421
Acceptances	1,591,399	785,112
Factoring receivable	2,607,455	2,248,622
Others	25,424,903	46,544,711
Total	163,570,120	171,844,283
Adjustment for discounts and premiums	(9,465)	(10,301)
Less: Allowance for bad debts	(2,344,465)	(2,631,722)
Net amount	\$161,216,190	\$169,202,260

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A. the Group adopted IFRS 9 to assess impairments on 1 January 2018. The information on bad and doubtful accounts from 1 January 2018 to 31 December 2018 is as follows:

	Stage 1	Stage 2	Stage 3		Subtotal			
			Lifetime expected credit losses (Not purchased or originated credit-impaired financial asset)	Lifetime expected credit losses (Purchased or originated credit-impaired financial assets)		Difference from impairment charged in accordance with Guidelines for Assessment of Assets		Total
Beginning balance	\$78,157	\$63,923	\$-	\$2,106,749	\$-	\$2,248,829	\$14,830	\$2,263,659
Changes due to financial instruments recognized as at 1 January								
Transfer to lifetime expected credit losses	(1,861)	64,210	-	(1,634)	-	60,715	-	60,715
Transfer to credit-impaired financial assets	(377)	(637)	-	62,160	-	61,146	-	61,146
Transfer to 12-month expected credit losses	1,251	(19,979)	-	(2,667)	-	(21,395)	-	(21,395)
Financial assets that have been derecognized during the period	(53,572)	(37,863)	-	(296,585)	-	(388,020)	-	(388,020)
New financial assets originated or purchased	80,911	54,338	-	287,174	-	422,423	-	422,423
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	-	37,522	37,522
Bad Loans Write-offs	-	-	-	(442,217)	-	(442,217)	-	(442,217)
Foreign exchange and other movements	21,513	(7,027)	-	55,512	-	69,998	(1,882)	68,116
Ending balance	\$126,022	\$116,965	\$-	\$1,768,492	\$-	\$2,011,479	\$50,470	\$2,061,949

In addition, the Group measures the loss allowance of certain receivables based upon simplified approach. The information on bad and doubtful accounts from 1 January 2018 to 31 December 2018 is as follows:

	2018.1.1~ 2018.12.31
Balance, beginning of the period (under IAS 39)	\$200,258
Adjustment of beginning retained earnings balance	264
Balance, beginning of the period (under IFRS 9)	200,522
Change for the current period	127,629
Write off	(45,635)
Balance, end of the period	\$282,516

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B. Information on bad and doubtful accounts from 1 January 2017 to 31 December 2017 is as follows:

	2017.1.1~ 2017.12.31
Balance, beginning of the period	\$3,932,424
Provision of doubtful accounts	52,966
Write-offs	(1,657,010)
Debt counseling recoveries	110,658
Recoveries	459,889
Reclassification	(253,351)
Effect of exchange rates change	(13,854)
Balance, end of the period	<u>\$2,631,722</u>

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

Items		Accounts Receivable
		2017.12.31
Objective evidence of impairment exists individually	Individual assessment of impairment	\$756,846
	Collective assessment of impairment	191,529
Objective evidence of impairment does not exist individually	Collective assessment of impairment	170,895,908

Items		Allowance for doubtful account
		2017.12.31
Objective evidence of impairment exists individually	Individual assessment of impairment	\$144,573
	Collective assessment of impairment	137,996
Objective evidence of impairment does not exist individually	Collective assessment of impairment	2,349,153

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

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(7) Loans - net

	2018.12.31	2017.12.31
Inward-outward documentary bills	\$1,722,435	\$1,339,549
Loans	2,200,778,857	2,060,873,608
Overdrafts	2,031,672	2,191,344
Delinquent accounts	3,276,192	3,126,604
Total	2,207,809,156	2,067,531,105
Adjustment for discounts and premiums	205,483	389,580
Less: Allowance for bad debts	(31,238,732)	(29,392,495)
Net amount	<u>\$2,176,775,907</u>	<u>\$2,038,528,190</u>

A. The Group adopted IFRS 9 to assess impairments on 1 January 2018. The information on bad and doubtful accounts from 1 January 2018 to 31 December 2018 is as follows:

	Stage 1		Stage 2		Stage 3		Subtotal	
	12-month expected credit losses	Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)	credit-impaired financial asset	Lifetime expected credit-impaired financial assets	Lifetime expected credit-impaired financial assets	Impairment charged in accordance with IFRS 9	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets
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	(99,368)	1,014,534	-	(11,229)	-	903,937	-	903,937
Transfer to credit-impaired financial assets	(31,835)	(47,018)	-	3,067,723	-	2,988,870	-	2,988,870
Transfer to 12-month expected credit losses	108,103	(544,875)	-	(96,533)	-	(533,305)	-	(533,305)
Financial assets that have been derecognized during the period	(1,858,885)	(172,649)	-	(689,120)	-	(2,720,654)	-	(2,720,654)
New financial assets originated or purchased	1,992,330	516,685	-	1,221,290	-	3,730,305	-	3,730,305
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	-	524,315	524,315
Bad Loans Write-offs	-	-	-	(3,070,128)	-	(3,070,128)	-	(3,070,128)
Foreign exchange and other movements	61,155	(136,875)	-	(209,711)	-	(285,431)	308,328	22,897
Ending balance	<u>\$4,005,069</u>	<u>\$1,667,522</u>	<u>\$-</u>	<u>\$5,504,103</u>	<u>\$-</u>	<u>\$11,176,694</u>	<u>\$20,062,038</u>	<u>\$31,238,732</u>

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B. Information on bad and doubtful accounts from 1 January 2017 to 31 December 2017 is as follows:

	2017.1.1~ 2017.12.31
Balance, beginning of the period	\$25,985,968
Provision of doubtful accounts	3,606,056
Write-offs	(1,577,218)
Debt counseling recoveries	102,707
Recoveries	1,333,840
Reclassification	253,351
Effect of exchange rates change	(312,209)
Balance, end of the period	<u>\$29,392,495</u>

C. Assessment for loans are showed as follows:

Items		Total loans
		2017.12.31
Objective evidence of impairment exists individually	Individual assessment of impairment	\$11,445,983
	Collective assessment of impairment	11,050,334
Objective evidence of impairment does not exist individually	Collective assessment of impairment	2,045,034,788

Items		Allowance for bad debts
		2017.12.31
Objective evidence of impairment exists individually	Individual assessment of impairment	\$3,300,196
	Collective assessment of impairment	2,039,718
Objective evidence of impairment does not exist individually	Collective assessment of impairment	24,052,581

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

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(8) Held-to-maturity financial assets

	2018.12.31	2017.12.31
	(Note)	
Government bonds		\$48,098,511
Corporate bonds		7,465,184
Financial debentures		12,588,995
Asset-backed securities		9,843,981
Overseas debentures		24,087,773
Short-term notes		5,221,668
Subtotal		107,306,112
Less: Court security deposit		(1,376,984)
Less: Securities serving as deposits paid-bonds		(7,170,018)
Total		\$98,759,110

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

A. As of 31 December 2017, Cathay United Bank and its subsidiaries sold certain held-to-maturity financial asset under repurchase agreement with notional amount of \$32,683,560 thousand. Such repurchase agreement amounting to \$23,242,069 thousand, was recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreement was settled at \$23,319,479 thousand as of 31 March 2018.

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

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

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

Investee	2018.12.31		2017.12.31	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Investments in subsidiaries exclude from consolidated:				
Cathay Securities Investment Consulting	\$278,780	100.00	\$257,159	100.00
Cathay Insurance (Bermuda)	-	-	121,671	100.00
Cathay Investment Consulting (Shanghai) Co., Ltd.	9,293	100.00	11,020	100.00
Subtotal	288,073		389,850	
Investments in associates:				
WK Technology Fund VI Co., Ltd	50,014	21.43	81,873	21.43
Taiwan Real-estate Management Corp.	103,185	30.15	101,936	30.15
Taiwan Finance Corp.	1,665,689	24.57	1,642,111	24.57
Tien-Tai Management Consulting Co., Ltd.	3,420	28.20	2,382	28.20
CDBS Cathay Asset Management Co., Ltd	458,070	33.30	513,502	33.30
Syphon Information Co., Ltd.	429,450	49.12	438,807	49.12
Da Sheng Venture Inc.	1,763,971	25.00	1,514,974	25.00
KHL IV Venture Capital Co., Ltd.	791,667	21.43	756,353	21.43
Dun-Yang Energy Corp.	45,551	32.20	44,668	32.20
Yong-Chang Energy Corp.	47,248	32.32	46,790	32.32
RI-Zhao Energy Corp.	46,051	32.32	49,160	32.32
Tien-Tai Optronics Corporation (Note)	136,778	33.64	132,945	33.64
Nan-Gang International 1 Corp.	676,108	45.00	675,812	45.00
Nan-Gang International 2 Corp.	675,088	45.00	675,232	45.00
CM Energy Co., Ltd.	274,352	45.00	272,256	45.00
Rizal Commercial Banking Corporation	15,743,568	23.35	13,749,705	23.35
PT Bank Mayapada Internasional Tbk	13,733,069	40.00	12,447,700	40.00
Hsin Jih Tai Corporation	697,801	45.00	673,599	45.00
Cathay Century (China)	2,346,424	49.00	2,469,714	49.00
Cathay Sunrise Corporation	696,378	45.00	676,284	45.00
Ding Teng Co., Ltd.	765,935	27.36	-	-
Global Evolution Holding ApS	2,711,173	45.00	-	-
PSS Co., Ltd.	782,943	36.94	-	-
Subtotal	44,643,933		36,965,803	
Total	\$44,932,006		\$37,355,653	

Note: Tien-Tai Optronics Corporation is newly incorporated as a result of the joint share exchange with shares of Tien-Tai Energy Corp., Tien-Tai One Energy Corp., Chi-Chia Energy Corp. and Chao-Yang Energy Corp. on 3 January 2017.

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The Group's investments in the associates were not significant. As of 31 December 2018 and 31 December 2017, the carrying amount of investments in associates accounted for using the equity method amounted to \$44,643,933 thousand and \$36,965,803 thousand. The aggregate financial information of the Group's investments in the associates is as follows:

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Profit or loss from continuing operations	\$885,498	\$1,188,349
Other comprehensive income (post-tax)	(437,898)	(1,008,317)
Total comprehensive income	<u>\$447,600</u>	<u>\$180,032</u>

A. The share of the profits (losses) of these associates accounted for using the equity method in investees whose financial statements were unaudited amounted to \$900,018 thousand and \$1,205,510 thousand for the years ended 31 December 2018 and 2017, respectively. The share of the profits (losses) of these associates accounted for using the equity method in investees whose financial statements were unaudited amounted to \$(412,856) thousand and \$(1,028,025) thousand for the years ended 31 December 2018 and 2017, respectively. The remaining balance of related investment amounted to \$41,786,704 thousand and \$31,717,860 thousand as of 31 December 2018 and 31 December 2017, respectively.

B. No investment in the associates was pledged.

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

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

Cathay Investment Consulting (Shanghai) Co., Ltd. was dissolved on 8 November 2017 by a resolution of the board of directors, and has completed liquidation on 26 February 2019.

Cathay Insurance (Bermuda) Co., Ltd. was dissolved on 8 May 2018, and has completed liquidation on 21 May 2018.

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(10) Other financial assets

	2018.12.31	2017.12.31
Separate account product assets	\$546,964,261	\$555,269,179
Structured time deposits	2,000,000	4,500,000
Financial assets carried at cost	(Note)	13,986
Investments in debt securities with no active market	(Note)	2,783,306,758
Other miscellaneous financial assets	6,776,864	4,817,378
Less: Loss allowance	(594)	(Note)
Total	\$555,740,531	\$3,347,907,301

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

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

Investments in debt securities with no active market

	2018.12.31	2017.12.31
	(Note)	
Common stocks		\$1,898,721
Government bonds		82,687
Corporate bonds		19,727,333
Financial debentures		73,380,080
Structured debentures		2,984,800
Asset-backed securities		27,141,758
Overseas debentures		2,337,169,955
Time deposit		318,956,977
Beneficiary Securities		1,964,447
Total		\$2,783,306,758

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

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

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B. As of 31 December 2017, Cathay United Bank sold certain investments in debt securities with no active market classified as bonds under repurchase agreement with the notional amounts of \$22,555,953 thousand. Such repurchase agreement amounting to \$13,726,170 thousand, was recorded in the account “securities sold under agreements to repurchase” on the balance sheet. The repurchase agreement will be settled at \$13,763,664 thousand as of 31 January 2018.

C. Please refer to Note 8 for related information on the above investments in debt securities with no active market pledged as collaterals as of 31 December 2017.

(11) Investment property

	Prepayments for				
	Land	Buildings	Construction	buildings	Total
1 January 2018	\$226,503,504	\$87,366,614	\$3,546,004	\$690,203	\$318,106,325
Additions from acquisitions	38,074	6,926	3,780,125	708,349	4,533,474
Additions from subsequent expenditure	-	-	147,670	-	147,670
Transfers from property and equipment	-	(764,214)	-	-	(764,214)
Transfers to (from) investment property under construction and prepayments for buildings and land	348,277	5,011,205	(4,683,656)	(675,866)	(40)
Losses generated from fair value adjustments	(186,345)	(812,090)	-	-	(998,435)
Disposals	(148,769)	(439,000)	-	-	(587,769)
Exchange differences	(419,677)	(794,780)	-	-	(1,214,457)
31 December 2018	\$226,135,064	\$89,574,661	\$2,790,143	\$722,686	\$319,222,554

	Prepayments for				
	Land	Buildings	Construction	buildings	Total
1 January 2017	\$219,938,108	\$87,386,769	\$3,305,346	\$383,904	\$311,014,127
Additions from acquisitions	-	-	3,259,037	3,690,884	6,949,921
Additions from subsequent expenditure	-	-	128,829	-	128,829
Transfers from property and equipment	506,525	191,005	-	-	697,530
Transfers to (from) investment property under construction and prepayments for buildings and land	3,381,908	3,149,274	(3,147,208)	(3,384,585)	(611)
Gains (losses) generated from fair value adjustments	2,763,991	(3,594,432)	-	-	(830,441)
Disposals	(284,156)	(7,026)	-	-	(291,182)
Exchange differences	197,128	241,024	-	-	438,152
31 December 2017	\$226,503,504	\$87,366,614	\$3,546,004	\$690,203	\$318,106,325

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	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Rental income from investment properties	\$10,740,853	\$10,160,111
Less: Direct operating expense from investment properties generating rental income	(668,312)	(737,755)
Direct operating expense from investment properties not generating rental income	(147,154)	(160,703)
Total	\$9,925,387	\$9,261,653

A. Cathay Life and its subsidiaries' valuation of investment property has been performed by appraisers listing below from professional valuation agencies based on Regulations on Real Estate Appraisal, and valuation dates are 31 December 2018 and 31 December 2017:

Names	2018.12.31	2017.12.31
DTZ Real Estate Appraiser Firm	Chang-da, Yang; Gen-yuan, Li; Chun-chun, Hu	Chang-da, Yang; Gen-yuan, Li; Chun-chun, Hu
Savills plc Real Estate Appraiser Firm	Guang-ping, Dai; Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang	Guang-ping, Dai; Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang
REPro KnightFrank Real Estate Appraiser Firm	Hong-xu, Wu; Zhi-hao, Wu; Fu-xue, Shi	Hong-xu, Wu; Zhi-hao, Wu; Fu-xue, Shi
V-LAND Real Estate Appraiser Firm	Xi-zhong, Wang; You-qi, Liang	Xi-zhong, Wang; Yu-zhi, Gao
Shang-shang Real Estate Appraiser Firm	Hong-yuan, Wang	Hong-yuan, Wang
Sinyi Real Estate Appraiser Firm	Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang	Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang
Elite Real Estate Appraiser Firm	Yu-lin, Chen	Yu-lin, Chen
Colliers International Real Estate Appraiser Firm -		Xiu-ying, Zhan

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The recognized fair value is supported by observable evidence in the market. The main appraisal approaches applied include sales comparison approach, income approach – direct capitalization method, income approach – discounted cash flow method, cost approach and the method of land development analysis. Commercial office buildings and residences are valued by sales comparison approach and income approach mostly because of the market liquidity and comparable sales and rental cases in the neighboring areas. Hotels, department stores and marketplaces are valued by income approach – direct capitalization method and income approach – discounted cash flow method mostly because of the stable rental income in the long run. Industrial plants for lease are valued by sales comparison approach and cost approach. Wholesale stores located in industrial district are valued by cost approach since the buildings are constructed for specific purposes, thus few similar transactions could be referred to in the market. Vacant land and buildings under construction of logistics parks located in industrial and commercial integrated district are valued by cost approach. Urban renewal land with permit of construction is valued by sales comparison approach and income approach based on value of real estate right arising from urban renewal program. The real estate right may include but not limited to right for long-held buildings and hotels.

The main inputs used are as follows:

	2018.12.31	2017.12.31
Direct capitalization rate (net)	0.62%~4.39%	0.46%~4.39%
Discount rate	3.14%~4.23%	3.14%~4.23%

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

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

- B. Cathay United Bank appointed appraisers from REPro Valuation and Professional Services (Fu-Xue Shi, Zhi-Hao Wu, Hong-Xu Wu, You-Xiang Cai) to evaluate the fair value of investment property based on the “Regulations on Real Estate Appraisal” on 31 December 2018 and 31 December 2017, respectively.

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

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

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

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

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

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

The main parameters are as follows:

	2018.12.31	2017.12.31
Direct capitalization rate	1.98%~5.73%	2.03%~5.83%
Overall capital interest rate	0.76%~2.89%	0.76%~2.89%

(B) Being restricted by law, with lower development efficiency and without significant changes in the market recently, the fair value of land in hillside conservation zones, farming and pastoral land and land in scenic areas has been determined mainly by land development analysis approach and comparison approach.

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	2018.12.31	2017.12.31
Rate of return	15%	15%~20%
Overall capital interest rate	2.11%	1.63%~2.11%

C. Cathay Securities and its subsidiaries appointed an appraiser from Elite Appraisers Firm (Yu-Lin Chen) to evaluate the fair value of the investment property based on the “Regulations on Real Estate Appraisal” on 31 December 2018 and 2017, respectively.

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

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

	2018.12.31	2017.12.31
Estimated future cash inflows	\$436,792	\$440,515
Estimated future cash outflows	(18,314)	(32,000)
Estimated future net cash flows	\$418,478	\$408,515

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

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

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

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

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The replacement allowance is calculated based on the significant construction maintenance expense, which is 15% of the construction fee, under the assumption of 20 useful years, according to the R.O.C. Real Estate Appraisers Association Gazette No. 5.

The parameters used are as follows:

	2018.12.31	2017.12.31
Direct Capitalization rate (net)	2.56%	2.60%
Discount Rate	2.045%	2.045%

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

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

- D. The real estate investments are held mainly for leasing purposes.
- E. All lease agreements of the Group's lease business are operating leases. The primary terms of lease agreements are the same with general lease agreement.
- F. Rents from real estate investment are received annually, semi-annually, quarterly, monthly or in lump sum.
- G. Please refer to Note 4 for the property and equipment amounting more than \$300 million which the Group acquire and disposal.
- H. Please refer to Note 8 for related information on the above investment property being pledged as collaterals as of 31 December 2018 and 31 December 2017.

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(12) Property and equipment

Cost:	Land	Building and construction	Computer equipment	Transport equipment	Other equipment	Leasehold improvement	Leased assets	Construction in	Total
								progress and prepayment for real estate	
1 January 2018	\$123,888,389	\$57,812,084	\$6,885,863	\$120,132	\$12,439,403	\$712,137	\$276,131	\$708,564	\$202,842,703
Additions	84	-	1,399,371	3,006	460,506	166,964	-	1,495,034	3,524,965
Transfers	432,542	855,796	134,234	-	444,076	580	-	(1,255,698)	611,530
Disposal	(6,126)	(4,896)	(663,154)	(4,622)	(732,402)	(15,541)	-	-	(1,426,741)
Others (Note)	(2,400)	-	-	-	-	-	-	-	(2,400)
Exchange difference	3,837	(41,921)	13,281	3,013	11,590	5,184	4	2,574	(2,438)
31 December 2018	<u>\$124,316,326</u>	<u>\$58,621,063</u>	<u>\$7,769,595</u>	<u>\$121,529</u>	<u>\$12,623,173</u>	<u>\$869,324</u>	<u>\$276,135</u>	<u>\$950,474</u>	<u>\$205,547,619</u>
1 January 2017	\$122,044,101	\$58,247,920	\$6,491,507	\$127,720	\$12,019,249	\$673,049	\$276,169	792,853	\$200,672,568
Additions	-	545	967,243	4,820	404,825	73,159	-	2,558,596	4,009,188
Transfers	1,808,085	(367,436)	(1,692)	4,104	518,973	(41,612)	-	(2,637,201)	(716,779)
Disposal	(5,284)	(18,672)	(515,487)	(8,018)	(479,611)	(13,308)	-	-	(1,040,380)
Others	52,027	(5,503)	-	-	-	-	-	-	46,524
Exchange difference	(10,540)	(44,770)	(55,708)	(8,494)	(24,033)	20,849	(38)	(5,684)	(128,418)
31 December 2017	<u>\$123,888,389</u>	<u>\$57,812,084</u>	<u>\$6,885,863</u>	<u>\$120,132</u>	<u>\$12,439,403</u>	<u>\$712,137</u>	<u>\$276,131</u>	<u>\$708,564</u>	<u>\$202,842,703</u>
Depreciation and impairment:									
1 January 2018	\$103,134	\$21,459,719	\$5,252,487	\$83,011	\$10,154,500	\$418,285	\$275,877	\$-	\$37,747,013
Depreciation	-	1,181,675	651,538	9,556	676,601	94,137	81	-	2,613,588
Transfers	-	(551)	-	-	(182)	-	-	-	(733)
Disposal	-	(3,168)	(645,767)	(4,201)	(690,082)	(15,541)	-	-	(1,358,759)
Exchange difference	-	(1,427)	85,237	2,256	4,445	(2,330)	2	-	88,183
31 December 2018	<u>\$103,134</u>	<u>\$22,636,248</u>	<u>\$5,343,495</u>	<u>\$90,622</u>	<u>\$10,145,282</u>	<u>\$494,551</u>	<u>\$275,960</u>	<u>\$-</u>	<u>\$39,089,292</u>
1 January 2017	\$105,610	\$20,480,174	\$5,311,076	\$86,447	\$9,931,554	\$367,694	\$275,782	\$-	\$36,558,337
Depreciation	-	1,204,519	503,352	10,064	647,001	90,614	108	-	2,455,658
Transfers	-	(202,840)	(21,302)	-	42,972	(21,670)	-	-	(202,840)
Disposal	(2,476)	(14,517)	(502,015)	(7,770)	(453,535)	(12,878)	-	-	(993,191)
Exchange difference	-	(7,617)	(38,624)	(5,730)	(13,492)	(5,475)	(13)	-	(70,951)
31 December 2017	<u>\$103,134</u>	<u>\$21,459,719</u>	<u>\$5,252,487</u>	<u>\$83,011</u>	<u>\$10,154,500</u>	<u>\$418,285</u>	<u>\$275,877</u>	<u>\$-</u>	<u>\$37,747,013</u>
31 December 2018	<u>\$124,213,192</u>	<u>\$35,984,815</u>	<u>\$2,426,100</u>	<u>\$30,907</u>	<u>\$2,477,891</u>	<u>\$374,773</u>	<u>\$175</u>	<u>\$950,474</u>	<u>\$166,458,327</u>
31 December 2017	<u>\$123,785,255</u>	<u>\$36,352,365</u>	<u>\$1,633,376</u>	<u>\$37,121</u>	<u>\$2,284,903</u>	<u>\$293,852</u>	<u>\$254</u>	<u>\$708,564</u>	<u>\$165,095,690</u>

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

A. No property and equipment were pledged as collaterals.

B. Components of building that have different useful lives are the main building structures, air conditioning units and elevators, which are depreciated within 5 to 60 years.

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(13) Intangible assets

	Franchise	Trademark	Goodwill	Customer relationship	Computer software	Others	Total
Cost:							
1 January 2018	\$37,659,600	\$391,576	\$18,867,219	\$3,518,004	\$4,562,898	\$230,114	\$65,229,411
Addition-individual							
acquisition	-	-	-	-	385,053	1,536	386,589
Reduction	-	-	-	-	(128,121)	-	(128,121)
Transfers	-	-	-	-	382,466	-	382,466
Others	-	-	-	-	-	-	-
Exchange difference	-	11,610	227,623	104,310	(6,717)	6,764	343,590
31 December 2018	\$37,659,600	\$403,186	\$19,094,842	\$3,622,314	\$5,195,579	\$238,414	\$66,213,935
1 January 2017	\$37,659,600	\$423,468	\$18,919,544	\$3,804,532	\$4,160,538	\$235,458	\$65,203,140
Addition-individual							
acquisition	-	-	-	-	392,718	16,290	409,008
Reduction	-	-	-	-	(86,013)	-	(86,013)
Transfers	-	-	-	-	116,871	(3,886)	112,985
Others	-	-	597,618	-	-	-	597,618
Exchange difference	-	(31,892)	(649,943)	(286,528)	(21,216)	(17,748)	(1,007,327)
31 December 2017	\$37,659,600	\$391,576	\$18,867,219	\$3,518,004	\$4,562,898	\$230,114	\$65,229,411
Depreciation and impairment:							
1 January 2018	\$5,198,458	\$-	\$-	\$795,546	\$3,317,139	\$115,292	\$9,426,435
Amortization	2,079,383	-	-	391,108	548,587	41,956	3,061,034
Reduction	-	-	-	-	(128,121)	-	(128,121)
Exchange difference	-	-	-	31,217	(7,334)	4,237	28,120
31 December 2018	\$7,277,841	\$-	\$-	\$1,217,871	\$3,730,271	\$161,485	\$12,387,468
1 January 2017	\$3,119,075	\$-	\$-	\$441,545	\$2,975,200	\$70,077	\$6,605,897
Amortization	2,079,383	-	-	395,364	442,293	51,550	2,968,590
Reduction	-	-	-	-	(85,971)	-	(85,971)
Exchange difference	-	-	-	(41,363)	(14,383)	(6,335)	(62,081)
31 December 2017	\$5,198,458	\$-	\$-	\$795,546	\$3,317,139	\$115,292	\$9,426,435
31 December 2018	\$30,381,759	\$403,186	\$19,094,842	\$2,404,443	\$1,465,308	\$76,929	\$53,826,467
31 December 2017	\$32,461,142	\$391,576	\$18,867,219	\$2,722,458	\$1,245,759	\$114,822	\$55,802,976

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As of 31 December 2018 and 31 December 2017, the book value of goodwill was \$10,498,082 thousand and \$10,279,814 thousand, respectively. The goodwill arose from the acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015. Cathay Life and its subsidiaries acquired 100% of Conning Holdings Limited on 18 September 2015 and 81.89% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of the Company on 1 February 2016.

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

Cathay United Bank's impairment testing of goodwill:

A. Key assumptions used in value in use calculations:

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

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

(A) Discount rates:

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

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

Assumptions are based on published industry research.

C. Sensitivity to changes in assumptions:

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

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On 4 September 2015, Cathay Securities acquired 100% of the equity of Cathay Securities (Hong Kong). The goodwill arose from the acquisition amounted to \$8,629 thousand. An annual impairment test for goodwill is performed regularly. Cathay Securities estimated the recoverable amount for purpose of impairment test based on embedded value of cash-generating unit that the goodwill is allocated to. The embedded value is calculated by applying a proper discount rate. The recoverable amount is higher than the book value of the cash-generating unit that the goodwill was allocated to, no impairment recognition is necessary for goodwill.

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

	2018.12.31	2017.12.31
Designated financial liabilities at fair value through profit or loss at initial recognition:		
Bond Investment	\$51,441,482	\$53,639,010
Held for trading:		
Bond Investment	-	49,945
Derivative financial instruments	75,735,636	35,000,877
Security lending payables hedging	380,186	202,671
Security lending payables non-hedging	2,141,592	1,621,765
Subtotal	78,257,414	36,875,258
Total	\$129,698,896	\$90,514,268

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

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

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

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

(15) Commercial paper payables

	2018.12.31	2017.12.31
Commercial paper payable	\$62,990,000	\$51,470,000
Less: Discount on commercial paper payable	(633)	(1,842)
Total	\$62,989,367	\$51,468,158
Interest rate range	0.46%~0.86%	0.39%~0.52%

(16) Deposits

	2018.12.31	2017.12.31
Check deposits	\$15,781,941	\$15,129,766
Demand deposits	499,861,928	453,949,795
Demand savings deposits	847,465,305	805,442,387
Time deposits	450,145,909	414,837,677
Negotiable Certificates of Deposit	4,313,300	3,310,000
fixed savings deposits	367,920,662	368,394,533
Remittances	1,714,041	1,888,854
Total	\$2,187,203,086	\$2,062,953,012

(17) Bonds payable

	2018.12.31	2017.12.31
Cumulative perpetual subordinated debts	\$35,000,000	\$35,000,000
Subordinated financial debentures	55,600,000	63,350,000
Total	\$90,600,000	\$98,350,000

A. Cathay United Bank issued an eight-year subordinated financial debenture totaling \$3,650,000 thousand with a stated interest rate of 2.42% in June 2009, and the interest is payable quarterly. Cathay United Bank had bought back the debenture in full in June 2017.

B. Cathay United Bank issued a ten-year subordinated financial debenture totaling \$1,500,000 thousand with a stated interest rate of 2.60% in July 2009, and the interest is payable quarterly.

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- C. Cathay United Bank issued a seven-year subordinated financial debenture totaling \$3,850,000 thousand with a stated interest rate of 1.65% in March 2011 and the interest is payable quarterly. Cathay United Bank had bought back the debenture in full in March 2018.
- D. Cathay United Bank issued a ten-year subordinated financial debenture totaling \$1,500,000 thousand with a stated interest rate of 1.72% in March 2011, and the interest is payable quarterly.
- E. Cathay United Bank issued a seven-year subordinated financial debenture totaling \$3,900,000 thousand with a stated interest rate of 1.65% in June 2011, and the interest is payable quarterly. Cathay United Bank had bought back the debenture in full in June 2018.
- F. Cathay United Bank issued a ten-year subordinated financial debenture totaling \$2,500,000 thousand with a stated interest rate of 1.72% in June 2011, and the interest is payable quarterly.
- G. Cathay United Bank issued a seven-year subordinated financial debenture totaling \$200,000 thousand with a stated interest rate of 1.48% in June 2012, and the interest is payable annually.
- H. Cathay United Bank issued a ten-year subordinated financial debenture totaling \$4,200,000 thousand with a stated interest rate of 1.65% in June 2012, and the interest is payable annually.
- I. Cathay United Bank issued a ten-year subordinated financial debenture totaling \$5,600,000 thousand with a stated interest rate of 1.65% in August 2012, and the interest is payable annually.
- J. Cathay United Bank issued a seven-year subordinated financial debenture totaling \$100,000 thousand with a stated interest rate of 1.55% in April 2013, and the interest is payable annually.
- K. Cathay United Bank issued a ten-year subordinated financial debenture totaling \$9,900,000 thousand with a stated interest rate of 1.70% in April 2013, and the interest is payable annually.
- L. Cathay United Bank issued a seven-year subordinated financial debenture totaling \$3,000,000 thousand with a stated interest rate of 1.70% in May 2014, and the interest is payable annually.

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- M. Cathay United Bank issued a ten-year subordinated financial debenture totaling \$12,000,000 thousand with a stated interest rate of 1.85% in May 2014, and the interest is payable annually.
- N. Cathay United Bank issued a seven-year subordinated financial debenture totaling \$2,400,000 thousand with a stated interest rate of 1.50% in April 2017, and the interest is payable annually.
- O. Cathay United Bank issued a ten-year subordinated financial debenture totaling \$12,700,000 thousand with a stated interest rate of 1.85% in April 2017, and the interest is payable annually.
- P. Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.
- Q. Pursuant to Letter Cheng-Gui-Chai-Zi No. 10600099421 issued by the Taipei Exchange, Cathay Life issued its first cumulative perpetual subordinated financial debentures on 12 May 2017 through public offering. The key terms and conditions are as follows:
- (A) Issue amount: \$35,000,000 thousand.
 - (B) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
 - (C) Years to maturity: Perpetual.
 - (D) Coupon rate: Fixed rate of 3.3% from the issue date to the tenth year, plus 1% if the bonds are not redeemed after the tenth year maturity.
 - (E) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
 - (F) Right of early redemption: If Cathay Life's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, Cathay Life may, with the approval of the competent authorities, redeem the bonds in full after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest.

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

(H) Interest expense: Interest expense amounting to \$1,155,000 thousand and \$740,460 thousand for the years ended 31 December 2018 and 2017, respectively.

(18) Other financial liabilities

	2018.12.31	2017.12.31
Separate account insurance products-liabilities	\$546,964,261	\$555,269,179
Principle received from the sale of structured products	76,615,204	66,057,646
Other financial liabilities	4,235,713	2,200,487
Total	<u>\$627,815,178</u>	<u>\$623,527,312</u>

(19) Provisions

	2018.12.31	2017.12.31
Unearned premium reserve	\$28,779,799	\$27,480,991
Reserve for insurance liabilities	5,225,589,934	4,861,153,723
Special reserve	14,356,733	14,472,530
Reserve for claims	17,377,650	15,658,481
Premium deficiency reserve	22,559,651	26,244,942
Reserve for insurance contracts with feature of financial instruments	9,318,713	8,761,609
Foreign exchange volatility reserve	17,075,289	11,589,138
Reserve for Guarantees	163,715	72,897
Finance commitment reserve	233,938	-
Reserve for employee benefits liabilities	3,697,333	3,731,382
Contingent liabilities reserve	861,422	1,316,319
Other operating reserve	26,979	28,674
Other reserve	1,894,570	1,916,570
Total	<u>\$5,341,935,726</u>	<u>\$4,972,427,256</u>

A. Life insurance subsidiaries

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

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(A) Reserve for life insurance liabilities:

	2018.12.31			2017.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance (Note 1)	\$4,536,368,929	\$8,236	\$4,536,377,165	\$4,231,739,400	\$954,240	\$4,232,693,640
Injury insurance	7,446,584	-	7,446,584	7,613,529	-	7,613,529
Health insurance	653,629,984	-	653,629,984	586,985,448	-	586,985,448
Annuity insurance	1,395,567	25,839,454	27,235,021	1,381,493	31,964,758	33,346,251
Investment-linked insurance	440,541	-	440,541	514,800	-	514,800
Total (Note 2)	5,199,281,605	25,847,690	5,225,129,295	4,828,234,670	32,918,998	4,861,153,668
Less ceded reserve for life insurance liabilities:						
Life insurance	365,409	-	365,409	301,806	-	301,806
Net amount	\$5,198,916,196	\$25,847,690	\$5,224,763,886	\$4,827,932,864	\$32,918,998	\$4,860,851,862

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

Note 2: Total reserve for life insurance liabilities after including reserve for life insurance liabilities – payables for the insured amounted to \$5,225,589,886 thousand as of 31 December 2018.

Reserve for life insurance liabilities is summarized below:

	2018.1.1~2018.12.31			2017.1.1~2017.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$4,828,234,670	\$32,918,998	\$4,861,153,668	\$4,438,878,359	\$39,592,835	\$4,478,471,194
Reserve	635,630,693	374,465	636,005,158	684,926,503	75,528	685,002,031
Recover	(290,898,770)	(7,420,310)	(298,319,080)	(225,706,949)	(6,748,056)	(232,455,005)
Losses (gains) on foreign exchange	26,315,012	(25,463)	26,289,549	(69,863,243)	(1,309)	(69,864,552)
Ending balance	5,199,281,605	25,847,690	5,225,129,295	4,828,234,670	32,918,998	4,861,153,668
Less ceded reserve for life insurance liabilities:						
Beginning balance - net	301,806	-	301,806	228,765	-	228,765
Increase	73,160	-	73,160	72,802	-	72,802
Gains (losses) on foreign exchange	(9,557)	-	(9,557)	239	-	239
Ending balance - net	365,409	-	365,409	301,806	-	301,806
Total	\$5,198,916,196	\$25,847,690	\$5,224,763,886	\$4,827,932,864	\$32,918,998	\$4,860,851,862

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(B) Unearned premium reserve:

	2018.12.31			2017.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$73,117	\$-	\$73,117	\$665,528	\$-	\$665,528
Individual injury insurance	6,497,571	-	6,497,571	5,652,009	-	5,652,009
Individual health insurance	8,843,583	-	8,843,583	8,344,463	-	8,344,463
Group insurance	1,225,893	-	1,225,893	1,208,703	-	1,208,703
Investment-linked insurance	112,153	-	112,153	107,496	-	107,496
Total	16,752,317	-	16,752,317	15,978,199	-	15,978,199
Less ceded unearned premium reserve:						
Individual life insurance	509,092	-	509,092	242,609	-	242,609
Individual injury insurance	9,703	-	9,703	6,152	-	6,152
Individual health insurance	105,542	-	105,542	51,807	-	51,807
Total	624,337	-	624,337	300,568	-	300,568
Net	\$16,127,980	\$-	\$16,127,980	\$15,677,631	\$-	\$15,677,631

Unearned premium reserve is summarized below:

	2018.1.1~2018.12.31			2017.1.1~2017.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$15,978,199	\$-	\$15,978,199	\$15,043,034	\$-	\$15,043,034
Reserve	16,748,750	-	16,748,750	15,960,004	-	15,960,004
Recover	(15,967,880)	-	(15,967,880)	(15,027,631)	-	(15,027,631)
Losses (gains) on foreign exchange	(6,752)	-	(6,752)	(4,085)	-	(4,085)
Other (Note)	-	-	-	6,877	-	6,877
Ending balance	16,752,317	-	16,752,317	15,978,199	-	15,978,199
Less ceded unearned premium reserve:						
Beginning balance - Net	300,568	-	300,568	199,829	-	199,829
Increase	323,769	-	323,769	104,746	-	104,746
Decrease	-	-	-	(3,886)	-	(3,886)
Gains (losses) on foreign exchange	-	-	-	(121)	-	(121)
Total	624,337	-	624,337	300,568	-	300,568
Ending balance - Net	\$16,127,980	\$-	\$16,127,980	\$15,677,631	\$-	\$15,677,631

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

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(C) Reserve for claims:

	2018.12.31			2017.12.31		
	Financial			Financial		
	instruments with discretionary			instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
– Reported but not paid claim	\$1,482,412	\$9,145	\$1,491,557	\$988,671	\$2,678	\$991,349
– Unreported claim	78,293	-	78,293	72,113	-	72,113
Individual injury insurance						
– Reported but not paid claim	27,845	-	27,845	93,382	-	93,382
– Unreported claim	1,781,854	-	1,781,854	1,578,252	-	1,578,252
Individual health insurance						
– Reported but not paid claim	867,032	-	867,032	913,492	-	913,492
– Unreported claim	2,813,866	-	2,813,866	2,521,553	-	2,521,553
Group insurance						
– Reported but not paid claim	51,463	-	51,463	71,934	-	71,934
– Unreported claim	1,572,121	-	1,572,121	1,200,534	-	1,200,534
Investment-linked insurance						
– Reported but not paid claim	218,680	-	218,680	129,722	-	129,722
– Unreported claim	620	-	620	3,566	-	3,566
Total	8,894,186	9,145	8,903,331	7,573,219	2,678	7,575,897
Less ceded reserve for claims:						
Individual life insurance	8,479	-	8,479	34	-	34
Individual health insurance	14,030	-	14,030	8,712	-	8,712
Group insurance	-	-	-	938	-	938
Total	22,509	-	22,509	9,684	-	9,684
Net	\$8,871,677	\$9,145	\$8,880,822	\$7,563,535	\$2,678	\$7,566,213

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Reserve for claims is summarized below:

	2018.1.1~2018.12.31			2017.1.1~2017.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$7,573,219	\$2,678	\$7,575,897	\$6,498,808	\$1,056	\$6,499,864
Reserve	8,906,122	9,145	8,915,267	7,474,026	2,678	7,476,704
Recover	(7,582,459)	(2,678)	(7,585,137)	(6,411,017)	(1,056)	(6,412,073)
Losses (gains) on foreign exchange	(2,696)	-	(2,696)	(6,251)	-	(6,251)
Other (Note)	-	-	-	17,653	-	17,653
Ending balance	\$8,894,186	9,145	8,903,331	7,573,219	2,678	7,575,897
Less ceded reserve for claims:						
Beginning balance-Net	9,684	-	9,684	41,683	-	41,683
Increase	13,120	-	13,120	6,033	-	6,033
Decrease	-	-	-	(38,117)	-	(38,117)
Gains (losses) on foreign exchange	(295)	-	(295)	85	-	85
Total	22,509	-	22,509	9,684	-	9,684
Net	\$8,871,677	\$9,145	\$8,880,822	\$7,563,535	\$2,678	\$7,566,213

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

(D) Special reserve:

	2018.12.31				2017.12.31			
	Financial instruments with discretionary				Financial instruments with discretionary			
	Insurance contract	participation feature	Other	Total	Insurance contract	participation feature	Other	Total
Participating policies dividends reserve	\$(62,254)	\$-	\$-	\$(62,254)	\$(59,358)	\$-	\$-	\$(59,358)
Dividends reserve	63,184	-	-	63,184	60,247	-	-	60,247
Special reserve for revaluation increments of property	-	-	11,083,324	11,083,324	-	-	11,083,324	11,083,324
Total	\$930	\$-	\$11,083,324	\$11,084,254	\$889	\$-	\$11,083,324	\$11,084,213

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Special reserve is summarized below:

	2018.1.1~2018.12.31				2017.1.1~2017.12.31			
	Financial instruments with discretionary participation		Other	Total	Financial instruments with discretionary participation		Other	Total
	Insurance contract	feature				Insurance contract		
Beginning balance	\$889	\$-	\$11,083,324	\$11,084,213	\$1,639	\$-	\$15,416,619	\$15,418,258
Effects on retrospective and restatement on IFRS 9	(395)	-	-	(395)	-	-	-	-
Reserves for participating policies dividends reserve	5,488	-	-	5,488	15,837	-	-	15,837
Participating policies dividends recover	(7,990)	-	-	(7,990)	(8,177)	-	-	(8,177)
Dividends reserve (recovery)	2,938	-	-	2,938	(8,410)	-	-	(8,410)
Recover from special reserve for revaluation increments of property (Note)	-	-	-	-	-	-	(4,333,295)	(4,333,295)
Ending balance	\$930	\$-	\$11,083,324	\$11,084,254	\$889	\$-	\$11,083,324	\$11,084,213

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

(E) Premium deficiency reserve:

	2018.12.31			2017.12.31		
	Financial instruments with discretionary participation		Total	Financial instruments with discretionary participation		Total
	Insurance contract	feature			Insurance contract	
Individual life insurance	\$20,966,673	\$-	\$20,966,673	\$24,537,677	\$-	\$24,537,677
Individual injury insurance	1,229	-	1,229	-	-	-
Individual health insurance	1,508,079	-	1,508,079	1,639,247	-	1,639,247
Group insurance	72,323	-	72,323	55,393	-	55,393
Total	\$22,548,304	\$-	\$22,548,304	\$26,232,317	\$-	\$26,232,317

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Premium deficiency reserve is summarized below:

	2018.1.1~2018.12.31			2017.1.1~2017.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$26,232,317	\$-	\$26,232,317	\$29,761,081	\$-	\$29,761,081
Reserve	172,966	-	172,966	1,124,133	-	1,124,133
Recover	(3,984,323)	-	(3,984,323)	(4,013,922)	-	(4,013,922)
Losses (gains) on foreign exchange	127,344	-	127,344	(638,975)	-	(638,975)
Ending balance	\$22,548,304	\$-	\$22,548,304	\$26,232,317	\$-	\$26,232,317

(F) Other reserve:

	2018.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Others	\$1,894,570	\$-	\$1,894,570

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

Other reserve is summarized below:

	2018.1.1~2018.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$1,916,570	\$-	\$1,916,570
Recover	(22,000)	-	(22,000)
Ending balance	\$1,894,570	\$-	\$1,894,570

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	2017.1.1~2017.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$1,938,792	\$-	\$1,938,792
Recover	(22,222)	-	(22,222)
Ending balance	\$1,916,570	\$-	\$1,916,570

(G) Liability adequacy reserve:

	Insurance contract and financial instruments with discretionary participation feature	
	2018.12.31	2017.12.31
Reserve for life insurance liabilities	\$5,225,129,295	\$4,861,153,668
Unearned premium reserve	16,752,317	15,978,199
Premium deficiency reserve	22,548,304	26,232,317
Other reserve	1,894,570	1,916,570
Total	\$5,266,324,486	\$4,905,280,754
Book value of insurance liabilities	\$5,266,324,486	\$4,905,280,754
Estimated present value of cash flows	\$4,244,307,094	\$4,158,559,601
Balance of liability adequacy reserve	\$-	\$-

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

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

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

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

Note 5: The expense assumption under estimated present value of cash flows of Cathay Life (Vietnam) started to adopt actual expense in the calculation of estimated present value of cash flows from 30 June 2017.

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

	2018.12.31	2017.12.31
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing
Assumptions		
a. Information of policies	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.
b. Discount rate	Under assets allocation plan on 30 September 2018, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2017, with neutral assumption for discount rates after 30 years.	Under assets allocation plan on 30 September 2017, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2016, with neutral assumption for discount rates after 30 years.

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

	2018.12.31	2017.12.31
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing
Assumptions		
a. Information of policies	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.
b. Discount rate	Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2017, with neutral assumption for discount rates after 30 years.	Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2016, with neutral assumption for discount rates after 30 years.

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

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

	2018.12.31	2017.12.31
Life insurance	\$8,475,663	\$8,421,434
Investment-linked insurance	843,050	340,175
Total	<u>\$9,318,713</u>	<u>\$8,761,609</u>
	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Beginning balance	\$8,761,609	\$10,320,750
Premiums received	2,442,568	3,550,568
Insurance claim payments	(309,262)	(4,615,860)
Net recovery of statutory reserve	(1,381,439)	(456,520)
Losses on foreign exchange	(194,763)	(37,329)
Ending balance	<u>\$9,318,713</u>	<u>\$8,761,609</u>

(I) Foreign exchange volatility reserve

a. The hedge strategy and risk exposure:

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

b. Adjustment in foreign exchange volatility reserve:

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Beginning balance	\$11,589,138	\$9,871,478
Reserve:		
Compulsory reserve	5,712,886	4,434,707
Extra reserve	6,990,539	3,558,983
Subtotal	<u>12,703,425</u>	<u>7,993,690</u>
Recover	(7,217,274)	(6,276,030)
Ending balance:	<u>\$17,075,289</u>	<u>\$11,589,138</u>

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c. Effects due to foreign exchange volatility reserve:

2018.1.1~2018.12.31			
Items	Inapplicable amount (1)	Applicable amount (2)	Effects (3)=(2)-(1)
Consolidated income	\$56,211,177	\$51,822,256	(4,388,921)
Earnings per share	4.29	3.95	(0.34)
Foreign exchange volatility reserve	-	17,075,289	17,075,289
Equity	539,346,329	529,288,995	(10,057,334)

2017.1.1~2017.12.31			
Items	Inapplicable amount (1)	Applicable amount (2)	Effects (3)=(2)-(1)
Consolidated income	\$58,098,882	\$56,673,224	\$(1,425,658)
Earnings per share	4.59	4.47	(0.12)
Foreign exchange volatility reserve	-	11,589,138	11,589,138
Equity	614,138,956	608,470,543	(5,668,413)

B. Century Insurance subsidiaries

(A) Unearned premiums reserve

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

Items	2018.12.31			
	Unearned premium reserve		Ceded unearned premium reserve	
	Assumed			
	Direct business (1)	reinsurance business (2)	Ceded reinsurance business (3)	Retained business (4)=(1)+(2)-(3)
Fire insurance	\$1,876,580	\$202,282	\$1,131,256	\$947,606
Marine insurance	160,920	7,893	105,301	63,512
Land and air insurance	4,958,232	1,117	207,212	4,752,137
Liability insurance	741,928	998	266,606	476,320
Bonding insurance	51,296	680	36,484	15,492
Other property insurance	676,105	76,291	387,989	364,407
Accident insurance	1,463,714	5,146	74,007	1,394,853
Health insurance	62,309	9,562	-	71,871
Compulsory automobile liability insurance	1,261,457	470,972	756,874	975,555
Total	\$11,252,541	\$774,941	\$2,965,729	\$9,061,753

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Items	2017.12.31			
	Unearned premium reserve		Ceded unearned premium reserve	
	Assumed		Ceded reinsurance business (3)	Retained business (4)=(1)+(2)-(3)
	Direct business (1)	reinsurance business (2)		
Fire insurance	\$1,899,499	\$155,807	\$1,129,219	\$926,087
Marine insurance	139,713	7,157	89,549	57,321
Land and air insurance	4,648,199	2,662	226,719	4,424,142
Liability insurance	649,586	1,190	217,136	433,640
Bonding insurance	45,555	881	30,975	15,461
Other property insurance	623,633	62,732	378,745	307,620
Accident insurance	1,450,237	3,287	54,793	1,398,731
Health insurance	52,174	5,343	-	57,517
Compulsory automobile liability insurance	1,270,317	484,820	762,203	992,934
Total	\$10,778,913	\$723,879	\$2,889,339	\$8,613,453

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

Items	2018.1.1~2018.12.31		2017.1.1~2017.12.31	
	Unearned premium reserve	Ceded unearned premium reserve	Unearned premium reserve	Ceded unearned premium reserve
Beginning balance	\$11,502,792	\$2,889,339	\$11,100,264	\$2,752,276
Others	-	-	3,566	-
Reserve	12,026,512	2,965,186	11,506,609	2,891,151
Recover	(11,503,079)	(2,889,475)	(11,098,759)	(2,749,504)
Effects of exchange rate changes	1,257	679	(8,888)	(4,584)
Ending balance	\$12,027,482	\$2,965,729	\$11,502,792	\$2,889,339

(B) Claims reserve

a. Claims reserve and ceded claims reserve

Items	2018.12.31			
	Claims reserve		Ceded claims reserve	
	Direct underwriting business (1)	Assumed reinsurance business (2)	Ceded reinsurance business (3)	Retained business (4)=(1)+(2)-(3)
Claims reported but not paid off	\$3,670,166	\$330,733	\$1,231,776	\$2,769,123
Unreported claims	4,026,955	446,465	1,113,251	3,360,169
Total	\$7,697,121	\$777,198	\$2,345,027	\$6,129,292

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2017.12.31				
Items	Claims reserve		Ceded claims reserve	
	Direct underwriting business	Assumed reinsurance business	Ceded	
	(1)	(2)	reinsurance business	Retained business
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Claims reported but not paid off	\$3,557,040	\$286,595	\$1,342,214	\$2,501,421
Unreported claims	3,796,257	442,692	1,132,260	3,106,689
Total	\$7,353,297	\$729,287	\$2,474,474	\$5,608,110

b. Net changes for claims reserve and ceded claims reserve

2018.1.1~2018.12.31								
Items	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve (5)=(1)-(2)+(3)-(4)	Ceded reinsurance business		Net change for ceded claims reserve (8)=(6)-(7)
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)		(6)	(7)	
Claims reported but not paid off	\$3,669,107	\$3,557,618	\$330,733	\$286,595	\$155,627	\$1,230,864	\$1,342,737	\$(111,873)
Unreported claims	4,026,858	3,796,287	446,465	442,692	234,344	1,113,202	1,132,273	(19,071)
Total	\$7,695,965	\$7,353,905	\$777,198	\$729,287	\$389,971	\$2,344,066	\$2,475,010	\$(130,944)

2017.1.1~2017.12.31								
Items	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve (5)=(1)-(2)+(3)-(4)	Ceded reinsurance business		Net change for ceded claims reserve (8)=(6)-(7)
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)		(6)	(7)	
Claims reported but not paid off	\$3,564,752	\$5,923,908	\$286,595	\$235,435	\$(2,307,996)	\$1,349,185	\$3,252,095	\$(1,902,910)
Unreported claims	3,796,651	3,257,979	442,692	417,005	564,359	1,132,442	937,807	194,635
Total	\$7,361,403	\$9,181,887	\$729,287	\$652,440	\$(1,743,637)	\$2,481,627	\$4,189,902	\$(1,708,275)

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

Items	2018.12.31		
	Claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$801,557	\$15,818	\$817,375
Marine insurance	238,811	2,757	241,568
Land and air insurance	1,385,474	1,329,879	2,715,353
Liability insurance	432,229	737,982	1,170,211
Bonding insurance	70,043	67,414	137,457
Other property insurance	414,592	155,267	569,859
Accident insurance	131,876	557,243	689,119
Health insurance	2,058	48,746	50,804
Compulsory automobile liability insurance	524,259	1,558,314	2,082,573
Total	\$4,000,899	\$4,473,420	\$8,474,319

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

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d. Reinsurance asset-ceded claims reserve for policyholder

Items	2018.12.31		
	Ceded claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$354,864	\$7,644	\$362,508
Marine insurance	146,021	675	146,696
Land and air insurance	75,958	38,139	114,097
Liability insurance	259,524	258,328	517,852
Bonding insurance	32,831	40,365	73,196
Other property insurance	151,157	51,462	202,619
Accident insurance	4,764	34,967	39,731
Health insurance	-	-	-
Compulsory automobile liability insurance	206,657	681,671	888,328
Total	\$1,231,776	\$1,113,251	\$2,345,027

Items	2017.12.31		
	Ceded claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$550,259	\$5,457	\$555,716
Marine insurance	190,450	812	191,262
Land and air insurance	60,768	77,285	138,053
Liability insurance	231,297	217,576	448,873
Bonding insurance	29,331	78,160	107,491
Other property insurance	130,131	30,718	160,849
Accident insurance	4,857	35,844	40,701
Health insurance	-	324	324
Compulsory automobile liability insurance	145,121	686,084	831,205
Total	\$1,342,214	\$1,132,260	\$2,474,474

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e. Reconciliation statement of claims reserve and ceded claims reserve

Items	2018.1.1~2018.12.31		2017.1.1~2017.12.31	
	Claims reserve	Ceded claims reserve	Claims reserve	Ceded claims reserve
Beginning balance	\$8,082,584	\$2,474,474	\$9,843,664	\$4,198,314
Others	-	-	367	170
Reserve	8,473,163	2,344,066	8,090,690	2,481,627
Recover	(8,083,192)	(2,475,010)	(9,834,327)	(4,189,902)
Effects of exchange rate changes	1,764	1,497	(17,810)	(15,735)
Ending balance	\$8,474,319	\$2,345,027	\$8,082,584	\$2,474,474

(C) Special reserve

a. Special reserve - Compulsory automobile liability insurance

Items	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Beginning balance	\$1,575,128	\$1,530,609
Reserve	116,093	121,427
Recover	(213,205)	(76,908)
Ending balance	\$1,478,016	\$1,575,128

b. Special reserve - Non-compulsory automobile liability insurance

Items	Liability					
	2018.1.1~2018.12.31			2017.1.1~2017.12.31		
	Major incidents	Fluctuation of risks	Total	Major incidents	Fluctuation of risks	Total
Beginning balance	\$468,172	\$1,345,017	\$1,813,189	\$486,899	\$1,345,017	\$1,831,916
Reserve	-	-	-	-	-	-
Recover	(18,726)	-	(18,726)	(18,727)	-	(18,727)
Ending balance	\$449,446	\$1,345,017	\$1,794,463	\$468,172	\$1,345,017	\$1,813,189

“Precautions of Strengthening Disaster Insurance of Property Insurance Industry (Commercial Earthquake and Typhoons Flood Insurance)”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”, “Regulations for the Management of the Various Reserves for the nuclear Insurance”, and other rules governing reserves had impact on Cathay Century and its subsidiaries’ income before tax by decreasing in \$18,727 thousand, the special reserve under liabilities by decreasing in \$1,485,963 thousand and equity by increasing in \$508,108 thousand, respectively. The effect of not paying attention to the earnings per shareholder was decreasing \$0.05.

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(D) Premiums deficiency reserve

a. Premiums deficiency reserve and ceded premium deficiency reserve

2018.12.31				
Items	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Fire insurance	\$-	\$-	\$-	\$-
Marine insurance	2,253	714	-	2,967
Land and air insurance	7,512	868	-	8,380
Liability insurance	-	-	-	-
Bonding insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-
Total	\$9,765	\$1,582	\$-	\$11,347

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

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

Items	2018.1.1~2018.12.31								
	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve	Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Marine insurance	2,253	1,144	714	103	1,720	-	-	-	1,720
Land and air insurance	7,512	8,446	868	2,932	(2,998)	-	2,578	(2,578)	(420)
Liability insurance	-	-	-	-	-	-	-	-	-
Bonding insurance	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-	-	-	-	-	-
Total	\$9,765	\$9,590	\$1,582	\$3,035	\$(1,278)	\$-	\$2,578	\$(2,578)	\$1,300

Items	2017.1.1~2017.12.31								
	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve	Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Marine insurance	1,144	-	103	-	1,247	-	-	-	1,247
Land and air insurance	8,446	1,640	2,932	8,893	845	2,578	-	2,578	(1,733)
Liability insurance	-	-	-	-	-	-	-	-	-
Bonding insurance	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-	-	-	-	-	-
Total	\$9,590	\$1,640	\$3,035	\$8,893	\$2,092	\$2,578	\$-	\$2,578	\$(486)

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

Items	2018.1.1~2018.12.31		2017.1.1~2017.12.31	
	Premiums deficiency reserve	Ceded premiums deficiency reserve	Premiums deficiency reserve	Ceded premiums deficiency reserve
Beginning balance	\$12,625	\$2,578	\$10,533	\$-
Reserve	11,347	-	12,625	2,578
Recover	(12,625)	(2,578)	(10,533)	-
Ending balance	\$11,347	\$-	\$12,625	\$2,578

d. Effects for the change of estimation and assumption

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

(E) Liability reserve

a. Liability reserve and liability-ceded reserve

Item	2018.12.31			
	Liability reserve		Liability-ceded reserve	
	Direct written business	Reinsurance ceded-in	Reinsurance ceded-out	Retention
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Health insurance	\$48	\$-	\$-	\$48

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

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b. Net change for liability reserve and liability reserve ceded

2018.1.1~2018.12.31								
Item	Direct written business		Reinsurance ceded-in		Net change for liability reserve (5)=(1)-(2)+(3)-(4)	Reinsurance ceded-out		Net change for liability reserve ceded (8)=(6)-(7)
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)		(6)	(7)	
Health insurance	\$21	\$28	\$-	\$-	\$ (7)	\$-	\$-	\$-

2017.1.1~2017.12.31								
Item	Direct written business		Reinsurance ceded-in		Net change for liability reserve (5)=(1)-(2)+(3)-(4)	Reinsurance ceded-out		Net change for liability reserve ceded (8)=(6)-(7)
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)		(6)	(7)	
Health insurance	\$25	\$12	\$-	\$-	\$13	\$-	\$-	\$-

(20) Post-employment benefits

A. Defined contribution plans

The Company and its domestic subsidiaries adopt a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company and its domestic subsidiaries will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company and its domestic subsidiaries have made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

The Company's subsidiary located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts.

Pension benefits for employees of the Group's overseas subsidiaries and branches are provided in accordance with the local regulations.

Expenses under the defined contribution plan recognized by the Group for the years ended 31 December 2018 and 2017 are \$1,573,731 thousand and \$1,533,681 thousand, respectively.

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B. Defined benefit plans

The Company and its domestic subsidiaries adopt a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the six months of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company and its domestic subsidiaries contribute an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Company and its domestic subsidiaries assess the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Company and its domestic subsidiaries will make up the difference in one appropriation before the end of March the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Group expects to contribute \$650,552 thousand to its defined benefit plan during the 12 months beginning after 31 December 2018.

The average duration of the defined benefits plan obligation as at 31 December 2018 and 2017, are 2028~2030 years and 2027~2030 years.

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

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Current period service costs	\$472,769	\$464,079
Past period service costs	440	-
Interest expense from net defined benefit liability	(15,727)	(10,917)
Total	<u>\$457,482</u>	<u>\$453,162</u>

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

	2018.12.31	2017.12.31
Defined benefit obligation	\$19,952,668	\$19,097,444
Fair value of plan assets	(22,568,069)	(20,515,721)
Net defined benefit liability (asset)	<u>\$ (2,615,401)</u>	<u>\$ (1,418,277)</u>

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

	Defined benefit obligation	Fair value of plan assets	Net Defined Benefit liability (asset)
2017.1.1	\$18,744,357	\$(19,344,726)	\$(600,369)
Current period service costs	464,079	-	464,079
Net interest expense (income)	243,864	(254,781)	(10,917)
Subtotal	<u>707,943</u>	<u>(254,781)</u>	<u>453,162</u>
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	529	-	529
Actuarial gains and losses arising from changes in financial assumptions	595,374	-	595,374
Experience adjustments	417,137	-	417,137
Remeasurements of the net defined benefit asset	-	(282,187)	(282,187)
Subtotal	<u>1,013,040</u>	<u>(282,187)</u>	<u>730,853</u>
Payments from the plan	(1,367,871)	1,363,493	(4,378)
Contributions by employer	-	(1,989,278)	(1,989,278)
Effects of exchange rate changes	(25)	-	(25)
Other	-	(8,242)	(8,242)
2017.12.31	<u>19,097,444</u>	<u>(20,515,721)</u>	<u>(1,418,277)</u>
Current period service costs	472,769	-	472,769
Past period service costs	440	-	440
Net interest expense (income)	194,084	(209,811)	(15,727)
Subtotal	<u>667,293</u>	<u>(209,811)</u>	<u>457,482</u>
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	381	-	381
Actuarial gains and losses arising from changes in financial assumptions	930,511	-	930,511
Experience adjustments	337,765	-	337,765
Remeasurements of the net defined benefit asset	-	(1,626,917)	(1,626,917)
Subtotal	<u>1,268,657</u>	<u>(1,626,917)</u>	<u>(358,260)</u>
Payments from the plan	(1,080,714)	1,083,132	2,418
Contributions by employer	-	(1,298,752)	(1,298,752)
Effects of exchange rate changes	(12)	-	(12)
2018.12.31	<u>\$19,952,668</u>	<u>\$ (22,568,069)</u>	<u>\$ (2,615,401)</u>

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

	<u>2018.12.31</u>	<u>2017.12.31</u>
Discount rate	0.90%~1.36%	1.01%~1.60%
Expected rate of salary increases	1.50%~3.50%	1.00%~3.00%

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

	<u>2018.1.1~ 2018.12.31</u>		<u>2017.1.1~ 2017.12.31</u>	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate decrease (increase) by 0.5%	\$1,044,937	(963,074)	\$1,033,684	\$(961,811)
Future salary increase (decrease) by 0.5%	1,004,863	(943,104)	1,007,234	(942,715)

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

Employee preferential interest rate deposits plan

Cathay United Bank has the obligation to pay the preferential interest deposits for current employees and retired employees as according to the “Regulation for Employee Preferential Interest Rate Deposits of Cathay United Bank”.

Expenses under preferential interest rate deposits plan amounted to \$283,966 thousand and \$271,804 thousand were recognized for the years ended 31 December 2018 and 2017, and recorded as “Employee benefits expenses”, respectively.

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Pension costs recognized in profit or loss for the years ended 31 December 2018 and 2017:

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Current period service costs	\$-	\$-
Interest expense	21,449	21,363
Total	<u>\$21,449</u>	<u>\$21,363</u>

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

	2018.12.31	2017.12.31
Defined benefit obligation	\$(595,751)	\$(579,063)
Fair value of plan assets	-	-
Other non-current liabilities - Net defined benefit liability	<u>\$(595,751)</u>	<u>\$(579,063)</u>

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

	Defined benefit obligation
2017.1.1	<u>\$576,083</u>
Defined benefit cost recognized in profit or loss	
Net interest expense	21,363
Subtotal	<u>21,363</u>
Defined benefit cost — recognized in other comprehensive income	
Experience adjustments	67,369
Subtotal	<u>67,369</u>
Payments from the plan	<u>(85,752)</u>
2017.12.31	579,063
Defined benefit cost recognized in profit or loss	
Net interest expense	21,449
Subtotal	<u>21,449</u>
Defined benefit cost — recognized in other comprehensive income	
Experience adjustments	83,789
Subtotal	<u>83,789</u>
Payments from the plan	<u>(88,550)</u>
2018.12.31	<u>\$595,751</u>

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The following significant actuarial assumptions are used to determine Cathay United Bank's present value of the defined benefit obligation:

	2018.12.31	2017.12.31
Discount rate	4.00%	4.00%
Expected rate of return on deposited fund	2.00%	2.00%
Withdrawal rate of preferential interest rate deposits	1.00%	1.00%

A sensitivity analysis for significant assumption as at 31 December 2018 and 2017 is, as shown below:

	Effect on the defined benefit obligation			
	2018		2017	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate decrease (increase) by 0.5%	\$31,575	\$(29,192)	\$31,269	\$(28,374)
Death rate adjusted decrease (increase) by 0.5%	5,958	(5,958)	5,791	(5,791)
Interest rate of premium deposit decrease (increase) by 0.5%	139,406	(139,406)	135,501	(135,501)

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

(21) Capital Stock

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

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B. Issuance of Series A preferred stock

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

- (A) 3.8% per annum for Series A Preferred Shares (7-year IRS 1.06%+2.74%) calculated pursuant to issue price per share. Interest rate per annum will be reset on the day after the 7th anniversary of the issue date (“Issue Date”) and the day after each subsequent 7-year period hereafter. Record date for interest reset shall be the previous 2 business day for financial institutions in Taipei. The 7-year IRS rate shall be the arithmetic mean of 7-year IRS quotations as published by Reuter, PYTWDFIX and COSMOS3 at 11:00 a.m. of the day of reset record date (must be a business day for Taipei’s financial institutions). If the above quotations cannot be obtained on reset record date, interest rate shall be decided by the issuer in good faith and taken into account of reasonable market rate.
- (B) Dividends for Series A Preferred Shares are distributed once per year in cash. After shareholders’ approval of issuer’s financial statements at its annual shareholders meeting, the board may set record date for distribution of available dividends from the previous year. Dividend distribution for the years of issuance and redemption (such as the shareholders’ approval of dividends declaration on shareholders meeting) shall be calculated pursuant to actual issued days of the given year.
- (C) In the year when making earnings, before Issuer can distribute dividends for Series A Preferred Shares, the Company shall first: (i) pay all taxes and dues (ii) offset its losses in previous years (iii) set aside statutory reserve, or set aside or reverse special reserve and (iv) the distribution of the remaining portion, if any, will first be distributed as preferred share dividend.
- (D) The Company has sole discretion to distribute dividend of the Preferred Shares, including its discretion to not declare dividends when no profit is recorded, or insufficient profit is recorded for Preferred Share dividends, or preferred share dividend distribution would render the Company’s RBC ratio below the level required by law or competent authorities. The Company’s cancellation of preferred share dividend distribution shall not be deemed an event of default. The Series A Preferred Shares which were issued this time are non-cumulative. Undeclared or under-declared dividends are not cumulative, and are not paid in subsequent years with profit.

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- (E) Except for receipt of dividends at the aforementioned dividend rate in Paragraph (A), holders of Preferred Shares cannot participate in distribution of cash or stock dividends to holders of common shares from profit or additional paid-in capital.
- (F) Holders of Series A Preferred Shares shall have the same priority as holders of all subsequently issued preferred share in liquidation, which are prior to holders of common shares but subordinated to general creditors, to the extent of the issuance amount.
- (G) Holders of Series A Preferred Shares have no voting right at the annual shareholders meeting, and cannot elect directors. However, holders of Series A Preferred Shares have voting rights at shareholders meeting of Preferred Shares, and at annual shareholders meeting on items relating to rights of Preferred Shares holders.
- (H) Holders of Series A Preferred Shares cannot convert said preferred shares to common shares, and have no right to request the Company for redemption of Series A Preferred Shares.
- (I) Through issuance of perpetual preferred stock, on the day after the 7th anniversary of the Issue Date, the Company may redeem all or part of outstanding Preferred Shares at issue price. Rights and obligations of the unredeemed Preferred Shares shall remain the same as mentioned above.

C. Issuance of Series B preferred stock

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

- (A) 3.55% per annum for Series B Preferred Shares (7-year IRS 1.1675%+2.3825%) calculated pursuant to issue price per share. Interest rate per annum will be reset on the day after the 7th anniversary of the issue date (“Issue Date”) and the day after each subsequent 7-year period hereafter. Record date for interest reset shall be the previous 2 business day for financial institutions in Taipei. The 7-year IRS rate shall be the arithmetic mean of 7-year IRS quotations as published by Reuter, TAIFXIRS and COSMOS3 at 11:00 a.m. of the day of reset record date (must be a business day for Taipei’s financial institutions). If the above quotations cannot be obtained on reset record date, interest rate shall be decided by the issuer in good faith and taken into account of reasonable market rate.

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- (B) In the year when making earnings, before Issuer can distribute dividends for Series B Preferred Shares, the Company shall first: (i) pay all taxes and dues (ii) offset its losses in previous years (iii) set aside statutory reserve, or set aside or reverse special reserve and (iv) the distribution of the remaining portion, if any, will first be distributed as preferred share dividend.
 - (C) The Company has sole discretion to distribute dividend of the Preferred Shares, including its discretion to not declare dividends when no profit is recorded, or insufficient profit is recorded for Preferred Share dividends, or preferred share dividend distribution would render the Company's RBC ratio below the level required by law or competent authorities. The Company's cancellation of preferred share dividend distribution shall not be deemed an event of default. The Series B Preferred Shares which were issued this time are non-cumulative. Undeclared or under-declared dividends are not cumulative, and are not paid in subsequent years with profit.
 - (D) Except for receipt of dividends at the aforementioned dividend rate in Paragraph (A), holders of Preferred Shares cannot participate in distribution of cash or stock dividends to holders of common shares from profit or additional paid-in capital.
 - (E) Holders of Series B Preferred Shares shall have the same priority as holders of all subsequently issued preferred share in liquidation, which are prior to holders of common shares but subordinated to general creditors, to the extent of the issuance amount.
 - (F) Holders of Series B Preferred Shares have no voting right at the annual shareholders meeting, and cannot elect directors. However, holders of Series B Preferred Shares have voting rights at shareholders meeting of Preferred Shares, and at annual shareholders meeting on items relating to rights of Preferred Shares holders.
 - (G) Holders of Series B Preferred Shares cannot convert said preferred shares to common shares, and have no right to request the Company for redemption of Series B Preferred Shares.
 - (H) Through issuance of perpetual preferred stock, on the day after the 7th anniversary of the Issue Date, the Company may redeem all or part of outstanding Preferred Shares at issue price. Rights and obligations of the unredeemed Preferred Shares shall remain the same as mentioned above.
- D. On 31 December 2001, the Company listed its shares on Taiwan Stock Exchange Corporation (TWSE) in accordance with relevant regulations. On 29 July 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs).

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(22) Capital surplus

	2018.12.31	2017.12.31
Additional paid-in capital	\$161,523,972	\$126,523,972
Treasury share transactions	2,539,377	2,539,377
Differences between share price and book value from acquisition or disposal of subsidiaries	29,142	29,142
Additional paid-in capital-Employee stock option	209,945	207,620
Convertible bonds to convert	1,144,486	1,144,486
Others	2,442	7,508
Total	\$165,449,364	\$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 \$165,449,364 thousand and \$130,452,105 thousand as of 31 December 2018 and 31 December 2017, respectively

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

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

(23) Retained earnings

A. Legal reserve

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

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

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B. Special reserve

- (A) According to the legal interpretations No.1010012865 issued by FSC on 6 April 2012, as the first-time adoption of IFRS, entities should appropriate special reserves from unrealized increments from revaluation and gains from accumulated translation adjustments recorded under stockholders' equity with same amount to retained earnings due to the adoption of exemptions in IFRS 1 First-time Adoption of International Financial Reporting Standards. The 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.

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- (E) In 2014, the Group changed the subsequent measurement of investment properties from cost model to fair value model. According to Order No. Jin-Guan-Zheng-Fa-Zi-1030006415, on the first-time adoption of fair value model for investment properties subsequent measurement, the group shall set aside an equal amount of special reserve when transferring the fair value increment of investment properties to retained earnings. As of 31 December 2018 and 31 December 2017, the special reserves amounted to \$107,509,178 thousand and \$107,270,030 thousand, respectively.
- (F) In accordance with Letter Jin-Guan-Bao-Tsai-Zi No.10402029590, Cathay Life recognized special capital reserve in the amount of \$34,764,311 thousand. The amount was originally recognized in insurance liabilities.

C. Undistributed earnings

- (A) According to the Company's Articles of Incorporation, the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated as legal capital reserve and special capital reserve. The total remaining amount plus beginning undistributed earnings are the distributable earnings. The distributable earnings must be appropriated in accordance with the resolution by the stockholders' meeting.
- (B) The Company cannot distribute overdue undistributed earnings. Before 2004, the Company had to pay an extra 10% income tax on approved taxable income. From (including) 2005, the calculation of the extra 10% income tax shall be based on current-year net income (after tax) generated according to Business Entity Accounting Act. Earnings that have been taxed will not be taxed again if the earnings are not distributed in the following years. From 1 January 2018, tax rate of the income tax for undistributed earnings has decreased to 5%.
- (C) According to Item 1, Article 41 of Securities and Exchange Act, when distributing earnings, listed companies shall appropriate, in addition to legal reserve, special reserve equal to net deductions from shareholders' equity. The special reserve for the current year's net deductions shall be appropriated from current year's net income and prior periods' accumulated undistributed earnings. The special reserve for the prior periods' net deductions shall be appropriated only from prior periods' accumulated undistributed earnings. For any subsequent reversal of net deductions from shareholders' equity, the amount reversed may be distributed.
- (D) According to the amended Article 235-1 of the Company Act, the Company shall provide a fixed amount or percentage of the actual profit for a year to be distributed as "employee remuneration", after deducting and setting aside an amount equal to the cumulative losses (if any). The aforementioned employee remuneration may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders' meeting. Furthermore the Articles of Incorporation may stipulate that the employee remuneration may be distributed to employees of affiliated enterprises meeting certain criteria.

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(E) The Company's distribution of 2017 and 2016 retained earnings has been approved by its board of directors and resolved in the shareholder's meeting. The cash dividends of common stock in the distributable surplus were \$2.5 and \$2.0 per share, and the cash dividends of special share were \$2.28 and \$0.1495 respectively. There is no difference between the surplus distributions passed by the shareholder's meeting and the resolutions of the board of directors of the Company. For more related information, please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

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

(24) Non-controlling interests

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Beginning balance	\$9,403,472	\$6,499,449
Effects on retrospective and restatement	8,904	(Note)
Net income attributed to non-controlling interests	355,013	366,489
Other comprehensive income attributable to non-controlling interests		
Exchange differences resulting from translating the financial statements of a foreign operation	8,511	(376,749)
Unrealized gains from available-for-sale financial assets	-	47,734
Gains on debt instruments at fair value through other comprehensive income	137,906	(Note)
Other comprehensive gains reclassified using overlay approach	5,129	(Note)
Others	(361,270)	2,866,549
Ending balance	<u>\$9,557,665</u>	<u>\$9,403,472</u>

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

(25) Employee benefits, depreciation and amortization

Summary statement of employee benefits and depreciation expenses breakdown:

Items	2018.1.1~2018.12.31								
	domestic				foreign				
	Employee benefits expenses	Net income other than interest	Other general and administrative expenses	Subtotal	Employee benefits expenses	Net income other than interest	Other general and administrative expenses	Subtotal	Total
Employee benefits expense									
Salary and wages	\$35,574,669	\$10,937,689	\$-	\$46,512,358	\$6,188,564	\$-	\$-	\$6,188,564	\$52,700,922
Labor and health insurance	3,591,495	-	-	3,591,495	651,615	-	-	651,615	4,243,110
Pension expense	2,070,928	-	-	2,070,928	3,202	-	-	3,202	2,074,130
Director's remuneration	187,137	-	-	187,137	2,528	-	-	2,528	189,665
Other employee benefits	1,401,890	-	-	1,401,890	157,929	-	-	157,929	1,559,819
Total	<u>\$42,826,119</u>	<u>\$10,937,689</u>	<u>\$-</u>	<u>\$53,763,808</u>	<u>\$7,003,838</u>	<u>\$-</u>	<u>\$-</u>	<u>\$7,003,838</u>	<u>\$60,767,646</u>
Depreciation				<u>\$2,351,979</u>				<u>\$261,609</u>	<u>\$2,613,588</u>
Amortization				<u>\$2,579,172</u>				<u>\$481,862</u>	<u>\$3,061,034</u>

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Items	2017.1.1-2017.12.31								
	domestic				foreign				Total
	Employee benefits expenses	Net income other than interest	Other general and administrative expenses	Subtotal	Employee benefits expenses	Net income other than interest	Other general and administrative expenses	Subtotal	
Employee benefits expense									
Salary and wages	\$32,914,130	\$11,664,638	\$-	\$44,578,768	\$5,366,779	\$-	\$-	\$5,366,779	\$49,945,547
Labor and health insurance	3,568,347	-	-	3,568,347	537,221	-	-	537,221	4,105,568
Pension expense	2,037,255	-	-	2,037,255	3,358	-	-	3,358	2,040,613
Director's remuneration	141,310	-	-	141,310	3,070	-	-	3,070	144,380
Other employee benefits	1,326,530	-	-	1,326,530	220,276	-	-	220,276	1,546,806
Total	<u>\$39,987,572</u>	<u>\$11,664,638</u>	<u>\$-</u>	<u>\$51,652,210</u>	<u>\$6,130,704</u>	<u>\$-</u>	<u>\$-</u>	<u>\$6,130,704</u>	<u>\$57,782,914</u>
Depreciation				<u>\$2,236,849</u>				<u>\$218,809</u>	<u>\$2,455,658</u>
Amortization				<u>\$2,476,537</u>				<u>\$492,053</u>	<u>\$2,968,590</u>

The average number of the Group's employees for the years ended 2018 and 2017 were 53,612 and 50,745 (45,432 and 44,126 domestic), respectively. Among them, the number of directors who were not concurrently employees were 36 and 35 (23 and 24 domestic), respectively.

As of 31 December 2018, and 31 December 2017, the total numbers of the employees of the Group were 54,520 and 52,620 (46,146 and 44,819 domestic), respectively.

The Group's average employee benefits expenses for the year ended 31 December 2018 was \$1,131 thousand. (\$1,180 thousand domestic) (the abovementioned total of employee benefits expenses - total of Directors' remuneration / the number of employees - the number of directors who were not concurrently employees).

The Group's average employee salary and wages for the year ended 31 December 2018 was \$984 thousand (\$1,024 thousand domestic) (the abovementioned total of salary and wages / the number of employees - the number of directors who were not concurrently employees).

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

Based on profit of current year, the Company estimated the amounts of the employees' compensation and remuneration to directors for the year ended 31 December 2018 to be 0.01% of profit of current year and no higher than 0.05% of profit of the current year, respectively. The Company recognized employees' compensation and remuneration of \$5,307 thousand and \$2,700 thousand, respectively, and recorded under salaries expense. If the actual distribution is different from the estimates, the difference will be accounted for as changes in accounting estimates and recognized in profit or loss in the following year.

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Based on profit of current year, the Company estimated the amounts of the employees' compensation and remuneration to directors for the year ended 31 December 2017 to be 0.01% of profit of current year and no higher than 0.05% of profit of the current year, respectively. The Company recognized employees' compensation and remuneration of \$5,812 thousand and \$2,700 thousand, respectively, and recorded under salaries expense.

A resolution was passed at a board of directors meeting held on 21 March 2019 to distribute \$5,307 thousand and \$2,700 thousand in cash as employees' compensation and remuneration to directors, respectively. If the amount of the consolidated financial report changes after the release date, it will be adjusted according to the accounting estimates in the next year.

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

(26) The Components of other comprehensive income

For the year ended 31 December 2018

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$274,469	\$-	\$274,469	\$(3,493)	\$270,976
Revaluation gains on property	-	-	-	46,241	46,241
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	(2,977,432)	(433,726)	(3,411,158)	472,186	(2,938,972)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(37,030)	-	(37,030)	55,468	18,438
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	2,402,577	-	2,402,577	(437,466)	1,965,111
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	(1,214,591)	-	(1,214,591)	143,104	(1,071,487)
Gain (losses) from hedging instruments	54,891	(83,638)	(28,747)	(1,611)	(30,358)
Unrealized gains (losses) from debt instruments investment measured at fair value through other comprehensive income	(66,830,622)	(11,555,684)	(78,386,306)	13,948,307	(64,437,999)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(392,263)	-	(392,263)	139,879	(252,384)
Other comprehensive losses reclassified using overlay approach	(67,324,210)	(50,752,329)	(118,076,539)	9,323,810	(108,752,729)
Total	\$(136,044,211)	\$(62,825,377)	\$(198,869,588)	\$23,686,425	\$(175,183,163)

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For the year ended 31 December 2017

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$(798,222)	\$-	\$(798,222)	\$142,536	\$(655,686)
Revaluation gains on property	308,226	-	308,226	(40,195)	268,031
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	183,172	-	183,172	(31,232)	151,940
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	(1,579,937)	-	(1,579,937)	268,589	(1,311,348)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	(2,957,083)	-	(2,957,083)	216,446	(2,740,637)
Unrealized gains (losses) from available-for-sale financial assets	99,890,917	(46,723,202)	53,167,715	(3,571,882)	49,595,833
Gains (losses) on cash flow hedges	149,883	(135,288)	14,595	(2,482)	12,113
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(1,201,786)	-	(1,201,786)	235,886	(965,900)
Total	\$93,995,170	\$(46,858,490)	\$47,136,680	\$(2,782,334)	\$44,354,346

Upon derecognition of the Group' debt instrument investments at fair value through other comprehensive income, the cumulative gains or losses of in the amount \$11,555,684 thousand for the year ended 31 December 2018 that recognized in other comprehensive income was reclassified to profit or loss.

(27) Income taxes

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

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

Income tax expense recognized in profit or loss

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Current income tax expense (income):		
Current income tax charge	\$193,142	\$12,375,851
Adjustments in respect of current income tax of prior periods	(50,202)	214,454
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	4,936,456	(12,684,288)
Deferred tax (income) expense relating to origination and reversal of tax loss and tax credit	(3,569,694)	1,065,336
Deferred tax income relating to changes in tax rate or the imposition of new taxes	9,487	-
Other components of deferred tax (income) expense	2,257,329	1,991,040
Total income tax expense	<u>\$3,776,518</u>	<u>\$2,962,393</u>

Income tax relating to components of other comprehensive income

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Current income tax expense:		
Current income tax charge	\$-	\$-
Deferred tax expense (income):		
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	437,466	(268,589)
Exchange difference resulting from translating the financial statements of a foreign operation	(143,104)	(216,446)
Unrealized losses from equity instruments investments measured at fair value through other comprehensive income	(472,186)	(Note)
Unrealized losses from debt instruments investments measured at fair value through other comprehensive income	(13,948,307)	(Note)
Unrealized losses from available-for-sale financial assets	(Note)	3,571,882
Gains (losses) from hedging instruments/Gains (losses) on cash flow hedges	1,611	2,482
Revaluation (losses) gains on property	(46,241)	40,195
Remeasurement of defined benefit plans	3,493	(142,536)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(195,347)	(204,654)
Other comprehensive losses reclassified using overlay approach	(9,323,810)	(Note)
Income tax relating to components of other comprehensive income	<u>\$ (23,686,425)</u>	<u>\$ 2,782,334</u>

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

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

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Accounting profit before tax from continuing operations	\$55,598,774	\$59,635,617
Tax at the domestic rates applicable to profits in the country concerned	\$22,108,075	\$20,190,291
Tax effect of revenues exempt from taxation	(21,636,759)	(18,502,693)
Tax effect of expenses not deductible for tax purposes	529,678	352,091
Deferred tax assets of unrecognized tax losses	(22,664)	(1,629)
Tax effect of deferred tax assets/liabilities	(47,210)	241,513
10 % surtax on undistributed retained earnings	1,717,850	1,760,706
Tax effect of the rates applicable to profits in the other jurisdictions	52,042	(127,761)
Adjustments in respect of current income tax of prior periods	68,833	211,569
Others	1,006,673	(1,161,694)
Total income tax expense recognized in profit or loss	\$3,776,518	\$2,962,393

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

For the year ended 31 December 2018

	Beginning balance	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Deferred tax income (expense) charged directly to equity	Deferred tax assets (liabilities) acquired in business combinations	Exchange differences	Ending balance
Temporary differences:							
Property, plant and equipment	\$641,782	\$259,123	\$-	\$-	\$-	\$-	\$900,905
Investment property	(21,553,513)	(570,602)	46,242	-	-	8,519	(22,069,354)
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	423,489	-	462,112	(715,565)	-	-	170,036
Gains (losses) on debt instruments at fair value through other comprehensive income	(7,727,132)	6,802	13,948,307	-	-	-	6,227,977
Financial assets at fair value through profit and loss	(2,587,335)	1,230,950	(437,467)	-	-	-	(1,793,852)
Financial assets measured at amortized cost	(151,856)	(15,333)	-	-	-	-	(167,189)
Other financial assets	153	(35)	-	-	-	-	118
Other comprehensive losses reclassified using overlay approach	(7,054,662)	(1,655)	11,479,967	-	-	-	4,423,650
Derivative financial assets for hedging	(41,711)	-	(1,611)	-	-	-	(43,322)
Investments accounted for using the equity method	(765,810)	(308,611)	195,347	(26,636)	-	9,226	(896,484)
Preferential interest rate deposits	98,440	(1,058)	21,767	-	-	-	119,149
Financial liabilities at fair value through profit or loss	154,429	5,352,725	-	-	-	-	5,507,154
Other receivables	(110,841)	(21,385)	-	-	-	-	(132,226)
Decommissioning costs	478	354	-	-	-	-	832
Bad debt losses	836,085	277,231	-	-	-	-	1,113,316
Deferred income tax assets (liabilities) resulted from income or loss on foreign exchange	24,975,622	(8,031,495)	(2,002,730)	(23,301)	-	(1)	14,918,095
Deferred revenue on customer loyalty programs	252,932	23,531	-	-	-	-	276,463
Other payables	74,443	104	-	-	75,680	478	150,705
Defined benefit Liability	(237,553)	(247,246)	(25,509)	-	-	-	(510,308)
Fair value adjustments from business consolidation	(544,049)	(134,632)	-	-	-	-	(678,681)
Deferred tax liabilities from business consolidation	(382,860)	40,314	-	-	-	(10,565)	(353,111)
Refundable deposits	762	8,885	-	-	-	-	9,647
Office supplies	2,262	648	-	-	-	-	2,910
Others	(25,452)	161,357	-	-	116,318	(35)	252,188
Unused tax losses	5,422,333	3,237,874	-	-	(104)	547	8,660,650
Tax effect under consolidated income tax	(2,274,354)	-	-	-	(99,123)	-	(2,373,477)
Deferred income tax expenses (income)		\$1,267,846	\$23,686,425	\$(765,502)	\$92,771	\$8,169	
Deferred income tax assets (liabilities)-net	\$(10,573,918)						\$13,715,791
Reflected in balance sheet as follows:							
Deferred income tax assets	\$32,209,863						\$40,806,934
Deferred income tax liabilities	\$(42,783,781)						\$(27,091,143)

Note: The Group adopted IFRS 9 and IFRS 15 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9 and IFRS 15.

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	Deferred tax						Exchange differences	Ending balance
	Beginning balance	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in comprehensive income	Deferred tax income (expense) charged directly to equity	Deferred tax assets (liabilities) acquired in business combinations	Deferred tax		
Temporary differences:								
Property, plant and equipment	\$543,711	\$98,721	\$-	\$-	\$-	\$(650)	\$641,782	
Investment property	(21,887,362)	371,248	(40,195)	-	-	2,796	(21,553,513)	
Financial assets at fair value through profit and loss	(405,806)	(2,654,592)	268,589	-	-	-	(2,791,809)	
Available-for-sale financial assets	28,304	(971)	(7,030,537)	-	-	-	(7,003,204)	
Derivative financial liabilities for hedging	(39,229)	-	(2,482)	-	-	-	(41,711)	
Investments in debt securities with no active market	(119,689)	16,662	-	-	-	-	(103,027)	
Investments accounted for using the equity method	600,660	(1,486,144)	204,654	(3)	-	(75,301)	(756,134)	
Preferential interest rate deposits	97,932	(10,945)	11,453	-	-	-	98,440	
Financial liabilities at fair value through profit or loss	4,539,112	(4,384,683)	-	-	-	-	154,429	
Other receivables	(98,918)	(11,923)	-	-	-	-	(110,841)	
Decommissioning costs	249	229	-	-	-	-	478	
Bad debt losses	577,560	259,794	-	-	-	-	837,354	
Deferred income tax assets (liabilities) resulted from income or loss on foreign exchange	2,028,673	19,292,541	3,675,101	-	-	4	24,996,319	
Deferred revenue on customer loyalty programs	251,652	1,280	-	-	-	-	252,932	
Other payables	108,567	(30,406)	-	-	2,045	(6,971)	73,235	
Defined benefit Liability	(98,911)	(269,725)	131,083	-	-	-	(237,553)	
Fair value adjustments from business consolidation	(491,811)	(52,238)	-	-	-	-	(544,049)	
Deferred tax liabilities from business consolidation	(1,335,556)	869,966	-	-	-	82,730	(382,860)	
Refundable deposits	-	762	-	-	-	-	762	
Office supplies	2,239	23	-	-	-	-	2,262	
Others	(328,165)	11,346	-	-	51,148	(262)	(265,933)	
Unused tax losses	6,498,364	(1,074,082)	-	-	(202)	(1,747)	5,422,333	
Tax effect under consolidated income tax	(2,104,026)	-	-	-	(170,328)	-	(2,274,354)	
Deferred income tax expenses (income)		<u>\$10,946,863</u>	<u>\$(2,782,334)</u>	<u>\$ (3)</u>	<u>\$(117,337)</u>	<u>\$599</u>		
Deferred income tax assets (liabilities)-net	<u>\$(11,632,450)</u>						<u>\$(3,584,662)</u>	
Reflected in balance sheet as flows:								
Deferred income tax assets	<u>\$14,729,993</u>						<u>\$31,243,778</u>	
Deferred income tax liabilities	<u>\$(26,362,443)</u>						<u>\$(34,828,440)</u>	

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D. Unrecognized deferred tax assets

As of 31 December 2018 and 2017, deferred tax assets that have not been recognized amount to \$1,414,243 thousand and \$1,457,494 thousand, respectively.

E. Unrecognized deferred tax liabilities relating to the investment in subsidiaries

The Group did not recognize any deferred tax liability for taxes that would be payable on the unremitted earnings of the Group's overseas subsidiaries, as the Group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As at 31 December 2018 and 2017, the taxable temporary differences associated with investment in subsidiaries, for which deferred tax liabilities have not been recognized, aggregate to \$146,062 thousand and \$144,961 thousand, respectively.

F. Income tax returns:

		2018.12.31
		Income tax returns
		examined by tax authorities
		Notes
The Company	through 2014	-
Cathay Life	through 2014	Cathay Life was in the process of administrative remedy from 2011 to 2012.
Cathay United Bank	through 2014	Cathay United Bank was in the process of administrative remedy from 2011 to 2014.
Cathay Century	through 2014	-
Cathay Securities	through 2014	Cathay Securities was in the process of administrative remedy from 2011 to 2014.
Cathay Venture	through 2014	Cathay Venture was in the process of administrative remedy for 2011.
Cathay Securities Investment Trust	through 2014	-
Cathay Futures	through 2015	-
Cathay Private Equity	through 2017	-

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

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(28) Earnings per share

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

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company (in thousands) (Note)	<u>\$49,567,319</u>	<u>\$56,182,150</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	<u>12,563,210</u>	<u>12,563,210</u>
Basic earnings per share (in dollars)	<u>\$3.95</u>	<u>\$4.47</u>

Note: Deducted special dividends that have been declared.

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

(29) Risk management for insurance contract

A. Life insurance subsidiaries

Risk management objectives, policies, procedures and methods:

(A) Objectives of risk management

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

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

a. Board of directors

- (a) The board of directors should establish appropriate risk management framework and culture, ratify appropriate risk management policy and allocate resources in the most effective manner.

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- (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.

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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

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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.

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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.

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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.

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- b. The way to determine a proper risk classification, a premium level and underwriting policies:
 - (a) Underwriters should, at all times, comply with certain relevant rules of financial underwriting which includes checking insurance notification database for exceptional cases and consider the amount insured, type of insurance, age, family status, reason for insurance, employment status, financial situation etc. to determine whether an insurance policy is suitable and affordable for the potential policyholder.
 - (b) Cathay Life has an underwriting team dealing with controversial cases with regard to new contracts and changes of the terms and conditions and having the right to interpret relevant underwriting standards.
 - (c) Cathay Life has a special panel for major insurance projects to enhance risk management over such projects and avoid adverse selection and moral hazard.

- (E) The scope of insurance risk assessment and management from a company-wise perspective
 - a. Insurance risk assessment covers the following topics:
 - (a) Product design and pricing risk: This risk arises from improper design of products, terms and conditions and pricing attributable to using the unsuitable and/or inconsistent information and/or facing unexpected changes.
 - (b) Underwriting risk: Unexpected losses arise from soliciting business, underwriting activities and approval, other expenditure activities, etc.
 - (c) Reinsurance risk: This risk occurs when a company fails to reinsure the excess risk or a reinsurer fails to fulfill its responsibility that results in losses in premium, claims or non-reimbursed expenses.
 - (d) Catastrophe risk: This risk arises from accidents which lead to considerable losses in one or more categories of insurance and the aggregate amount of such losses is huge enough to affect Cathay Life's credit rating and solvency.
 - (e) Claim risk: This risk arises from mishandling claims.
 - (f) Risk of insufficient reserve: It happens when Cathay Life does not have sufficient reserves to fulfill its obligations owing to underestimating its liabilities.

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b. The scope of management of insurance risk

- (a) Build up a top-down framework of Cathay Life's insurance risk management and empower relevant parties to execute risk management.
- (b) Establish Cathay Life's insurance risk management standards including the definitions and types of risks, management of the structure, risk management indexes and other risk management measures.
- (c) Develop action plans in consideration of Cathay Life's growth strategy and the global financial environment.
- (d) Determine methods to measure insurance risks.
- (e) Regularly provide insurance risk management report for supervision and as a reference to initiate insurance management strategy.
- (f) Manage other risk management issues.

(F) The method to limit or transfer insurance risk exposure and to avoid inappropriate concentration risk

The method that Cathay Life mainly uses to limit or transfer insurance risk exposure and to avoid inappropriate concentration risk is the reinsurance management plan which is made considering Cathay Life's risk profiling and risk taking ability, legal issues and technical factors. In order to maintain safety of risk transfer and to control the risk of reinsurance transactions, Cathay Life has established reinsurer selection standards.

(G) Asset/liability management

- a. Cathay Life has an asset/liability management committee to establish management structure, to ensure full application of the management policy, to integrate human capital and resources, to review the strategy and practice regularly and, furthermore, to reduce all types of risks.
- b. Authorized departments will review the measurement of asset/liability management regularly and report to the asset/liability management committee regularly; following that, the results will be sent to the risk management committee of Cathay Life. Furthermore, the annual report should be delivered to the risk management committee of the Company.
- c. When an exceptional situation occurs, the affected departments should propose possible solutions to the asset/liability management committee, the risk management committee in Cathay Life and that in the Company.

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- (H) The procedure to manage, monitor and control a special event which results in extra liability to be taken or extra owner equity to be committed

Pursuant to the applicable laws and regulations, Cathay Life is required to maintain a certain Risk-based capital (RBC) ratio. In order to enhance Cathay Life's capital management and to comply with such RBC ratio, Cathay Life has established a set of capital adequacy management standards as follows:

a. Capital adequacy management

- (a) Regularly provide capital adequacy management reports and analysis to the finance department of the Company.
- (b) Regularly provide the risk management committee the capital adequacy management analysis report.
- (c) Conduct scenario analysis to figure out how the use of funding, the changes of the financial environment or the amendments of applicable laws and regulations can affect RBC ratio.
- (d) Regularly review RBC ratio and related control standards to ensure a solid capital adequacy management.

b. Exception management process

When RBC ratio exceeds the standard given or other exceptions occur, Cathay Life is required to notify the risk management department and finance department of the Company together with the capital adequacy analysis report and possible solution(s).

- (I) Risk mitigation and avoidance policies and risk monitoring procedures

- a. Cathay Life enters into derivative transactions to reduce market risk and credit risk of the assets. The derivative contracts such as stock index options, index futures, interest rate futures, interest rate swaps, currency forwards, cross currency swaps and credit default swaps are applied to hedge risks arising from investments, such as equity risk, interest rate risk, cash flow risk, foreign exchange risk and credit risk; however, the derivatives not qualified for hedge accounting are measured at fair value through profit or loss.
- b. Hedging instrument against business risks and implementation are made preliminarily based on the risk tolerance levels. Cathay Life executes hedge and exercises authorized financial instruments to adjust the overall risk level to the tolerance levels based on the market dynamics, business strategies, the characteristics of products and risk management policies.

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

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

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

Information of insurance risk

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

a. Cathay Life

For the years ended 31 December 2018			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 2,706,747	Decrease (increase) 2,165,397
Expense	×1.05 (×0.95)	Decrease (increase) 2,909,035	Decrease (increase) 2,327,228
Surrender rates	×1.05 (×0.95)	Increase (decrease) 455,191	Increase (decrease) 363,153
Rate of return	+0.1%	Increase 5,289,255	Increase 4,231,404
Rate of return	-0.1%	Decrease 5,294,445	Decrease 4,235,556

For the years ended 31 December 2017			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 2,495,441	Decrease (increase) 2,071,216
Expense	×1.05 (×0.95)	Decrease (increase) 2,851,307	Decrease (increase) 2,366,585
Surrender rates	×1.05 (×0.95)	Increase (decrease) 398,387	Increase (decrease) 330,661
Rate of return	+0.1%	Increase 4,931,527	Increase 4,093,167
Rate of return	-0.1%	Decrease 4,936,362	Decrease 4,097,180

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b. Cathay Lujiazui Life

For the years ended 31 December 2018			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.10 (×0.90)	Decrease (increase) 156,537	Decrease (increase) 117,402
Expense	×1.05 (×0.95)	Decrease (increase) 81,505	Decrease (increase) 61,128
Surrender rates	×1.10 (×0.90)	Increase (decrease) 103,360	Increase (decrease) 77,520
Rate of return	+0.25%	Increase 569,098	Increase 426,824
Rate of return	-0.25%	Decrease 624,721	Decrease 468,541

For the years ended 31 December 2017			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.10 (×0.90)	Decrease (increase) 151,823	Decrease (increase) 113,867
Expense	×1.05 (×0.95)	Decrease (increase) 74,890	Decrease (increase) 56,167
Surrender rates	×1.10 (×0.90)	Increase (decrease) 111,057	Increase (decrease) 83,534
Rate of return	+0.25%	Increase 286,846	Increase 215,135
Rate of return	-0.25%	Decrease 314,238	Decrease 235,679

c. Cathay Life (Vietnam)

For the years ended 31 December 2018			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 742	Decrease (increase) 594
Expense	×1.05 (×0.95)	Decrease (increase) 33,710	Decrease (increase) 26,968
Surrender rates	×1.05 (×0.95)	Increase (decrease) 7,768	Increase (decrease) 6,214
Rate of return	+0.1%	Increase 9,699	Increase 7,759
Rate of return	-0.1%	Decrease 9,709	Decrease 7,767

For the years ended 31 December 2017			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 480	Decrease (increase) 384
Expense	×1.05 (×0.95)	Decrease (increase) 23,538	Decrease (increase) 18,830
Surrender rates	×1.05 (×0.95)	Increase (decrease) 4,570	Increase (decrease) 3,656
Rate of return	+0.1%	Increase 6,346	Increase 5,077
Rate of return	-0.1%	Decrease 6,352	Decrease 5,082

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- (a) Changes in income before tax listed above refer to the effects of income before tax arising from the assumption for the years ended 31 December 2018 and 2017. The influence on equities of Cathay Life, Cathay Lujiazui Life and Cathay Life (Vietnam) is assumed that the income tax is calculated on pre-tax income at rates of 20% (17% for the period ended 31 December 2017), 25% and 20% individually.
- (b) An increase (decrease) of 0.1% on discount rate applied to liability adequacy test has no impact on income before tax and equity. The result of the test shows Cathay Life's adequacy. However, if the discount rate keeps declining significantly, income before tax and equity will probably be affected.
- (c) Sensitivity Test
- (i) Mortality/Morbidity test is executed by multiplying mortality, morbidity and the occurrence rate of injury insurance by the changes of assumptions and results in the corresponding changes in income before tax.
- (ii) Expense sensitivity is executed by multiplying all expense items listed in statements of comprehensive income (Note 1) by the changes of assumptions and results in the corresponding changes in income before tax.
- (iii) Surrender rate sensitivity test is executed by multiplying surrender rate by the changes of assumptions and results in the corresponding changes in income before tax.
- (iv) The rate of returns sensitivity test is executed by multiplying the rate of returns (Note 2) increases (decreases) by the changes of assumptions and results in the corresponding changes in income before tax.

Note 1: Expense items includes underwriting expenses, commission expenses, other operating expenses included in operating costs as well as business expenses, administration expenses and training expenses included in operating expenses.

Note 2: The rate of returns is measured by $2 \times (\text{net profits or losses on investment} - \text{finance costs}) / (\text{the beginning balance of usable capital} + \text{the ending balance of usable capital} - \text{net profits or losses on investment} + \text{finance costs})$ and it needs to be annualized.

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(B) Interpretation of concentration of insurance risks

Cathay Life’s insurance business is mainly engaged in Taiwan, the Republic of China. All the insurance policies have similar risks of exposure, for example, the exposure of the unexpected changes in trend (e.g. mortality, morbidity, and lapse rate), the exposure of multiple insurance contracts caused by single specific event (e.g. the simultaneous exposures of life insurance, health insurance, and accidental insurance caused by one earthquake). Cathay Life reduces the risk of exposure not only by monitoring risks consistently, but also by arranging reinsurance contracts.

Cathay Life evaluates the retention amount according to factors like risk features, the capability of assuming risk and so on, that approved by competent authority. For the excess of retention amount, Cathay Life cedes this portion of amounts to reinsurers. At the same time, Cathay Life takes the possibility of unexpected man-made and natural disasters into account periodically and estimates the reasonable maximum amount of losses from retained risks. Cathay Life determines whether it is necessary to adjust the reinsured amount or catastrophe reinsurance according to the range of losses. Hence, the insurance risk to some extent has been diversified to reduce the potential impact on unexpected losses.

Furthermore, according to “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises”, the annual increase of after-tax amount of special capital reserve for major incidents and fluctuation of risks for the abnormal changes of the loss ratio of each type of insurance and claims need to be recognized and recorded in special capital reserve of equity in accordance with IAS 12.

(C) Claim development trend

a. Cathay Life

(a) Direct business development trend

Accident year	Development year							Unreported claim	Reserve for unreported claim
	1	2	3	4	5	6	7		
2012	15,166,460	18,319,737	18,627,566	18,692,848	18,738,263	18,771,322	18,800,554	-	-
2013	14,442,425	17,662,901	17,964,940	18,028,018	18,069,018	18,097,513	18,125,787	28,274	28,330
2014	14,671,864	17,805,516	18,119,932	18,201,745	18,198,744	18,228,449	18,257,576	58,832	58,950
2015	15,353,566	18,647,560	18,975,168	19,056,336	19,099,986	19,131,168	19,161,792	105,456	105,667
2016	15,940,308	19,566,897	19,885,388	19,962,924	20,008,065	20,040,758	20,072,953	187,565	187,940
2017	17,297,974	21,370,270	21,723,236	21,807,561	21,858,682	21,895,032	21,930,440	560,170	561,290
2018	19,438,330	23,694,177	24,092,183	24,189,860	24,251,512	24,293,282	24,332,373	4,894,043	4,903,831

Expected future payment	\$5,846,008
Add: Assumed reserve for incurred but not reported claim	60,801
Reserve for unreported claim	5,906,809
Add: Reported but not paid claim	2,624,761
Claims reserve balance	<u>\$8,531,570</u>

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(b) Retained business development trend

Accident year	Development year							Unreported claim	Reserve for unreported claim
	1	2	3	4	5	6	7		
2012	15,309,599	18,511,432	18,822,965	18,889,412	18,935,309	18,968,733	18,998,438	-	-
2013	14,552,889	17,819,664	18,127,219	18,191,122	18,232,660	18,261,664	18,290,295	28,631	28,688
2014	14,772,070	17,947,230	18,265,698	18,348,342	18,346,033	18,376,107	18,405,584	59,551	59,670
2015	15,474,235	18,809,508	19,140,593	19,222,948	19,267,154	19,298,734	19,329,738	106,790	107,004
2016	16,051,766	19,702,389	20,024,753	20,103,113	20,148,713	20,181,729	20,214,232	189,479	189,858
2017	17,425,760	21,529,927	21,887,079	21,972,384	22,024,060	22,060,811	22,096,599	566,672	567,806
2018	19,559,153	23,857,225	24,259,844	24,358,635	24,421,004	24,463,393	24,503,048	4,943,895	4,953,783

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

Expected future payment	\$5,906,809
Add: Reported but not paid claim	2,615,968
Retained claims reserve balance	<u>\$8,522,777</u>

In accordance with Letter Jin-Guan-Bao-Shou-Zi No.10402133590 issued on 22 December 2015 issued by the FSC, Cathay Life recognizes reserve for claims by aggregating reserve for unreported claim and reported but not paid claim. Reserve for unreported claim is determined based on reported claim and adjusted to related expenses; reported but not paid claim is reserved on a case by case basis. Due to uncertainty, estimation, and judgment involved in recognition, there is a high degree of complexity in reserving for claim. Any changes of the estimation or judgment are treated as the changes of the accounting estimates and can be recognized as profit and loss in current year. Some claims are delayed in notifying Cathay Life. Also, the expected payment for unreported claims involves major subjective judgment and estimation on the past experiences. Thus, uncertainty exists that the estimated claims reserve for claim payments on the balance sheet date will not be equal to the final settled amount of claim payments. The claims reserve recorded on the book is estimated based upon the currently available information. However, the final amount probably will deviate from the original estimates because of the follow-up developments of the claim events.

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

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b. Cathay Lujiazui Life

(a) Direct business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2012	231,615	428,631	454,238	454,238	469,620	469,620	469,620	-
2013	246,693	481,780	520,694	524,656	524,656	524,656	524,656	-
2014	364,744	586,350	623,110	632,719	632,719	632,719	632,719	-
2015	214,071	400,659	428,788	632,719	632,719	632,719	632,719	-
2016	254,022	435,905	428,788	447,781	447,781	447,781	447,781	18,993
2017	261,339	435,905	458,752	488,043	488,043	488,043	488,042	52,137
2018	261,339	460,232	484,354	533,765	533,765	533,765	533,765	272,426

Expected future payment	\$343,556
Less: Expected reported but not paid claim	(5,301)
Reserve for unreported claim	338,255
Add: Reported but not paid claim	29,251
Claims reserve balance	<u>\$367,506</u>

(b) Retained business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2012	227,537	428,281	454,238	454,238	461,150	461,150	461,150	-
2013	241,145	480,560	520,673	524,635	461,150	461,150	461,150	-
2014	309,727	577,815	614,534	624,140	624,140	624,140	624,140	-
2015	191,845	378,017	406,124	624,140	624,140	624,140	624,140	-
2016	251,459	432,967	406,124	423,438	423,438	423,438	423,438	17,314
2017	249,315	432,967	452,574	484,025	484,025	484,025	484,025	51,058
2018	249,315	462,792	483,750	510,783	510,783	510,783	510,783	261,468

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

Expected future payment	\$329,840
Less: Expected reported but not paid claim	(5,301)
Add: Reported but not paid claim	29,251
Retained claims reserve balance	<u>\$353,790</u>

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

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

c. Cathay life (Vietnam)

Direct business development trend (and retained business development trend)

Accident year	Development year				
	1	2	3	4	5
2014	625	681	681	683	683
2015	1,375	1,608	1,608	1,608	1,608
2016	2,130	2,559	2,559	2,561	2,561
2017	14,879	18,084	18,084	18,094	18,094
2018	85,893	104,367	104,367	104,423	104,423

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

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

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

(a) Credit risk

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

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

The unqualified reinsurer of the Cathay Life' 2018 reinsurance counterparty that did not meet the statutory standards was Trust International Insurance & Reinsurance Company BSC (c) Trust Re. The reinsurer's credit rating was withdrawn by AM Best, a credit rating agency, on 5 December 2018 and became an unqualified reinsurer. The following matters were disclosed in accordance with the "Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms" and the "Regulations Governing the Provision of Unqualified Reinsurance Reserves for Insurance Company".

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Summary of the unqualified reinsurance contract and reinsurance expenses:

Reinsurance contract types	Individual insurance	Group insurance	Catastrophe
Insurance types	Individual life insurance	Life insurance and injury insurance	Life insurance, injury insurance and health insurance
2018 annual reinsurance expenses	\$583	\$599	\$416

The unqualified reinsurance contract was terminated on 31 December 2018.

Unqualified reinsurance reserve amount and its component items:

	<u>2018.12.31</u>
Ceded unearned premium reserve	\$-
Ceded reported but unpaid claims reserve	-
Claims recoverable from reinsurers	-
Total	<u><u>\$-</u></u>

(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		
	<u>Within 1 year</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>
2018.12.31	\$(1,095)	\$1,993	\$175,216
2017.12.31	(1,082)	474	171,163

Note: Separate account products are not included.

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(c) Market risk

When Cathay Life measures insurance liabilities, the discounted rate required by the regulator is applied. The regulator reviews the discount rate assumption which has been used for reserves periodically. However, the discount rate assumption does not move at the same time in the same direction with the market price and interest rate, and is only applied to new businesses. Thus, those possible variables in market risk to Cathay Life's valid insurance contracts have slight impact on profit and loss or equity. When the regulator changes the discount rate assumption possibly and reasonably, this change will have the impact of different range on profit and loss or equity depending upon the level of change it has been made and the overall company product portfolio. Furthermore, the reasonably possible change on the market risk will probably have impact on the future cash flows of insurance contracts and financial instruments with discretionary participation features, which are estimated based on information available at the balance sheet date and are used for assessing the adequacy of recognized insurance liabilities via adequacy test. Based upon the reasonably possible changes of current market risk, it has little impact on the adequacy of current recognized insurance liabilities.

B. Property and casualty insurance subsidiaries

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

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

a. Board of directors

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

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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.

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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.

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b. Scope and nature of risk evaluation system

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

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

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

- (D) Evaluate risk from the perspective of enterprise as a whole and the scope in managing insurance risk

Scope of insurance risk management of Cathay Century and its subsidiaries includes product design and pricing, underwriting, reinsurance, risks related to catastrophe, claim, and provision. Proper management mechanisms are set up and execute thoroughly.

- (E) Methods with which property insurance business limit insurance risk exposure and improper risk concentration

Before a business is introduced, the underwriting personnel will evaluate the quality of the business based on the underwriting guideline of each insurance to decide whether to undertake the business. Risk is properly avoided and controlled to reduce exposure.

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In addition, as Cathay Century and its subsidiaries undertakes reinsurance business, risk management mechanism is set up in accordance with “Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms” and the ability to undertake risk is taken into account for the establishment of re-insurance risk management plan which execution is based upon. Accumulated risk with the portfolio of direct written premiums and other inward-insurance business is conducted before an individual case of outward/inward reinsurance is executed. When the cumulative insurance amount exceeds contract limit or self-retain limit, risk is diversified through facultative reinsurance.

According to Cathay Century’s and its subsidiaries’ risk management mechanism for reinsurance business, the maximum for the retained risk per risk unit is calculated as 10% of the summary amount of stockholder’s equities and special reserves (excluding compulsory automobile insurance). The following table summarizes the underlying retention for each risk unit by types of insurance:

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

(F) Methods of asset/liability management

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

Operation standards under crisis are set up in accordance with the “Directions for Handling Financial Institute Crisis” issued by Financial Supervision Commission. When a tremendous sum of fund is lost or liquidity is severely compromised, the operation crisis team will be set up immediately to evaluate the impact on fund liquidity of Cathay Century cautiously and assess the amount, timeline, and benefit of making up the funding gap so as to assure rights of clients and Cathay Century.

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

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

Receivables and payables of insurance contracts

(A) Receivables of insurance contracts

Items	Premiums receivable (Note)	
	2018.12.31	2017.12.31
Fire insurance	\$683,291	\$751,065
Marine insurance	280,529	231,980
Land and air insurance	161,746	130,372
Liability insurance	209,834	251,238
Bonding insurance	30,796	22,206
Other property insurance	253,298	202,333
Accident insurance	113,629	118,032
Health insurance	7,979	6,159
Compulsory automobile liability insurance	19,090	14,866
Total	1,760,192	1,728,251
Less: Loss allowance	(74,252)	(62,742)
Net amount	\$1,685,940	\$1,665,509

Cathay Century and its subsidiaries ageing analysis of receivable:

	2018.12.31	2017.12.31
≤ 90 days	\$1,533,285	\$1,530,976
> 90 days	226,907	197,275
Total	\$1,760,192	\$1,728,251

Note: As of 31 December 2018 and 31 December 2017, the receivables included overdue receivables amounting to \$226,131 thousand and \$197,203 thousand, respectively; and the allowance for bad debts amounting to \$58,942 thousand, and \$47,475 thousand, respectively.

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

Items	Claims reported and paid off	
	2018.12.31	2017.12.31
Fire insurance	\$44,225	\$18,931
Marine insurance	12,631	25,499
Land and air insurance	46,598	41,553
Liability insurance	53,431	33,210
Bonding insurance	188	305
Other property insurance	19,525	18,812
Accident insurance	18,497	15,473
Health insurance	-	-
Compulsory automobile liability insurance	154,031	391,512
Total	349,126	545,295
Less: Loss allowance	(3,491)	(5,453)
Net amount	\$345,635	\$539,842

(C) Payables of insurance contract

Items	2018.12.31		
	Commission payables	Other payables	Total
Fire insurance	\$24,649	\$12,551	\$37,200
Marine insurance	7,297	16,492	23,789
Land and air insurance	26,313	91,261	117,574
Liability insurance	12,332	23,479	35,811
Bonding insurance	3,787	491	4,278
Other property insurance	4,734	12,983	17,717
Accident insurance	8,661	28,501	37,162
Health insurance	2,590	2,564	5,154
Compulsory automobile liability insurance	24,817	-	24,817
Total	\$115,180	\$188,322	\$303,502

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

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

Items	2018.12.31	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C.	\$135,160	\$351,019
AON	29,292	65,670
Cathay (China)	36,346	796
Central Re	6,555	78,273
EverApex	859	78,547
FP Marine Risks	33,838	8,187
Guy Carpenter	33,344	18,508
Marsh	12,879	225,517
Willis	32,241	45,542
Others	145,710	627,165
Total	466,224	1,499,224
Less: Loss allowance	(17,818)	-
Net amount	\$448,406	\$1,499,224

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

Notes: As of 31 December 2018 and 31 December 2017, the due from reinsurers and ceding companies included overdue receivables amounting to \$13,169 thousand and \$22,912 thousand, respectively; and the allowance for bad debts amounting to \$13,169 thousand and \$22,912 thousand, respectively.

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Information of management achievements

(A) Acquisition cost for insurance contracts

Items	2018.1.1~2018.12.31				
	Commission		Reinsurance commission		Total
	expense	Surcharge	expense	Other cost	
Fire insurance	\$177,507	\$9,230	\$72,638	\$13,253	\$272,628
Marine insurance	65,878	1,116	9,376	1,345	77,715
Land and air insurance	1,006,097	1	662	382,851	1,389,611
Liability insurance	162,331	102	335	13,236	176,004
Bonding insurance	13,341	6	83	96	13,526
Other property insurance	71,896	3,597	33,600	2,622	111,715
Accident insurance	388,149	210	582	103,373	492,314
Health insurance	61,385	437	2,226	13,065	77,113
Compulsory automobile liability insurance	-	387,993	-	-	387,993
Total	\$1,946,584	\$402,692	\$119,502	\$529,841	\$2,998,619

Items	2017.1.1~2017.12.31				
	Commission		Reinsurance commission		Total
	expense	Surcharge	expense	Other cost	
Fire insurance	\$173,119	\$6,158	\$45,312	\$10,150	\$234,739
Marine insurance	50,082	803	7,593	1,185	59,663
Land and air insurance	949,245	2	736	346,703	1,296,686
Liability insurance	145,173	62	737	9,489	155,461
Bonding insurance	12,966	4	48	-	13,018
Other property insurance	61,370	2,506	22,528	2,512	88,916
Accident insurance	370,623	28	381	97,666	468,698
Health insurance	51,548	304	1,218	10,538	63,608
Compulsory automobile liability insurance	-	402,682	-	-	402,682
Total	\$1,814,126	\$412,549	\$78,553	\$478,243	\$2,783,471

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(B) Disclosure for insurance cost benefit analysis

a. Cost benefit analysis for direct underwriting

2018.1.1~2018.12.31						
Items	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid (include claim expense and cash surrender value)	Net change for claims reserve	Net gain (loss)
Fire insurance	\$3,263,438	\$23,599	\$(199,990)	\$(718,581)	\$407,044	\$2,775,510
Marine insurance	685,174	(21,178)	(68,339)	(293,862)	63,969	365,764
Land and air insurance	9,087,689	(309,591)	(1,388,949)	(5,264,574)	(465,243)	1,659,332
Liability insurance	1,422,172	(92,340)	(175,669)	(563,950)	(143,579)	446,634
Bonding insurance	125,947	(5,742)	(13,443)	(15,273)	7,308	98,797
Other property insurance	775,603	(52,437)	(78,115)	(394,911)	(24,111)	226,029
Accident insurance	3,174,156	(13,407)	(491,732)	(1,235,385)	(95,192)	1,338,440
Health insurance	349,362	(10,135)	(74,887)	(101,948)	(137)	162,255
Compulsory automobile liability insurance	2,924,496	8,860	(387,993)	(1,697,508)	(92,119)	755,736
Total	\$21,808,037	\$(472,371)	\$(2,879,117)	\$(10,285,992)	\$(342,060)	\$7,828,497

2017.1.1~2017.12.31						
Items	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid (include claim expense)	Net change for claims reserve	Net gain (loss)
Fire insurance	\$3,214,850	\$(117,616)	\$(189,427)	\$(2,107,435)	\$1,860,861	\$2,661,233
Marine insurance	587,704	(16,724)	(52,070)	(245,903)	(18,157)	254,850
Land and air insurance	8,542,485	(134,071)	(1,295,950)	(5,338,115)	240,421	2,014,770
Liability insurance	1,257,867	(71,576)	(154,724)	(513,993)	(180,853)	336,721
Bonding insurance	146,173	(9,418)	(12,970)	(463)	(86,804)	36,518
Other property insurance	627,754	7,745	(66,388)	(291,789)	8,828	286,150
Accident insurance	3,039,299	33,041	(468,317)	(1,190,374)	(24,352)	1,389,297
Health insurance	288,144	(46)	(62,390)	(110,564)	2,339	117,483
Compulsory automobile liability insurance	2,971,539	19,201	(402,682)	(2,079,105)	18,201	527,154
Total	\$20,675,815	\$(289,464)	\$(2,704,918)	\$(11,877,741)	\$1,820,484	\$7,624,176

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b. Recognized gain (loss) for reinsurance contract purchased

Items	2018.1.1~2018.12.31					Net (loss) gain for assumed reinsurance business
	Net change for		Reinsurance		Net change for	
	Reinsurance premium income	unearned premiums reserve	commission expense	Reinsurance claims paid		
Fire insurance	\$406,033	\$(46,475)	\$(72,638)	\$(155,461)	\$2,811	\$134,270
Marine insurance	41,780	(736)	(9,376)	(21,785)	(19,882)	(9,999)
Land and air insurance	2,460	1,545	(662)	(659)	683	3,367
Liability insurance	2,230	192	(335)	(344)	1,150	2,893
Bonding insurance	1,457	201	(83)	(1,746)	(1,299)	(1,470)
Other property insurance	142,632	(13,559)	(33,600)	(57,751)	(42,702)	(4,980)
Accident insurance	10,880	(1,859)	(582)	(1,591)	(347)	6,501
Health insurance	17,485	(4,219)	(2,226)	(16,045)	(733)	(5,738)
Compulsory automobile liability insurance	753,227	13,848	-	(969,958)	12,408	(190,475)
Total	\$1,378,184	\$(51,062)	\$(119,502)	\$(1,225,340)	\$(47,911)	\$(65,631)

Items	2017.1.1~2017.12.31					Net (loss) gain for assumed reinsurance business
	Net change for		Reinsurance		Net change for	
	Reinsurance premium income	unearned premiums reserve	commission expense	Reinsurance claims paid		
Fire insurance	\$267,647	\$(73,671)	\$(45,312)	\$(53,239)	\$(37,395)	\$58,030
Marine insurance	33,381	1,245	(7,593)	(1,113)	(6,642)	19,278
Land and air insurance	4,173	4,562	(736)	(1,420)	1,235	7,814
Liability insurance	1,758	(489)	(737)	(715)	(2,009)	(2,192)
Bonding insurance	1,453	(81)	(48)	(149)	(279)	896
Other property insurance	96,839	(40,748)	(22,528)	(24,240)	(5,348)	3,975
Accident insurance	8,806	(782)	(381)	(232)	(111)	7,300
Health insurance	12,180	(5,343)	(1,218)	(2,717)	(701)	2,201
Compulsory automobile liability insurance	775,569	(3,079)	-	(684,893)	(25,597)	62,000
Total	\$1,201,806	\$(118,386)	\$(78,553)	\$(768,718)	\$(76,847)	\$159,302

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c. Recognized gain (loss) for reinsurance contract purchased

Items	2018.1.1~2018.12.31					
	Reinsurance expense	Net change for		Claims		Net loss (gain) for reinsurance ceded
		premiums reserve ceded	Reinsurance commission earned	recovered from reinsurers	Net change for claims reserve ceded	
Fire insurance	\$2,096,301	\$(1,407)	\$(125,934)	\$(290,325)	\$194,633	\$1,873,268
Marine insurance	462,526	(15,731)	(59,700)	(203,307)	44,587	228,375
Land and air insurance	371,859	19,508	(110,911)	(197,008)	23,955	107,403
Liability insurance	482,676	(49,469)	(104,025)	(162,174)	(68,977)	98,031
Bonding insurance	92,472	(5,509)	(16,390)	(8,162)	34,295	96,706
Other property insurance	443,898	(9,218)	(83,189)	(165,344)	(41,720)	144,427
Accident insurance	223,010	(19,214)	(55,775)	(81,671)	970	67,320
Health insurance	-	-	-	-	324	324
Compulsory automobile liability insurance	1,216,270	5,329	-	(995,187)	(57,123)	169,289
Total	\$5,389,012	\$(75,711)	\$(555,924)	\$(2,103,178)	\$130,944	\$2,785,143

Items	2017.1.1~2017.12.31					
	Reinsurance expense	Net change for		Claims		Net loss (gain) for reinsurance ceded
		premiums reserve ceded	Reinsurance commission earned	recovered from reinsurers	Net change for claims reserve ceded	
Fire insurance	\$2,143,707	\$(68,502)	\$(102,255)	\$(1,687,729)	\$1,824,676	\$2,109,897
Marine insurance	391,748	(52)	(46,706)	(152,248)	(3,666)	189,076
Land and air insurance	375,007	56,037	(105,327)	(188,800)	(10,259)	126,658
Liability insurance	438,822	(37,017)	(96,185)	(122,422)	(66,838)	116,360
Bonding insurance	107,333	(8,924)	(16,696)	23,135	(69,806)	35,042
Other property insurance	347,946	(100,515)	(62,577)	(98,281)	24,190	110,763
Accident insurance	233,051	5,060	(59,162)	(80,143)	8,343	107,149
Health insurance	-	-	-	-	449	449
Compulsory automobile liability insurance	1,230,002	12,266	-	(1,201,699)	1,186	41,755
Total	\$5,267,616	\$(141,647)	\$(488,908)	\$(3,508,187)	\$1,708,275	\$2,837,149

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Sensitivity of insurance risk

(A) Cathay Century

Insurance type	Premium income	Weighted average loss rate in the past five years	The impact to profit and loss when the expected loss ratio increases 5%	
			Before reinsurance	After reinsurance
Fire insurance	\$3,097,429	45.56%	\$(154,872)	\$(109,497)
Marine insurance	675,187	58.26%	(33,759)	(10,072)
Land and air insurance	8,976,691	64.11%	(448,835)	(427,149)
Liability insurance	1,421,248	53.41%	(71,062)	(47,084)
Bonding insurance	125,947	20.71%	(6,297)	(1,662)
Other property insurance	771,966	62.19%	(38,598)	(30,711)
Accident insurance	3,150,754	40.56%	(157,538)	(146,409)
Health insurance	349,362	48.34%	(17,468)	(17,421)
Compulsory automobile liability insurance	2,924,496	N/A	N/A	N/A

The chart above shows that with every 5% increase of the expected loss rate of every insurance contract of Cathay Century, certain influence will be imposed upon revenue; however, the influence has been mitigated through the arrangement of reinsurance to obtain the effect of risk diversification.

(B) Cathay Insurance (Vietnam)

Insurance type	Premium income	Weighted average loss rate in the past five years	The impact to profit and loss when the expected loss ratio increases 5%	
			Before reinsurance	After reinsurance
Automobile insurance	\$110,998	40.76%	\$(5,550)	\$(5,544)
flood insurance	9,987	23.50%	(499)	(119)
Fire insurance	166,009	113.69%	(8,300)	(6,378)
Engineering insurance	3,637	0%	(182)	(7)
Accident insurance	23,402	32.48%	(1,170)	(1,170)
Liability insurance	924	48.07%	(46)	(14)

The chart above shows that with every 5% increase of the expected loss ratio of every insurance contract of Cathay Insurance (Vietnam), certain influence will be imposed upon revenue; however, the influence has been mitigated through the arrangement of reinsurance to obtain the effect of risk diversification.

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Concentration Risk

(A) Cathay Century

a. Situations that might cause concentration of insurance risk:

(a) Single insurance contract or few related contracts

For the year ended 31 December 2018, Cathay Century will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

(b) Exposure to unanticipated change in trend

As of the year ended ended 31 December 2018, Cathay Century has not yet had exposures resulting from unanticipated changes in trend.

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

“Regulations for Assisting Lawsuit Cases of Cathay Century Insurance” is set up to safeguard the rights of Cathay Century and the insureds and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of Cathay Century will appoint staff to be responsible for compliance matters, so that possible legal risk is minimized. As of the year ended 31 December 2018, no material lawsuit or legal risks has taken place.

(d) Correlation and mutual influence between different risks

In case of a catastrophe, in addition to huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of Cathay Century being severely damaged by these derived risks, Cathay Century has established “Operation Standards Under Crisis” that set up a crisis task force team to respond to the event. The team will undertake urgent tasks such as resources coordination and fund procurement to protect the rights of the insureds and Cathay Century and maintaining financial order. As of the year ended 31 December 2018, no catastrophe has taken place.

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

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

Cathay Century also monitors changes in VAR in its investment positions on a regular basis and performs cash flow analysis, supplemented by stress testing, to control and manage the impact from fluctuations of major risk factors.

In addition, Cathay Century implements stress tests for overall operation every year, assesses the impact of assets and the extreme scenario of insurance risk on the financial position of Cathay Century, and learns about the major risk factors to adjust the response in advance.

- (f) Concentration risks in geographic regions and operating segments

Cathay Century's catastrophe policies for earthquakes and floods concentrated in the areas of Taipei, Taoyuan, Hsinchu, Chiayi, Tainan, Kaohsiung and Pingtung.

- b. The following table summarizes the concentration risk of Cathay Century before and after reinsurance by types of insurance:

Insurance type	2018.1.1~2018.12.31				
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	%
Fire insurance	\$3,097,429	\$415,548	\$1,955,508	\$1,557,469	8.83%
Marine insurance	675,187	44,024	458,295	260,916	1.48%
Land and air insurance	8,976,691	2,460	371,779	8,607,372	48.79%
Liability insurance	1,421,248	2,196	482,082	941,362	5.33%
Bonding insurance	125,947	1,457	92,472	34,932	0.20%
Other property insurance	771,966	142,673	441,657	472,982	2.68%
Accident insurance	3,150,754	10,880	223,010	2,938,624	16.66%
Health insurance	349,362	17,485	-	366,847	2.08%
Compulsory automobile liability insurance	2,924,496	753,227	1,216,270	2,461,453	13.95%
Total	\$21,493,080	\$1,389,950	\$5,241,073	\$17,641,957	100.00%

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- c. Disclosure of the prior management performances in the risks, that had huge effect but relative low occurrence frequency helped financial statement users to evaluate the uncertainty of this risk related cash flow.

Catastrophes such as earthquake, typhoon, and flood, will bring tremendous insurance risk to property insurance business.

In order to control risks that have low frequency of occurrences yet with high impact, Cathay Century will assess the risks involving natural disasters and special subject matter insured (such as privately-owned power plant and bridge constructions), and hold loss prevention seminars regularly to help customers reduce the number of incidences.

(B) Cathay Insurance (Vietnam) Ltd.

- a. Situations that might cause concentration of insurance risk:

- (a) Single insurance contract or few related contracts

For the year ended 31 December 2018, Cathay Insurance (Vietnam) will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

- (b) Exposure to unanticipated change in trend

For the year ended 31 December 2018, the loss rates of the rest insurance categories are still within reasonable range.

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

“THE PROCEDURE FOR SUBROGATION” and “THE PROCEEDINGS OF THE COURT” is set up to safeguard the rights of Cathay Insurance (Vietnam) and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of Cathay Insurance (Vietnam) will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the year ended 31 December 2018, no material lawsuit or legal risks has taken place.

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(d) Correlation and mutual influence between different risks

In case of a catastrophe, beside huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of Cathay Insurance (Vietnam) being severely endangered by these derived risks, Cathay Insurance (Vietnam) has established “Points for Handling Major Events of Cathay Insurance (Vietnam)” that set up crisis team in reaction to the event. The team will execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and Cathay Insurance (Vietnam) and to guard financial order. For the year ended 31 December 2018, there is no catastrophe has taken place.

(e) Concentration risks in geographic regions and operating segments

Cathay Insurance (Vietnam)'s catastrophe insurance for earthquakes and floods are centralized in the areas of Ho Chi Minh City, Tinh Dong Nai and Tinh Ha Tinh.

b. The following table summarizes the concentration risk of Cathay Insurance (Vietnam) before and after reinsurance by types of insurance:

Insurance type	2018.1.1~2018.12.31				
	Direct premium income	Reinsurance premium income	Premiums ceded to reinsurers	Net premium income	%
Automobile insurance	\$110,998	\$-	\$80	\$110,918	71.45%
flood insurance	9,987	-	6,475	3,512	2.26%
Fire insurance	166,009	1,622	151,930	15,701	10.11%
Engineering insurance	3,637	-	2,282	1,355	0.87%
Accident insurance	23,402	-	-	23,402	15.07%
Liability insurance	924	34	594	364	0.24%
Total	\$314,957	\$1,656	\$161,361	\$155,252	100.00%

c. Disclosure of the prior management performance of the risks that, have made huge impact but relative low occurrence frequency, would help financial statement users to evaluate the uncertainty of this risk related cash flow.

Catastrophes such as typhoon and flood, will bring tremendous insurance risk to property insurance business. To control infrequent risk that impacts significantly, Cathay Insurance (Vietnam) assess risk of natural disasters and specially covered item. Cathay Insurance (Vietnam) also holds loss prevention seminars regularly to help customers reduce the incidence rate of disasters.

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Claim development table

(A) Cathay Century

Underwriting Year	-2012.12.31	2013.1.1- 2013.12.31	2014.1.1- 2014.12.31	2015.1.1- 2015.12.31	2016.1.1- 2016.12.31	2017.1.1- 2017.12.31	2018.1.1- 2018.12.31	Total
Estimate of cumulative claims incurred:								
At end of underwriting year	\$14,191,384	\$5,773,901	\$7,066,945	\$7,559,012	\$12,235,424	\$8,134,147	\$9,090,990	
One year later	16,228,104	6,109,827	7,217,836	7,418,703	11,455,620	8,025,062		
Two year later	15,809,160	6,169,858	7,156,309	7,548,387	10,970,548			
Three year later	17,231,439	6,103,460	7,135,341	7,495,745				
Four year later	17,113,138	6,135,016	7,133,873					
Five year later	17,113,708	6,114,405						
Six year later	17,315,392							
Estimate of cumulative claims incurred	17,315,392	6,114,405	7,133,873	7,495,745	10,970,548	8,025,062	9,090,990	\$66,146,015
Cumulative payment to date	\$17,073,434	6,060,027	6,845,350	7,343,375	10,666,232	7,252,286	5,018,516	60,259,220
Subtotal	241,958	54,378	288,523	152,370	304,316	772,776	4,072,474	5,886,795
Reconciliation	-	-	-	-	-	-	135,861	135,861
Recorded in balance sheet	\$241,958	\$54,378	\$288,523	\$152,370	\$304,316	\$772,776	\$4,208,335	\$6,022,656

Note: The upper part of this chart is to explain the amount of claim for property insurance of each underwriting year estimated through time. The lower part of this chart is to reconcile the estimates of cumulative claims to the amount recorded in balance sheet.

The chart excluded claim reserve of compulsory automobile liability insurance in the amount of \$1,483,044 thousand and assumed reserve for claims – non-compulsory insurance of \$777,198 thousand from the upper table.

(B) Cathay Century (Vietnam)

Historical data for Cathay Century (Vietnam)'s loss trends are not available. Cathay Century (Vietnam) has adopted the suggestion from the Vietnamese Ministry of Finance 2842/BTC/QLBH for loss reserving method with incurred but not reported claims, which is calculated at a rate of 5% of its annual retained premiums.

7. Related party transactions

(1) Related parties

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay United Bank	"
Cathay Century	"
Cathay Securities	"
Cathay Venture	"
Cathay Securities Investment Trust	"
Cathay Lujiazui Life Insurance Company Limited	"
Cathay Life (Vietnam)	"
Cathay Insurance (Bermuda)	Subsidiary of the Company (Note 1)
Conning Asia Pacific Ltd.	Subsidiary of the Company

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Name	Relationship
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of the Company
Lin Yuan (Shanghai) Real Estate Co., Ltd	"
Cathay Insurance (Vietnam) Co., Ltd.	"
Indovina Bank Limited (Vietnam)	"
Cathay Futures Co., Ltd.	"
Cathay Securities (Hong Kong) Limited	"
Cathay Private Equity	"
Cathay Century (China)	Associate
Taiwan Real-estate Management Corp.	"
Symphox Information Co., Ltd.	"
Xin-Ri-Tai Energy Corp.	"
Rizal Commercial Banking Corporation	"
PT Bank Mayapada Internasional Tbk	"
Da Sheng Venture Inc.	"
Cathay Sunrise Corporation	"
Global Evolution Holding Aps	"
PSS Co., Ltd.	"
CM Energy Co., Ltd.	"
Seaward Card Co., Ltd.	Other related party (Note 2)
Vietinbank	Other related party
Cathay Dragon Fund etc.	"
Lin Yuan Property Management Co., Ltd.	"
Cathay Medical Care Corporate	"
Cathay Real Estate Development Co., Ltd.	"
San Ching Engineering Co., Ltd.	"
Cathay Healthcare Management Co., Ltd.	"
Cathay Hospitality Management Co., Ltd.	"
Liang-Ting Co., Ltd.	"
Ally Logistic Property	"
Charity Foundation of Cathay Life	"
Cathay Cultural Foundation	"
Cathay United Bank Culture and Charity Foundation.	"
Cathay Life Insurance Employees' Welfare Committee	"
Cathay Real Estate Development Employees' Welfare Committee	"
Cathay Hospitality Consulting Co., Ltd.	"
Others	"

Note 1: Cathay Insurance (Bermuda) CO., Ltd. was dissolved on 8 May 2018, and had been liquidated on 21 May 2018.

Note 2: Cathay United Bank sold Seaward Card Co., Ltd. to Symphox Information Co., Ltd, a related party, on 21 July 2017, therefore, the relationship between the Company and the Group changed from a subsidiary to a other related party.

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(2) Significant transactions with related parties:

A. Cash and cash equivalent

(A) Due from commercial banks

Name	Ending balance	
	2018.12.31	2017.12.31
Other related party		
Vietinbank	\$5,309,375	\$5,340,176

Name	Interest income	
	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Other related party		
Vietinbank	\$5,228	\$5,242

(B) Due to commercial banks

Name	Ending balance	
	2018.12.31	2017.12.31
Other related party		
Vietinbank	\$5,360,670	\$5,334,420

Name	Interest expense	
	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Other related party		
Vietinbank	\$5,205	\$5,561

B. Financial assets at fair value through profit or loss

Name	2018.12.31	2017.12.31
Other related parties		
Cathay Dragon Fund etc.	\$710,786	\$239,943
Cathay Healthcare Management Co., Ltd.	180,180	(Note)
Total	\$890,966	\$239,943

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

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C. Receivables

Name	2018.12.31	2017.12.31
Other related party		
Cathay Dragon Fund etc.	\$154,280	\$145,162
	\$154,280	\$145,162

D. Loans

Name	Ending balance	
	2018.12.31	2017.12.31
Associate		
Taiwan Real-estate Management Corp.	\$30,000	\$32,000
Other related parties		
Cathay Real Estate Development Co., Ltd.	210,000	-
Others	2,456,817	2,363,153
Total	\$2,696,817	\$2,395,153

Name	Interest income	
	2018.1.1~	2017.1.1~
	2018.12.31	2017.12.31
Associate		
Taiwan Real-estate Management Corp.	\$562	\$613
Other related parties		
Cathay Real Estate Development Co., Ltd.	61	37
Others	39,211	36,233
Total	\$39,834	\$36,883

E. Available-for-sale financial assets

Name	2018.12.31 (Note)	2017.12.31
Other related parties		
Cathay Dragon Fund etc.		\$501,033
Cathay Healthcare Management Co., Ltd.		93,225
Total		\$594,258

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

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F. Deposit

Name	Ending balance	
	2018.12.31	2017.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	\$187,533	\$146,976
Associates		
Symphox Information Co., Ltd.	122,139	150,870
Xin-Ri-Tai Energy Corp.	137,979	308,836
Other related parties		
Cathay Real Estate Development Co., Ltd.	199,127	253,682
Cathay Dragon Fund etc.	137,823	106,497
Cathay Hospitality Management Co., Ltd.	16,523	9,202
Cathay United Bank Culture and Charity Foundation.	541,888	544,588
Cathay Life Insurance Employees' Welfare Committee	2,221,665	3,065,254
Cathay Real Estate Development Employees' Welfare Committee	386,529	363,768
Others	7,457,000	9,013,397
Total	<u>\$11,408,206</u>	<u>\$13,963,070</u>

Name	Interest expense	
	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	\$633	\$565
Associates		
Symphox Information Co., Ltd.	668	585
Xin-Ri-Tai Energy Corp.	97	459
Other related parties		
Cathay Real Estate Development Co., Ltd.	54	45
Cathay Dragon Fund etc.	2	1
Cathay Hospitality Management Co., Ltd.	23	22
Cathay United Bank Culture and Charity Foundation.	5,604	5,666
Cathay Life Insurance Employees' Welfare Committee	22,754	23,450
Cathay Real Estate Development Employees' Welfare Committee	4,082	3,761
Others	63,281	62,043
Total	<u>\$97,198</u>	<u>\$96,597</u>

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G. Property transactions

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

Name	2018.1.1~2018.12.31	
	Items	Amount
Other related parties		
Lin Yuan Property Management Co., Ltd.	Cathay Land Mark, etc.	\$17,910
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	1,351,132
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	586,426
Ally Logistic Property	Wuri E-commerce Building, etc.	869,331
Total		<u>\$2,824,799</u>

Name	2017.1.1~2017.12.31	
	Items	Amount
Other related parties		
Lin Yuan Property Management Co., Ltd.	Cathay Land Mark, etc.	\$15,758
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	274,409
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	1,225,857
Ally Logistic Property	Wuri E-commerce Building, etc.	1,348,450
Total		<u>\$2,864,474</u>

The total amounts of the real estate projects contracted as of 31 December 2018 and 31 December 2017 between Cathay Life and its subsidiaries and Lin Yuan Property Management Co., Ltd. were \$0 thousand and \$1,387 thousand respectively.

The total amounts of the real estate projects contracted as of 31 December 2018 and 31 December 2017 between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were \$1,838,045 thousand and \$1,853,190 thousand respectively.

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The total amounts of the real estate projects contracted as of 31 December 2018 and 31 December 2017 between Cathay Life and its subsidiaries and Cathay Real Estate Development Co., Ltd. were all \$1,742,250 thousand.

The total amounts of the real estate projects contracted as of 31 December 2018 and 31 December 2017 between Cathay Life and its subsidiaries and Ally Logistic Property were all \$3,383,783 thousand.

(B) Cathay Life and its subsidiaries sold building renovation equipment to related party

Name	Items	2018.1.1~	2017.1.1~
		2018.12.31	2017.12.31
Other related party			
Cathay Hospitality Management Co., Ltd.	Disposal of building renovation equipment	\$452,540	\$-

The above amount is the total amount of the untaxed sale. Gain on disposal of building renovation equipment to Cathay Hospitality Co., Ltd. for the years ended 31 December 2018 was \$13,540 thousand.

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

Name	Rental income	
	2018.1.1~	2017.1.1~
	2018.12.31	2017.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	\$8,944	\$8,900
Associates		
Symphox Information Co., Ltd.	41,126	40,912
Cathay Century (China)	30,353	27,103
Other related parties		
Cathay Real Estate Development Co., Ltd.	18,466	19,361
San Ching Engineering Co., Ltd.	5,610	5,610
Cathay Medical Care Corporate	186,308	185,327
Cathay Healthcare Management Co., Ltd.	56,574	56,032
Cathay Hospitality Management Co., Ltd.	218,778	225,304
Ally Logistic Property	499,776	299,821
Total	\$1,065,935	\$868,370

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Name	Guarantee deposits received	
	2018.12.31	2017.12.31
Associates		
Symphox Information Co., Ltd.	\$10,363	\$9,798
Cathay Century (China)	7,030	7,186
Other related parties		
Cathay Real Estate Development Co., Ltd.	3,803	3,773
Cathay Medical Care Corporate	11,260	10,916
Cathay Healthcare Management Co., Ltd.	15,628	13,157
Cathay Hospitality Management Co., Ltd.	206,166	216,949
Ally Logistic Property	57,040	55,669
Total	<u>\$311,290</u>	<u>\$317,448</u>

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

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

Name	Rental expense	
	2018.1.1~	2017.1.1~
	2018.12.31	2017.12.31
Other related party		
Cathay Real Estate Development Co., Ltd.	<u>\$7,413</u>	<u>\$7,413</u>

According to contracts, the lease terms are usually between 1 to 2 years and rental expenses are paid on a monthly basis.

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

Name	Rental income	
	2018.1.1~	2017.1.1~
	2018.12.31	2017.12.31
Other related party		
Cathay United Bank Culture and Charity Foundation.	<u>\$4,633</u>	<u>\$4,633</u>

According to contracts, the lease terms are usually between 1 to 3 years and rental incomes are collected on a monthly basis.

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

Name	Rental expense	
	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Other related party		
Cathay Real Estate Development Co., Ltd.	\$19,706	\$20,150

Name	Guarantee deposits paid	
	2018.12.31	2017.12.31
Other related party		
Cathay Real Estate Development Co., Ltd.	\$4,608	\$4,549

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

H. Prepayment for long-term investments

Name	2018.12.31	2017.12.31
Associate		
Cathay Century (China)	\$2,200,394	\$-

Cathay Life and Cathay Century resolved at board meetings held on 17 September 2018 to increase capital in the amount CNY 245 million to its associate Cathay Century (China). The Investment Commission of the Ministry of Economic Affairs authorized the remittance on 6 December 2018 and 23 November 2018. The capital increase was approved by the Bank of China Banking and Insurance Regulatory Commission on 23 January 2019.

I. Guarantee deposits received

Name	2018.12.31	2017.12.31
Other related parties		
Lin Yuan Property Management Co., Ltd.	\$5,000	\$5,000
San Ching Engineering Co., Ltd.	440,700	661,181
Cathay Hospitality Management Co., Ltd.	256,883	120,257
Ally Logistic Property	139,386	337,790
Cathay Hospitality Consulting Co., Ltd.	107,074	-
Total	\$949,043	\$1,124,228

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J. Futures traders' equity

Name	2018.12.31	2017.12.31
Other related party		
Cathay Dragon Fund etc.	\$944,480	\$526,611

K. Payables

Name	2018.12.31	2017.12.31
Associate		
Symphox Information Co., Ltd.	\$29,398	\$159,714
Other related party		
Seaward Card Co., Ltd.	34,034	24,254
Total	\$63,432	\$183,968

L. Purchased fund balance issued by related parties

Name	Items	2018.12.31	2017.12.31
Associate			
Global Evolution Holdings ApS	Market value	\$2,138,492	\$-
	Cost	\$2,142,144	\$-

M. Investment balance of related parties' discretionary investment

Name	2018.12.31	2017.12.31
Other related parties		
Charity Foundation of Cathay Life	\$68,993	\$72,580
Cathay Cultural Foundation	47,019	52,238
Total	\$116,012	\$124,818

N. Investment balance appointed to parties' discretionary investment

Name	2018.12.31	2017.12.31
Associate		
Global Evolution Holdings ApS	\$6,494,247	\$-

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O. Net commission and handling fee

(A) Handling fee income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	\$17,710	\$19,039
Other related party		
Cathay Real Estate Development Co., Ltd.	5,384	4,636
Total	\$23,094	\$23,675

(B) Reinsurance service expense

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Insurance (Bermuda)	\$-	\$8,826

P. Net premiums from insurance business

(A) Insurance income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Other related parties		
Cathay Real Estate Development Co., Ltd.	\$8,195	\$6,718
Cathay Medical Care Corporate	47,062	46,901
San Ching Engineering Co., Ltd.	8,793	9,780
Lin Yuan Property Management Co., Ltd.	3,184	3,183
Others	259,323	294,377
Total	\$326,557	\$360,959

(B) Reinsurance income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Insurance (Bermuda)	\$-	\$131,460

Cathay Insurance (Bermuda) Co., Ltd. engaged only in reinsurance business after its establishment. As the Company's board of directors resolved to acquire the reinsurance business of Cathay Insurance (Bermuda) Co., Ltd. on 7 November 2017, Cathay Insurance (Bermuda) Co., Ltd. had not engaged in any reinsurance business after the settlement date (15 December 2017).

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(C) Reinsurance claims payment

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Insurance (Bermuda)	\$-	\$128,255

Q. Net other non-interest income

(A) Management fee income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Other related party		
Cathay Dragon Fund etc.	\$1,825,974	\$1,445,593

(B) Other income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Other related party		
Cathay Healthcare Management Co., Ltd.	\$4,938	\$4,792
Cathay Medical Care Corporate	3,702	3,651
Total	\$8,640	\$8,443

R. Operating expenses

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Associate		
Symphox Information Co., Ltd.	\$999,381	1,010,407
Other related parties		
Seaward Card Co., Ltd.	306,607	299,654
Cathay Real Estate Development Co., Ltd.	9,796	10,883
Lin Yuan Property Management Co., Ltd.	804,376	791,313
Cathay Healthcare Management Co., Ltd.	55,971	42,147
Cathay Medical Care Corporate	14,847	3,731
Charity Foundation of Cathay Life	5,300	5,550
San Ching Engineering Co., Ltd.	3,672	3,924
Total	\$2,199,950	\$2,167,609

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S. Subscription of shares issued by related parties

Name	Items	2018.1.1~	2017.1.1~
		2018.12.31	2017.12.31
Associates			
Rizal Commercial Banking Corporation	Common stock	\$1,992,264	\$271,974
PT Bank Mayapada Internasional Tbk	Common stock	1,628,071	894,670
Da Sheng Venture Inc.	Common stock	-	375,000
Cathay Sunrise Corporation	Common stock	-	675,000
CM Energy Co., Ltd.	Common stock	-	216,000
PSS Co., Ltd.	Common stock	407,671	-
Total		<u>\$4,028,006</u>	<u>\$2,432,644</u>

T. Securities trading

Name	Securities Name	2017.1.1~2017.12.31	
		Trading shares	Sale price
Associates			
Symphox Information Co., Ltd.	Seaward Card Co., Ltd.	<u>3,000,000 shares</u>	<u>\$46,800</u>

There was no purchase or sale of securities with related parties in 2018.

U. Key management personnel compensation

	2018.1.1~	2017.1.1~
	2018.12.31	2017.12.31
Short-term employee benefits	\$926,477	\$793,903
Post-employment pension	17,951	16,088
Other long-term employee benefits	26	45
Total	<u>\$944,454</u>	<u>\$810,036</u>

The key management personnel of the Group include chairman, vice chairman, directors, supervisors, president, senior executive vice president, and executive vice president.

(3) The Company

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

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A. Cash in bank

Name	Item	Ending balance	
		2018.12.31	2017.12.31
Subsidiary			
Cathay United Bank	Cash in bank	\$139,920	\$137,400

Interest income from Cathay United Bank for the years ended 31 December 2018 and 2017 were \$726 thousand and \$294 thousand, respectively.

B. Receivables

Name	Items	2018.12.31	2017.12.31
Subsidiaries			
Cathay Life	Receivables due to interest and dividends	\$65,589	\$158,589
Cathay Century	Receivables due to consolidated income tax, interest and dividends	64,901	231,138
Cathay Securities	Receivables due to consolidated income tax	24,916	76,883
Cathay Securities Investment Trust	Receivables due to consolidated income tax	82,083	57,089
Cathay Venture	Receivables due to consolidated income tax	29,331	3,647
	Total	\$266,820	\$527,346

C. Guarantee deposits paid

Name	2018.12.31	2017.12.31
Subsidiary		
Cathay Life	\$12,588	\$12,588

D. Held-to-maturity financial asset

Name	2018.12.31(Note)	2017.12.31
Subsidiaries		
Cathay Life		\$40,000,000
Cathay Century		1,000,000
Total		\$41,000,000

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

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E. Financial assets at fair value through profit or loss

Name	2018.12.31	2017.12.31(Note)
Subsidiaries		
Cathay Life	<u>\$35,000,000</u>	

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

F. Payables

Name	Items	2018.12.31	2017.12.31
Subsidiaries			
Cathay Life	Payable due to consolidated income tax	\$8,998,563	\$706,336
Cathay United Bank	Payable due to consolidated income tax	485,773	145,836
Total		<u>\$9,484,336</u>	<u>\$852,172</u>

G. Interest income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiaries		
Cathay Life	\$1,310,704	\$1,353,179
Cathay Century	10,192	18,600
Total	<u>\$1,320,896</u>	<u>\$1,371,779</u>

H. Operating expenses

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Life	\$63,028	\$59,138
Other related party		
Seaward Card Co., Ltd.	5,510	4,519
Total	<u>\$68,538</u>	<u>\$63,657</u>

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I. Subscription of shares issued by related parties

Name	Items	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiaries			
Cathay Life	Common stock	\$42,000,000	\$-
Cathay United Bank	Common stock	-	14,998,000
Total		\$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	2018.12.31	2017.12.31
Subsidiaries			
Cathay United Bank	Time deposit	\$2,715,620	\$2,047,772
	Cash in bank	28,726,895	26,172,194
	Check deposit	268,337	343,491
	Security deposit	6	6
Indovina Bank	Time deposit	1,536,338	13,140
	Cash in bank	8,344	15,984
Total		\$33,255,540	\$28,592,587

Interest income from Cathay United Bank for the years ended 31 December 2018 and 2017, were \$61,162 thousand and \$28,157 thousand, respectively.

Interest income from Indovina Bank for the years ended 31 December 2018 and 2017 were \$52,841 thousand and \$1,438 thousand, respectively.

As of 31 December 2018 and 31 December 2017, time deposit pledged were all \$3,000 thousand.

(B) Other receivables

Name	2018.12.31	2017.12.31
The Company		
Cathay Financial Holding (Note)	\$8,998,563	\$706,336

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

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(C) Secured loans

2018.1.1~2018.12.31			
Name	Maximum amount	Rate	Ending balance
Other related party			
Others	\$1,085,539	1.03%~3.74%	\$973,182
2017.1.1~2017.12.31			
Name	Maximum amount	Rate	Ending balance
Other related party			
Others	\$1,107,371	1.03%~3.44%	\$909,989

Interest income from others related parties for the years ended 31 December 2018 and 2017 were \$14,152 thousand and \$14,329 thousand, respectively.

(D) Purchased fund balance issued by related parties

Name	Items	2018.12.31	2017.12.31
Associate			
Global Evolution Holdings ApS	Market value	\$2,138,492	\$-
	Cost	\$2,142,144	\$-

(E) Investment balance of related parties' discretionary investment

Name	2017.12.31	2016.12.31
Subsidiary		
Cathay Securities Investment Trust	\$210,965,710	\$245,661,387
Associate		
Global Evolution Holding ApS	6,494,247	-
Total	\$217,459,957	\$245,661,387

(F) Guarantee deposits paid

Name	2018.12.31	2017.12.31
Subsidiary		
Cathay Futures	\$1,511,584	\$1,628,717

The guarantee deposits are futures margins of Cathay Futures Co., Ltd. The imputed interest income of guarantee deposit paid from Cathay Futures Co., Ltd. for the years ended 31 December 2018 and 2017 were \$1,471 thousand and \$1,087 thousand, respectively.

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(G) Prepayment for long-term investments

Name	2018.12.31	2017.12.31
Associate		
Cathay Century (China)	\$1,100,344	\$-

Cathay Life resolved at board meetings held on 17 September 2018 to increase capital in the amount CNY 245 million to its associate Cathay Century (China). The Investment Commission of the Ministry of Economic Affairs authorized the remittance on 6 December 2018. The capital increase was approved by the Bank of China Banking and Insurance Regulatory Commission on 23 January 2019.

(H) Other payables

Name	2018.12.31	2017.12.31
The Company		
Cathay Financial Holding (Note)	\$65,589	\$158,589
Subsidiary		
Cathay United Bank	89,605	163,342
Total	\$155,194	\$321,931

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

(I) Preferred stock liability

Name	2018.12.31	2017.12.31
The Company		
Cathay Financial Holding	\$-	\$5,000,000

(J) Bonds payable

Name	2018.12.31	2017.12.31
The Company		
Cathay Financial Holding	\$35,000,000	\$35,000,000

(K) Property transactions

Property transactions between Cathay Life and related parties are in the nature of undertaking contracted projects, trade, and lease transactions. The terms of such transactions are based on market surveys, the contracted terms of both parties and public bidding.

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Real estate contracted projects of Cathay Life and its subsidiaries:

Name	2018.1.1~2018.12.31	
	Items	Amount
Other related party		
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	\$1,351,132
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	586,426
Ally Logistic Property	Wuri E-commerce Building, etc.	869,331
Total		<u>\$2,806,889</u>

Name	2017.1.1~2017.12.31	
	Items	Amount
Other related party		
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	\$274,409
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	1,225,857
Ally Logistic Property	Wuri E-commerce Building, etc.	1,348,450
Total		<u>\$2,848,716</u>

The total amounts of the real estate projects contracted as of 31 December 2018 and 31 December 2017 between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were \$1,838,045 thousand and \$1,853,190 thousand, respectively.

The total amounts of the real estate projects contracted as of 31 December 2018 and 31 December 2017 between Cathay Life and its subsidiaries and Cathay Real Estate Development Co., Ltd. were all \$1,742,250 thousand.

The total amounts of the real estate projects contracted as of 31 December 2018 and 31 December 2017 between Cathay Life and its subsidiaries and Ally Logistic Property were all \$3,383,783 thousand.

Cathay Life and its subsidiaries sold building renovation equipment to related party

Name	Items	2018.1.1~	2017.1.1~
		2018.12.31	2017.12.31
Other related party			
Cathay Hospitality Management Co., Ltd.	Disposal of building renovation equipment	\$452,540	\$-

Gain on disposal of building renovation equipment to Cathay Hospitality Co., Ltd. for the years ended 31 December 2018 and 2017 were \$13,540 thousand and \$0 thousand, respectively.

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(L) Rental income

Name	Items	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiaries			
Cathay United Bank	Real-estate rental income	\$681,206	\$580,440
Cathay Century	Real-estate rental income	108,092	105,435
Other related parties			
Ally Logistic Property	Real-estate rental income	499,776	299,821
Cathay Healthcare Management Co., Ltd.	Real-estate rental income	218,778	225,304
Cathay Hospitality Management Co., Ltd.	Real-estate rental income	186,308	185,327
Total		<u>\$1,694,160</u>	<u>\$1,396,327</u>

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

(M) Guarantee deposits received

Name	2018.12.31	2017.12.31
Subsidiary		
Cathay United Bank	\$189,738	\$164,798
Other related parties		
San Ching Engineering Co., Ltd.	440,700	661,181
Cathay Hospitality Management Co., Ltd.	463,049	337,206
Ally Logistic Property	196,426	393,459
Cathay Hospitality Consulting Co., Ltd.	107,074	-
Total	<u>\$1,396,987</u>	<u>\$1,556,644</u>

(N) Miscellaneous income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiaries		
Cathay Century	\$629,342	\$580,053
Cathay United Bank	188,212	174,073
Total	<u>\$817,554</u>	<u>\$754,126</u>

Miscellaneous income is mainly generated from Cathay Life and its subsidiaries' integrated marketing activities.

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(O) Insurance expense

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Century	\$107,023	\$115,158

(P) Insurance income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Other related party		
Others	\$259,323	\$294,377

(Q) Reinsurance income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Insurance (Bermuda)	\$-	\$131,460

Cathay Insurance (Bermuda) Co., Ltd. engaged only in reinsurance business after its establishment. As the Company's board of directors resolved to acquire the reinsurance business of Cathay Insurance (Bermuda) Co., Ltd. on 7 November 2017, Cathay Insurance (Bermuda) Co., Ltd. had not engaged in any reinsurance business after the settlement date (15 December 2017).

(R) Handing fee income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Securities Investment Trust	\$199,014	\$182,147

(S) Reinsurance claim payments

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Insurance (Bermuda)	\$-	\$128,255

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(T) Operating expenses

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay United Bank	\$7,088,674	\$6,743,403
Cathay Securities Investment Trust	402,183	152,394
Associate		
Symphox Information Co., Ltd.	248,531	286,646
Other related party		
Lin Yuan Property Management Co., Ltd.	793,716	781,188
Total	<u>\$8,533,104</u>	<u>\$7,963,631</u>

(U) Non-operating expenses

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
The Company		
Cathay Financial Holding	<u>\$1,310,704</u>	<u>\$1,353,179</u>

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

(V) Shares issued from Cathay Life and related parties

Capital increased by cash

Name	Item	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
The Company			
Cathay Financial Holding	Common stock	<u>\$42,000,000</u>	<u>\$-</u>

Subscription of shares issued by related parties

Name	Items	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Associates			
Rizal Commercial Banking Corporation	Common stock	\$1,992,264	\$271,974
PT Bank Mayapada Internasional Tbk	Common stock	1,628,071	894,670
Da Sheng Venture Inc.	Common stock	-	375,000
Cathay Sunrise Corporation	Common stock	-	675,000
CM Energy Co., Ltd.	Common stock	-	216,000
PSS Co., Ltd.	Common stock	407,671	-
Total		<u>\$4,028,006</u>	<u>\$2,432,644</u>

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(W) Other disclosures

As of 31 December 2018 and 31 December 2017, the nominal amounts (in thousands) of the financial instruments transactions between Cathay Life and Cathay United Bank are summarized below:

Item	2018.12.31	2017.12.31
CS contracts	USD 3,752,000	USD 3,322,000

B. Cathay United Bank and its subsidiaries

(A) Loans and deposits

Account/Name	Ending balance	
	2018.12.31	2017.12.31
Loans		
Other related parties		
Cathay Real Estate Development Co., Ltd.	\$210,000	\$-
Others	1,458,912	1,422,061
Total	<u>\$1,668,912</u>	<u>\$1,442,061</u>

Account/Name	Ending balance	
	2018.12.31	2017.12.31
Deposits		
The Company		
Cathay Financial Holding	\$139,920	\$137,400
Subsidiaries		
Cathay Life	30,744,095	28,472,961
Cathay Century	2,724,193	1,827,176
Cathay Securities	2,550,090	3,414,826
Cathay Futures Co., Ltd.	1,345,519	1,041,691
Cathay Venture	113,380	25,765
Cathay Securities Investment Trust	149,076	179,814
Cathay Life (Vietnam)	1,809,689	29,124
Cathay Century (Vietnam)	147,705	145,661
Conning Asia Pacific Ltd.	78,721	90,502
Cathay Securities Investment Consulting Co., Ltd.	187,533	146,976
Lin Yuan (Shanghai) Real Estate Co., Ltd.	623,035	-
Cathay Securities (Hong Kong), Ltd	66	66
Cathay Private Equity	33,114	49,963
Associates		
Symphox Information Co., Ltd.	122,139	150,870
Xin-Ri-Tai Energy Corp.	137,979	308,836
Other related parties		
Cathay Real Estate Development Co., Ltd.	199,127	253,682
Cathay Dragon Fund etc.	137,823	106,497
Cathay United Bank Culture and Charity Foundation.	541,888	544,588
Cathay Life Insurance Employees' Welfare Committee	2,221,665	3,065,254
Cathay Real Estate Development Employees' Welfare Committee	386,529	363,768
Others	7,457,000	9,013,397
Total	<u>\$51,850,286</u>	<u>\$49,368,817</u>

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Account/Name	Interest income	
	2018.1.1~	2017.1.1~
	2018.12.31	2017.12.31
Loans		
Other related parties		
Cathay Real Estate Development Co., Ltd.	\$61	\$37
Others	24,648	21,453
Total	<u>\$24,709</u>	<u>\$24,490</u>

Account /Name	Interest expense	
	2018.1.1~	2017.1.1~
	2018.12.31	2017.12.31
Deposits		
The Company		
Cathay Financial Holding	\$726	\$294
Subsidiaries		
Cathay Life	50,892	27,653
Cathay Century	7,808	7,110
Cathay Securities	4,458	4,652
Cathay Futures Co., Ltd.	7,578	9,198
Cathay Venture	60	50
Cathay Securities Investment Trust	192	249
Cathay Securities Investment Consulting Co., Ltd.	633	565
Lin Yuan (Shanghai) Real Estate Co., Ltd.	8,683	-
Cathay Life (Vietnam)	53,554	1,438
Cathay Century (Vietnam)	6,652	5,638
Conning Asia Pacific Ltd.	874	504
Cathay Private Equity	18	3
Associates		
Symphox Information Co., Ltd.	668	585
Xin-Ri-Tai Energy Corp.	97	459
Other related parties		
Cathay Real Estate Development Co., Ltd.	54	45
Cathay Dragon Fund etc.	2	1
Cathay United Bank Culture and Charity Foundation.	5,604	5,666
Cathay Life Insurance Employees' Welfare Committee	22,754	23,450
Cathay Real Estate Development Employees' Welfare Committee	4,082	3,761
Others	63,281	62,043
Total	<u>\$238,670</u>	<u>\$153,364</u>

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Account/Name	Ending balance	
	2018.12.31	2017.12.31
Call loans to banks		
Other related party		
Vietinbank	\$5,309,375	\$5,340,176
Due to commercial banks		
Other related party		
Vietinbank	5,360,670	5,334,420

Account/Name	Interest income	
	2018.1.1~	2017.1.1~
	2018.12.31	2017.12.31
Call loans to banks		
Other related party		
Vietinbank	\$5,228	\$5,242

Account/Name	Interest expense	
	2018.1.1~	2017.1.1~
	2018.12.31	2017.12.31
Due to commercial banks		
Other related party		
Vietinbank	\$5,205	\$5,561

Cathay United Bank and its subsidiaries' transaction terms with related parties are similar to those with third parties except that employees are given favorable interest rates within specified limit for savings and loans.

(B) Cathay United Bank and its related party loan, Guarantees and Derivatives Financial instruments refer to Note 16.(4).

(C) Receivables due to commission of insurance agency

Name	2018.12.31	2017.12.31
Subsidiary		
Cathay Life	\$89,605	\$163,342

(D) Payables

Name	2018.12.31	2017.12.31
Associate		
Symphox Information Co., Ltd.	\$19,680	\$157,938

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(E) Combined tax receivable

Name	2018.12.31	2017.12.31
The Company		
Cathay Financial Holding	\$485,773	\$145,836

(F) Rental expense

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Life	\$681,206	\$580,440

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

(G) Guarantee deposits paid

Name	2018.12.31	2017.12.31
Subsidiary		
Cathay Life	\$189,738	\$164,798

(H) Handling fees income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Life	\$7,088,674	\$6,743,403
Cathay Century	160,875	154,446
Total	\$7,249,549	\$6,897,849

(I) Operating expenses

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Life	\$188,212	\$174,073
Associate		
Symphox Information Co., Ltd.	662,504	656,647
Other related party		
Seaward Card Co., Ltd.	210,023	199,585
Total	\$1,060,739	\$1,030,305

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(J) Insurance expense

Name	2018.1.1~	2017.1.1~
	2018.12.31	2017.12.31
Subsidiary		
Cathay Century	\$178,718	\$172,376

(K) Shares issued from Cathay United Bank

Capital increased by cash

Name	Item	2018.1.1~	2017.1.1~
		2018.12.31	2017.12.31
The Company			
Cathay Financial Holding	Common stock	\$-	\$14,998,000

C. Cathay Century and its subsidiaries

(A) Cash in banks

Name	Items	2018.12.31	2017.12.31
Subsidiaries			
Cathay United Bank	Time deposit	\$623,200	\$618,200
	Cash in bank	1,946,653	1,079,221
	Check deposit	154,340	129,755
Indovina Bank	Time deposit	144,687	140,380
	Cash in bank	3,018	5,281
	Total	\$2,871,898	\$1,972,837

Interest income from Cathay United Bank for the years ended 31 December 2018 and 2017 were \$7,808 thousand and \$7,110 thousand, respectively,

Interest income from Indovina Bank for the years ended 31 December 2018 and 2017 were \$6,652 thousand and \$5,638 thousand, respectively.

As of 31 December 2018 and 31 December 2017, the time deposit pledged were \$28,108 thousand and \$23,041 thousand, respectively.

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

Name	Item	2018.12.31	2017.12.31 (Note)
Other related party			
Cathay Dragon Fund etc.	Beneficiary certificates	<u>\$359,128</u>	

Note: Cathay Century and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay Century and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(C) Available-for-sale financial assets

Name	Item	2018.12.31 (Note)	2017.12.31
Other related party			
Cathay Dragon Fund etc.	Beneficiary certificates		<u>\$302,124</u>

Note: Cathay Century and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay Century and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(D) Investment balance of related parties' discretionary investment

Name	2018.12.31	2017.12.31
Subsidiary		
Cathay Securities Investment Trust	<u>\$848,925</u>	<u>\$898,774</u>

(E) Prepayment for long-term investments

Name	2018.12.31	2017.12.31
Associate		
Cathay Century (China)	<u>\$1,100,050</u>	<u>\$-</u>

Cathay Century resolved at board meetings held on 17 September 2018 to increase capital in the amount CNY 245 million to its associate Cathay Century (China). The Investment Commission of the Ministry of Economic Affairs authorized the remittance on 23 November 2018. The capital increase was approved by the Bank of China Banking and Insurance Regulatory Commission on 23 January 2019.

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(F) Other payables

Name	2018.12.31	2017.12.31
The Company		
Cathay Financial Holding	\$64,901	\$231,138

(G) Preferred stock liability

Name	2018.12.31	2017.12.31
The Company		
Cathay Financial Holding	\$-	\$1,000,000

(H) Insurance income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiaries		
Cathay Life	\$107,023	\$115,158
Cathay United Bank	178,718	172,376
Total	\$285,741	\$287,534

(I) Operating expenses

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiaries		
Cathay Life	\$629,342	\$580,053
Cathay United Bank	160,875	154,446
Total	\$790,217	\$734,499

(J) Rental expense

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiaries		
Cathay Life	\$108,092	\$105,435

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(K) Other disclosure

As of 31 December 2018 and 31 December 2017, the nominal amounts (in thousand) of the derivative financial instruments transactions with Cathay United Bank are summarized as below:

Item	2018.12.31		2017.12.31	
CS contracts	USD	88,700	USD	88,700
	EUR	750	EUR	4,850

D. Cathay Securities and its subsidiaries

(A) Cash in bank

Name	Items	107.12.31	106.12.31
Subsidiary			
Cathay United Bank	Time deposits (Note)	\$1,809,000	\$2,042,784
	Cash in bank	1,162,448	1,697,512
	Check deposits	13,871	3
	Total	\$2,985,319	\$3,740,299

Interest income from Cathay United Bank for the years ended 31 December 2018 and 2017 were \$12,036 thousand and \$13,850 thousand, respectively.

As of 31 December 2018 and 31 December 2017, the time deposits pledged were all \$900,000 thousand.

Note: In accordance with Article 14 of the “Regulations Governing Futures Commission Merchants”, Article 10 of the “Regulations Governing Futures Advisory Enterprises”, Article 7 of the “Regulations Governing Securities Investment Consulting Enterprises” and Article 17 of the “Regulations Governing Managed Futures Enterprises”, Cathay Futures lodges the time deposits in Cathay United Bank as the operating bonds. As of 31 December 2018 and 31 December 2017, the operating bonds were \$390,000 thousand and \$385,000 thousand, respectively.

(B) Customer’s margin accounts

Name	2018.12.31	2017.12.31
Subsidiary		
Cathay United Bank	\$910,355	\$716,284

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

Name	2018.12.31	2017.12.31
Other related party		
Cathay Dragon Fund etc.	\$243,018	\$237,708
	\$243,018	\$237,708

(D) Futures trader's equity

Name	2018.12.31	2017.12.31
Subsidiary		
Cathay Life	\$1,511,584	\$1,628,717
Other related party		
Cathay Dragon Fund etc.	994,480	526,611
Total	\$2,506,064	\$2,155,328

E. Cathay Securities Investment Trust

(A) Cash in bank

Name	Items	2018.12.31	2017.12.31
Subsidiary			
Cathay United Bank	Time deposit (Note)	\$80,300	\$96,300
	Cash in bank	36,562	55,082
	Check deposits	65,328	78,395
	Total	\$182,190	\$229,777

Note: In accordance with “Standards Governing the Establishment of Futures Trust Enterprises” and “Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises”, Cathay Securities Investment Trust lodges the time deposits in Cathay United Bank as operating bonds. As of 31 December 2018 and 31 December 2017, the operating bonds were all \$50,000 thousand. In accordance with “Discretionary Investment Services Contract”, as of 31 December 2018 and 31 December 2017, Cathay Securities Investment Trust reserved the performance bonds amounting to \$30,300 thousand and \$36,300 thousand, respectively.

Interest income from Cathay United Bank for the years ended 31 December 2018 and 2017 were \$210 thousand and \$252 thousand, respectively.

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(B) Management fee income

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiary		
Cathay Life	\$402,183	\$152,394
Other related party		
Cathay Dragon Fund etc.	1,825,974	1,445,593
Total	<u>\$2,228,157</u>	<u>\$1,597,987</u>

(C) Receivables

Name	2018.12.31	2017.12.31
Other related party		
Cathay Dragon Fund etc.	<u>\$154,280</u>	<u>\$145,162</u>

(D) Investment balance of related parties' discretionary investment

Name	2018.12.31	2017.12.31
Subsidiaries		
Cathay Life	\$217,459,957	\$245,661,387
Cathay Century	848,925	898,774
Total	<u>\$218,308,882</u>	<u>\$246,560,161</u>

(E) Operating expenses

Name	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Subsidiaries		
Conning Asia Pacific Ltd.	<u>\$120,304</u>	<u>\$90,805</u>

8. Pledged assets

As of 31 December 2018 and 31 December 2017 the Group's pledged assets are summarized below:

Items	Guarantee purpose	Carrying amount	
		2018.12.31	2017.12.31
Cash, Time deposits and guarantee deposits paid	Capital guarantee, serving as deposits paid, settlement accounts overdraft guarantee, collateral for court guarantees, collateral for applying for a provisional attachment counter-guarantee for the property lease deposit collected from the lessee	\$16,515,144	\$14,608,359
Financial assets at fair value through profit or loss	Collateral for securities lending and loan	1,179,454	1,929,047
Available-for-sale financial assets	Business reserves and collaterals	(Note)	57,613
Financial assets at fair value through other comprehensive income	Business reserves and collaterals	14,353	(Note)
Financial assets measured at amortized cost	Business reserves and collaterals	64,423,052	(Note)
Held-to-maturity financial assets	Business reserves, collaterals and collateral for loan	(Note)	5,903,749
Investments in debt securities with no active market	Business reserves and collaterals	(Note)	63,800,000
Investment property	short-term loan	290,341	-
Total		<u>\$82,422,344</u>	<u>\$86,298,768</u>

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

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9. Commitment and contingent liabilities

(1) Cathay United Bank

Lee & Li, Attorneys-at-Law and SanDisk Corporation of USA alleged that the embezzlement case of Liu Wei-Chieh (an employee of Lee & Li), which occurred in October 2003 was caused by the negligence of Cathay United Bank in its operation, and the plaintiffs claimed damages from Cathay United Bank in the amount of approximately \$991,002 thousand and \$3,090,000 thousand separately. The case has been pending in the court since July 2007, and Cathay United Bank won favorable decisions in both first instance and second instances. However, the judgment was rejected by Supreme Court and was remanded to the High Court. Both Cathay United Bank and its attorneys hold that this case will not have material adverse effect on the financial position of Cathay United Bank and its subsidiaries.

(2) As of 31 December 2018 and 31 December 2017 Cathay United Bank and its subsidiaries had the following commitments and contingent liabilities, which were not reflected in the financial statements:

Items	2018.12.31	2017.12.31
Trust and security held for safekeeping	\$750,988,804	\$684,016,891
Travelers checks for sale	299,765	355,055
Bills for collection	36,044,907	40,718,597
Book-entry for government bonds and depository for short-term marketable securities under management	400,999,309	388,637,503
Entrusted financial management business	21,016,659	8,827,034
Guarantees on duties and contracts	13,534,956	7,167,460
Unused commercial letters of credit	6,008,561	5,395,278
Irrevocable loan commitments	155,229,226	211,869,506
Unused credit card lines commitments	592,059,512	555,882,027
Underwriting securities	1,000,000	230,000
Financial guarantee contracts	2,511,838	2,648,521

(3) Leases

As of 31 December 2018 and 31 December 2017. According to the effective operating leases agreement (the longest lease term is 5 years), rentals for the next five years are as follows:

	2018.12.31	2017.12.31
Within 1 year	\$1,947,693	\$2,025,770
1 to 5 years	4,035,165	3,337,847
Over 5 year	335,803	108,483
Total	<u>\$6,318,661</u>	<u>\$5,472,100</u>

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(4) Investment commitment for private equity fund

As of 31 December 2018, the maximum remaining capital commitment for the contracted private equity fund of Cathay Life was USD 2,277,301 thousand, EUR 315,235 thousand, GBP 1,557 thousand, and NTD 2,200,000 thousand.

10. Significant disaster losses:

None

11. Subsequent events

(1) Cathay Securities received a refund of shares in the amount of USD 303,485.47 from Cathay Investment Consulting (Shanghai) Co., Ltd. which was liquidated on 26 February 2019.

(2) Please refer to Note 12.(7).

12. Other significant matters

(1) Categories of financial instruments

The Group

	2018.12.31	2017.12.31 (Note)
Financial assets		
Financial assets at fair value through profit or loss	\$1,428,824,049	
Financial assets at fair value through other comprehensive income	1,127,810,270	
Financial assets for hedging -net	216,611	
Financial assets measured at amortized cost		
Cash and cash equivalents (petty cash and cash on hand excluded)	189,318,814	
Due from the Central Bank and call loans to banks	104,223,315	
Financial assets measured at amortized cost	2,688,221,788	
Securities purchased under agreements to resell	59,212,899	
Receivables -net	161,216,190	
Loans -net	2,176,775,907	
Other financial assets -net	555,740,531	
Guarantee deposits paid	57,523,991	
Subtotal	5,992,233,435	
Total	\$8,549,084,365	

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	2018.12.31	2017.12.31
	(Note)	
Financial assets		
Financial assets at fair value through profit or loss		\$365,808,158
Available-for-sale financial assets -net		1,681,125,738
Derivative financial assets for hedging -net		246,444
Held-to-maturity financial assets -net		98,759,110
Other financial assets - investments with no active market		2,783,306,758
Loans and receivables		
Cash and cash equivalents (petty cash and cash on hand excluded)		227,032,625
Due from the Central Bank and call loans to banks		125,163,780
Securities purchased under agreements to resell		99,703,578
Receivables -net		169,202,260
Loans -net		2,038,528,190
Other financial assets -net		564,600,543
Guarantee deposits paid		36,555,168
Subtotal		3,260,786,144
Total		\$8,190,032,352

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

	2018.12.31	2017.12.31
Financial liabilities		
Financial liabilities at fair value through profit or loss	\$129,698,896	\$90,514,268
Financial liabilities at amortized cost		
Due to the Central Bank and call loans from banks	81,432,233	90,417,859
Securities sold under agreements to repurchase	59,307,037	112,643,582
Commercial paper payable -net	62,989,367	51,468,158
Payables	66,727,399	57,943,815
Deposits	2,187,203,086	2,062,953,012
Bonds payable	90,600,000	98,350,000
Other borrowings	336,381	441,199
Other financial liabilities	627,815,178	623,527,312
Guarantee deposits received	6,059,194	13,392,097
Subtotal	3,182,469,875	3,111,137,034
Total	\$3,312,168,771	\$3,201,651,302

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(2) Fair value of financial instruments

A. The methods and assumptions applied in determining the fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Group to measure or disclose the fair values of financial assets and financial liabilities:

- (A) The carrying amount of cash and cash equivalents, accounts receivables, short-term debts and accounts payable approximate their fair value due to their short maturities.
- (B) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.
- (C) Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).
- (D) Fair value of debt instruments without market quotations is determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the GreTai Securities Market, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk information.)
- (E) The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).

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(F) The Group evaluates the credit risk of the derivative contract traded over-the-counter through the following calculation. Under the assumption that the Group will not default, the Group determines its credit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Group calculates its debit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the Group. The Group decides the estimated probability of default by referring to the probability of default announced by external credit rating agencies. The Group sets estimated loss given default at 60% by considering the experiences of Jon Gregory, a scholar, and foreign financial institutions. The estimated exposure at default for current period is evaluated by considering the fair value of the derivative instruments traded at Taipei Exchange.

B. Financial instruments not measured at fair value

Except as detailed in the following table, cash and cash equivalents, due from the central bank and call loans to banks, securities purchased under resell agreements, receivables, discounts and loans, guarantee deposits paid, deposits from the central bank and banks, due to the central bank and other banks, notes and bonds issued under repurchase agreement, commercial papers payable, payables, deposits and remittances and guarantee deposits received are the management considers the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values or that the fair values cannot be reasonably measured:

	Book value	
	2018.12.31	2017.12.31
<u>Financial assets</u>		
Financial assets measured at amortized cost (Note 1)	\$2,704,025,477	(Note 2)
Held-to-maturity financial assets (Note 1)	(Note 2)	\$107,306,112
Investments with no active market	(Note 2)	2,783,306,758
Other financial assets	1,999,406	4,500,000
	Fair value	
	2018.12.31	2017.12.31
<u>Financial assets</u>		
Financial assets measured at amortized cost (Note 1)	\$2,607,380,843	(Note 2)
Held-to-maturity financial assets (Note 1)	(Note 2)	\$115,588,892
Investments with no active market	(Note 2)	2,876,428,806
Other financial assets	2,009,973	4,521,701

Note 1: Guarantee deposits paid in bonds are included.

Note 2: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

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(3) Hedge accounting disclosures

Cash flow hedges

Cathay Life and its subsidiaries elected to apply hedge accounting policy of IFRS 9 late at the initial application of IFRS 9. The future cash flows fluctuation in the floating-rate assets held by Cathay Life and its subsidiaries may occur due to the change in market interest rate and lead to risk. Cathay Life and its subsidiaries held IRS thus to hedge risks arising from changes in interest rate. Information of hedge accounting from 1 January 2018 is as follows:

A. Hedging instruments

31 December 2018					
Hedging instrument	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line items in balance sheet where the hedging instrument is included	Changes in fair value used for calculating hedge ineffectiveness for current period
		Assets	Liabilities		
IRS	\$6,800,000	\$216,611	\$-	Financial assets for hedging	\$54,891

B. A profile of the timing of the nominal amount of the hedging instrument and the average price or rate

31 December 2018	Due in				
	1 month	1-3 months	3 months-1 year	1-5 years	Over 5 years
IRS					
Nominal principal	\$-	\$-	\$-	\$3,800,000	\$3,000,000
Average fixed rate	-	-	-	1.6%	1.7%

C. Hedged items

2018.1.1~2018.9.30							
Changes in fair value used for calculating hedge ineffectiveness for current period	Cash flow hedge reserve	Balance of cash flow hedge reserve generated from the hedging relationships where hedge accounting is no longer applicable	Change in the value of the hedging instrument recognized in comprehensive income	Hedge ineffectiveness recognized in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from the cash flow hedge reserve to profit or loss	Line items affected in profit or loss because of the reclassification
Floating-rate bonds	\$(54,891)	\$216,611	n/a	\$54,891	\$-	\$(84,725)	Net other non-interest gains
Discontinued hedge—floating-rate bonds	n/a	n/a	\$-	n/a	n/a	1,087	Net other non-interest gains

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D. Movement of equity component applying hedged accounting and related other comprehensive income are summarized below:

	2018.1.1~ 2018.12.31
Beginning balance	<u>\$203,647</u>
Gross amount recognized in other comprehensive income	
Change in the value of the hedging instrument recognized in other comprehensive income	54,891
Amount reclassified from the cash flow hedge reserve to profit or loss	(83,638)
Income tax	<u>(1,611)</u>
Ending balance	<u><u>\$173,289</u></u>

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				
				Expected period of profit and loss recognized in the statement of comprehensive income
Hedged item	Hedging instrument	Fair Value	Expected period of cash flow	
Floating rate bonds	IRS	\$246,444	2018.2.19~2024.5.26	2018.2.19~2024.5.26

The terms of interest rate swap agreements are established based on the terms of the bonds hedged.

Interest rate swap agreements are considered to be highly effective cash flow hedges. Amount of effective hedging instrument in cash flow hedges is as follows:

	2017.1.1~ 2017.12.31
Amount recognized in other comprehensive income	<u>\$14,595</u>
Amount reclassified from equity to profit or loss	(419)

(4) Offsetting of financial assets and financial liabilities

The Group owns financial instruments that do not offset in accordance with IAS 32 but it executed enforceable master netting arrangement or other similar agreements with counterparties. Financial instruments subject to enforceable master netting arrangement or other similar agreements could be settled at net amount as chosen by the counterparties, or the financial instruments could be settled at gross amount if not. However, if one of the counterparty defaults, the other party could choose to settle the transaction at net amount.

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

2018.12.31						
Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments	Financial collateral received	
Derivative financial instrument	\$5,584,159	\$-	\$5,584,159	\$(5,424,679)	\$-	\$159,480

2018.12.31						
Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments	Financial collateral received	
Derivative financial instrument	\$27,499,106	\$-	\$27,499,106	\$(5,424,679)	\$(10,921,864)	\$11,152,563

2017.12.31						
Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments	Financial collateral received	
Derivative financial instrument	\$16,976,162	\$-	\$16,976,162	\$(1,102,509)	\$(5,561,151)	\$10,312,502

2017.12.31						
Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments	Financial collateral received	
Derivative financial instrument	\$1,104,658	\$-	\$1,104,658	\$(1,102,509)	\$(24,176)	\$(22,027)

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

2018.12.31

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Derivative financial instrument	\$49,475,706	\$-	\$49,475,706	\$(49,475,706)	\$-	\$-

2018.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Derivative financial instrument	\$51,966,013	\$-	\$51,966,013	\$(49,475,706)	\$(2,490,307)	\$-

2017.12.31

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Derivative financial instrument	\$33,172,556	\$-	\$33,172,556	\$(33,172,556)	\$-	\$-

2017.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Derivative financial instrument	\$33,616,157	\$-	\$33,616,157	\$(33,172,556)	\$(443,601)	\$-

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

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Cathay Securities enters into secured repurchase agreements (“repo”) with counterparties, for which Cathay Securities provides securities as collaterals. Only in the event of default, insolvency or bankruptcy are these transactions allowed to set off. They do not meet the offsetting criterion in international accounting standards. Hence, the related repo liabilities are reported in the balance sheet.

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

2018.12.31						
Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Repurchase bonds	\$3,332,528	\$-	\$3,332,528	\$(3,332,528)	\$-	\$-

2017.12.31						
Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Repurchase bonds	\$2,702,157	\$-	\$2,702,157	\$(2,702,157)	\$-	\$-

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.

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For assets and liabilities that are recognized in the financial statement on a recurring basis, the bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

B. Fair value measurement hierarchy of the Group's assets and liabilities

The Group does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Group's assets and liabilities measured at fair value on a recurring basis is as follows:

Financial instruments measured at fair value items	2018.12.31			
	Total	1st Level	2nd Level	3rd Level
Non-derivative instruments				
Assets				
Financial assets at fair value through profit or loss				
Mandatorily measured at fair value through profit or loss				
Stocks	\$673,969,471	\$595,197,411	73,387,015	5,385,045
Bonds	247,536,253	14,790,150	231,090,829	1,655,274
Others	455,969,651	196,842,000	182,125,718	77,001,933
Financial assets at fair value through other comprehensive income				
Stocks	43,192,054	34,662,164	155,096	8,374,794
Bonds (Note 1)	1,086,899,086	114,029,003	972,870,083	-
Investment property (Note 2)	310,083,727	-	-	310,083,727
Liabilities				
Financial liabilities at fair value through profit or loss				
Designated at fair value through profit or loss	51,441,482		51,441,482	-
Held for trading	2,521,778	2,521,778	-	
Derivative instruments				
Assets				
Financial assets at fair value through profit or loss	51,348,674	512,893	38,751,564	12,084,217
Derivative financial assets for hedging	216,611	-	216,611	-
Liabilities				
Financial liabilities at fair value through profit or loss	75,735,636	271,010	63,380,409	12,084,217

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Financial instruments measured at fair value items	2017.12.31			
	Total	1st Level	2nd Level	3rd Level
Non-derivative instruments				
Assets				
Financial assets at fair value through profit or loss				
Designated at fair value through profit or loss at initial recognition				
Stocks	\$84,171	\$84,171	\$-	\$-
Others	155,197	-	155,197	-
Held for trading				
Stocks	17,846,019	17,831,044	14,975	-
Bonds	109,547,916	87,569,462	21,978,454	-
Others	188,267,281	17,703,649	170,563,632	-
Available-for-sale financial assets				
Stocks	714,122,499	695,086,227	4,610,042	14,426,230
Bonds (Note 1)	603,589,985	111,083,203	492,475,196	31,586
Others	364,504,104	296,861,181	16,490,474	51,152,449
Investment property (Note 2)	307,190,424	-	-	307,190,424
Liabilities				
Financial liabilities at fair value through profit or loss				
Designated at fair value through profit or loss				
Held for trading				
Bonds	49,945	49,945	-	-
Others	1,824,436	1,824,436	-	-
Derivative instruments				
Assets				
Financial assets at fair value through profit or loss	49,907,574	642,536	40,544,691	8,720,347
Derivatives financial assets for hedging	246,444	-	246,444	-
Liabilities				
Financial liabilities at fair value through profit or loss	35,000,877	867,393	25,310,612	8,822,872

Note 1: Guarantee deposits paid in bonds are included.

Note 2: Amount of investment property excludes the parts which were measured at cost.

Transfers between 1st level and 2nd level during the period

For the year ended 31 December 2018, Cathay Life and its subsidiaries transferred stocks mandatory through profit or loss which were measured at fair value on a recurring basis, from 2nd level to 1st level. A total of \$2,450,314 thousand was transferred as its market price was obtainable. For the year ended 31 December 2017, Cathay Life and its subsidiaries' stocks held for trading which were measured at fair value on a recurring basis, from 2nd level to 1st level. A total of \$354,375 thousand was transferred as its market price was obtainable.

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For the year ended 31 December 2018, Cathay United Bank and its subsidiaries were no transfers between 1st level and 2nd level. Certain central government bonds held by Cathay United Bank were determined to be debt instruments with no active market according to the Company's internal risk control policy evaluation. Therefore, \$8,431,930 thousand of it was transferred from 1st level to 2nd level fair value measurements during the year ended 31 December 2017.

For the year ended 31 December 2018 and 2017, Cathay Century and its subsidiaries transferred stocks which were measured at fair value on a recurring basis, from 2nd level to 1st level. A total of \$105,291 thousand and \$435,526 thousand, respectively, was transferred as its market price was obtainable.

Reconciliation for fair value measurements in 3rd level for movements

Reconciliation for fair value measurements in 3rd level of the fair value hierarchy for movements during the period is as follows:

	Assets			Liabilities
	Financial assets at fair value through profit or loss (Note)	Financial assets at fair value through other comprehensive income	Investment property	Financial liabilities at fair value through profit or loss
2018.1.1	\$68,663,020	\$8,805,074	\$307,190,424	\$8,822,872
Total gains (losses) recognized				
Amount recognized in profit or loss				
Valuation profit or loss from financial assets and liabilities at fair value through profit or loss	17,284,322	-	-	5,141,555
Other comprehensive losses reclassified using overlay approach	(7,748,963)	-	-	-
Valuation losses from investment property	-	-	(998,435)	-
Amount recognized in other comprehensive income				
Exchange differences resulting from translating the financial statements of foreign operations	20,806	105	(1,214,457)	1,020
Other comprehensive income reclassified using overlay approach	7,748,963	-	-	-
Valuation profit or loss on equity instruments at fair value through other comprehensive income	-	1,281,806	-	-
Acquisition or issues	25,976,824	331,449	45,000	53,492
Transfers from property and equipment	-	-	(764,214)	-
Transfers from investment property under construction and prepayment for properties	-	-	5,359,482	-
Transfers from investment property measured at cost	-	-	1,053,619	-
Disposal or settlements	(14,071,313)	(395,326)	(587,692)	(1,934,722)
Transfers to 3 rd level	941,655	-	-	-
Transfers from 3 rd level	(2,688,845)	(1,648,314)	-	-
2018.12.31	\$96,126,469	\$8,374,794	\$310,083,727	\$12,084,217

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

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	Assets			Liabilities
	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Investment property	Financial liabilities at fair value through profit or loss
2017.1.1	\$17,622,700	\$53,522,530	\$301,748,213	\$17,699,268
Total gains (losses) recognized				
Amount recognized in profit or loss				
Valuation profit or loss from financial assets and liabilities at fair value through profit or loss	(8,781,888)	-	-	(8,749,500)
Realized gains from available-for-sale financial assets	-	3,183,093	-	-
Valuation losses from investment property	-	-	(830,441)	-
Amount recognized in other comprehensive income				
Unrealized valuation losses from available-for-sale financial assets	-	(235,689)	-	-
Exchange differences resulting from translating the financial statements of foreign operations	-	-	438,152	(6,431)
Acquisition or issues	618,434	19,963,983	-	618,434
Transfers from property and equipment	-	-	697,530	-
Transfers from investment property under construction and prepayment for properties	-	-	3,149,275	-
Transfers from investment property measured at cost	-	-	2,191,115	-
Disposal or settlements	(738,899)	(10,020,001)	(203,420)	(738,899)
Transfers to 3 rd level	-	307,692	-	-
Transfers from 3 rd level	-	(1,111,343)	-	-
2017.12.31	\$8,720,347	\$65,610,265	\$307,190,424	\$8,822,872

Total gains (losses) recognized in profit or loss in the table above contained unrealized losses related to assets on hand as of 31 December 2018 and 2017 in the amount of \$4,832,418 thousand and \$(9,612,329) thousand, respectively.

Total gains (losses) recognized in profit or loss in the table above contained unrealized gains related to liabilities on hand as of 31 December 2018 and 2017 in the amount of \$(5,141,555) thousand and \$8,749,500 thousand, respectively.

Information on 3rd level significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within 3rd level of the fair value hierarchy is as follows:

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Cathay Life and its subsidiaries

		2018.12.31			
		Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets					
Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income	Net value approach	discount for lack of marketability		0% ~ 3%	The higher the discount for lack of marketability and control, the lower the fair value of the stocks
	Market approach	discount for lack of marketability		11% ~ 30%	The higher the discount for lack of marketability and control, the lower the fair value of the stocks
	Income approach	discount for lack of marketability, minority share discount		22% ~ 37%	The higher the discount for lack of marketability, the lower the fair value of the stocks
		growth rate of adjusted net profit after tax		-48% ~ -36%	The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks
		dividend payout ratio		70% ~ 140%	The higher the dividend payout ratio, the higher the fair value of the stocks

Non financial asset

Investment property Refer to Note 6.(11)

		2017.12.31			
		Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets					
Available-for-sale	Market approach	discount for lack of marketability		11% ~ 30%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Income approach	discount for lack of marketability, minority interest		15% ~ 53%	The higher the discount for lack of marketability and control, the lower the fair value of the stocks
		growth rate of adjusted net profit after tax		-60% ~ 69%	The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks
		dividend payout ratio		0 ~ 140%	The higher the dividend payout ratio, the higher the fair value of the stocks

Non financial asset

Investment property Refer to Note 6.(11)

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Cathay United Bank and its subsidiaries

		2018.12.31			
		Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial asset					
Financial assets at fair value through other comprehensive income –Stocks	Market approach	discount for lack of marketability	15% ~ 20%	The higher the discount for lack of marketability, the lower the fair value of the stocks	
	Residual income approach	Cost of equity rate	6% ~ 7%	The higher the cost of equity rate, the lower the fair value of the stocks	
	Value of net assets approach	Value of net assets	N/A	The higher the value of net assets, the higher the fair value of the stocks	
Non financial asset					
Investment property	Refer to Note 6.(11)				

		2017.12.31			
		Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets					
Available-for-sale Stocks	Market approach	discount for lack of marketability	15% ~ 20%	The higher the discount for lack of marketability, the lower the fair value of the stocks	
	Residual income approach	Cost of equity rate	6% ~ 7%	The higher the cost of equity rate, the lower the fair value of the stocks	
	Value of net assets approach	Value of net assets	N/A	The higher the value of net assets, the higher the fair value of the stocks	
Non financial asset					
Investment property	Refer to Note 6.(11)				

Cathay Century and its subsidiaries

		2018.12.31				
		Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets						
Financial assets at fair value through other comprehensive income	Market comparison approach	discount for lack of marketability	29%	The higher the discount for lack of marketability, the lower the fair value of the stocks		5% increase (decrease) in the discount for lack of marketability would result in decrease (increase) in Cathay Century and its subsidiaries' equity by \$28,800

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	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets					
Available-for-sale					
Stocks	Market comparison approach	discount for lack of marketability	30%	The higher the discount for lack of marketability, the lower the fair value of the stocks	5% increase (decrease) in the discount for lack of marketability would result in decrease (increase) in Cathay Century and its subsidiaries' equity by \$31,200

Cathay Securities and its subsidiaries

2018.12.31

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity analysis of relationship between inputs and fair value
Financial assets					
Equity instruments at fair value through other comprehensive income	Market comparison approach	discount for lack of marketability	According to the weighted average interval 15%~20%	The higher the discount for lack of marketability, the lower the fair value of the stocks	Discount rate 3%~ -3% ↓ Floating rate of fair value 3.67%~ -3.67%
Non financial assets					
Investment property	Refer to Note 6.(11)				

2017.12.31

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity analysis of relationship between inputs and fair value
Non financial assets					
Investment property	Refer to Note 6.(11)				

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Valuation process used for fair value measurements categorized within 3rd level of the fair value hierarchy

The Group's Risk Management Department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company and subsidiaries' accounting policies at each reporting date. The fair value of the investment property is measured in accordance with the valuation measurements and input assumptions announced by FSC and is examined by external appraisers.

C. Fair value measurement hierarchy of the Group's assets and liabilities not measured at fair value but for which the fair value is disclosed

	2018.12.31			
	Total	1 st level	2 nd level	3 rd level
Financial assets not measured at fair value for which only the fair value is disclosed				
Financial assets measured at				
amortized cost (Note)	\$2,607,380,843	\$121,132,583	\$2,480,186,972	\$6,061,288
Other financial assets	2,009,973	-	2,009,973	-
	2017.12.31			
	Total	1 st level	2 nd level	3 rd level
Financial assets not measured at fair value for which only the fair value is disclosed				
Debt instrument investments for				
which no active market exists	\$2,876,428,806	\$331,977	\$2,872,443,607	\$3,653,222
Held-to-maturity financial assets				
(Note)	115,588,892	24,611,456	84,733,763	6,243,673
Other financial assets	4,521,701	-	4,521,701	-

Note: Guarantee deposits paid in bonds are included.

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Transferred financial assets that are part of Cathay Securities and its subsidiaries' daily operations that do not meet the criteria for full removal are mostly made up of corporate bonds with repurchase agreements or equity securities lent out as part of securities lending agreement. The cash flows of these transactions have been transferred, and reflects the liability where Cathay Securities and its subsidiaries are obligated to buy back the transferred financial assets according to fixed prices in future periods. With respect to such transactions, Cathay Securities and its subsidiaries will not be able to use, sell or pledge said transferred financial assets during the effective period however Cathay Securities and its subsidiaries are still exposed to interest rate risk and credit risk, hence the assets are not removed.

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

Categories of financial assets	2018.12.31				
	Transferred Financial Assets	Related Financial Liabilities	Transferred Financial Assets	Related Financial Liabilities	Fair
	Carrying Value	Carrying value	Fair Value	value	Net fair value
Financial assets at fair value through other comprehensive income					
Repurchase bonds	\$3,379,521	\$3,332,528	\$3,379,521	\$3,332,528	\$46,993
	2017.12.31				
	Transferred Financial Assets	Related Financial Liabilities	Transferred Financial Assets	Related Financial Liabilities	Fair
Categories of financial assets	Carrying Value	Carrying value	Fair Value	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

(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:

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- a. Issuer credit risk represents a risk that Cathay Life may suffer financial losses for holding debt instruments or bank savings because the issuers (guarantors) or banks are not able to repay due to default, bankruptcy, liquidation or any other similar circumstances.
- b. Counterparty credit risk refers to the risk that the counterparty will not meet its obligations to perform or pay as and when due and, as a result, Cathay Life will bear financial losses.
- c. Underlying asset credit risk means the risk that Cathay Life may suffer losses arising from deterioration of the credit quality and/or credit rating, increase of credit risk premium or breach of any contract terms of any underlying assets to certain financial instruments.

(B) Concentration risk

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

2018.12.31

Financial assets	Taiwan	Asia	Europe	North America	Emerging markets and others	Total
Cash and cash equivalents	\$108,663,821	\$598,577	\$136,389	\$54,671,101	\$201,744	\$164,271,632
Financial assets at fair value through profit or loss	36,221,083	26,691,362	86,749,425	34,116,884	82,160,244	265,938,998
Financial assets at fair value through other comprehensive income	90,868,582	31,038,900	168,157,801	359,145,961	242,495,856	891,707,100
Financial assets for hedging	96,344	-	-	120,267	-	216,611
Financial assets measured at amortized cost	183,624,214	140,559,799	382,921,822	1,001,042,809	549,913,112	2,258,061,756
Other financial assets	-	-	1,999,406	-	-	1,999,406
Total	\$419,474,044	\$198,888,638	\$639,964,843	\$1,449,097,022	\$874,770,956	\$3,582,195,503
Proportion	11.7%	5.5%	17.9%	40.5%	24.4%	100.0%

2017.12.31

Financial assets	Taiwan	Asia	Europe	North America	Emerging markets and others	Total
Cash and cash equivalents	\$129,912,803	\$82,321	\$265,187	\$56,291,047	\$14,369,897	\$200,921,255
Financial assets at fair value through profit or loss	5,766,821	1,219,662	7,689,393	4,455,766	-	19,131,642
Available-for-sale financial assets	178,366,275	24,358,644	39,738,326	126,393,250	147,352,716	516,209,211
Derivative financial assets for hedging	100,138	-	-	146,306	-	246,444
Debt instrument investments for which no active market exists	103,443,034	148,990,759	461,590,904	1,066,922,659	597,851,906	2,378,799,262
Held-to-maturity financial assets	39,326,264	-	-	11,482,335	-	50,808,599
Other financial assets	1,000,000	-	3,500,000	-	-	4,500,000
Total	\$457,915,335	\$174,651,386	\$512,783,810	\$1,265,691,363	\$759,574,519	\$3,170,616,413
Proportion	14.4%	5.5%	16.2%	39.9%	24.0%	100.0%

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- b. Regional distribution of credit risk exposure for secured loans and overdue receivables of Cathay Life

2018.12.31

Location	Northern and eastern areas	Central area	Southern area	Overseas	Total
Secured loans	\$287,440,820	\$48,492,142	\$71,391,306	\$8,193,993	\$415,518,261
Overdue receivables	878,642	36,044	54,067	-	968,753
Total	\$288,319,462	\$48,528,186	\$71,445,373	\$8,193,993	\$416,487,014
Proportion	69.2%	11.6%	17.2%	2.0%	100.0%

2017.12.31

Location	Northern and eastern areas	Central area	Southern area	Overseas	Total
Secured loans	\$313,014,247	\$50,733,517	\$77,352,450	\$2,079,898	\$443,180,112
Overdue receivables	244,525	29,822	69,957	-	344,304
Total	\$313,258,772	\$50,763,339	\$77,422,407	\$2,079,898	\$443,524,416
Proportion	70.6%	11.4%	17.5%	0.5%	100.0%

(C) Credit risk quality category

The credit risk of Cathay Life can be categorized into low credit risk, medium credit risk, high credit risk and credit impaired. The definitions of each category are as follows:

- 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.

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(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.

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- c. The abovementioned definitions of a default and a credit impairment are applicable to all financial assets held by Cathay Life, and are aligned with those of financial assets for internal credit risk management. The definitions are also applicable to related impairment assessment model.

(F) Measurement of expected credit losses

a. Methods and assumptions adopted

For financial instruments on which the credit risk has not increased significantly since initial recognition, Cathay Life measures loss allowance for financial instruments at an amount equal to 12-month expected credit losses; for financial instruments on which the credit risk has increased significantly since initial recognition or are credit-impaired, Cathay Life measures loss allowance for financial instruments at an amount equal to the lifetime expected credit losses.

To measure expected credit losses, Cathay Life multiplies exposure at default by 12-month and the lifetime probability of default of the issuers, guarantee agencies and borrowers and loss given default. Cathay Life also considers the effect of the time value of money to calculate 12-month expected credit losses and the lifetime expected credit losses.

Default rate is the rate that issuers, guarantee agencies and counterparties default. Loss given default is the loss rate resulted from the default of issuers, guarantee agencies and counterparties. Loss given default used by Cathay Life in impairment assessment is based on information regularly issued by Moody's. Probability of default is based on information regularly issued by Taiwan Ratings and Moody's and is determined based upon current observable information and macroeconomic information (gross domestic product and economic growth rate, for example) with adjustments of historic data. Exposure at default is measured at the amortized cost and interest receivables of the financial assets.

b. Consideration of forward-looking information

Cathay Life takes forward-looking information into consideration while measuring expected credit losses of the financial assets.

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(G) Gross carrying amount of maximum credit risk exposure and category of credit quality

a. Financial assets of Cathay Life

		31 December 2018 (Note 1)						
		Stage 1	Stage 2	Stage 3				
		12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Loss allowance	Gross carrying amount	
Investment grade	Debt instruments at fair value through other comprehensive income	\$868,624,804	\$-	\$-	\$-	\$-	\$868,624,804	
	Financial assets measured at amortized cost	\$2,221,201,714	-	-	-	(853,594)	2,220,348,120	
	Other financial assets	2,000,000	-	-	-	(594)	1,999,406	
Non-investment grade	Debt instruments at fair value through other comprehensive income	22,790,603	215,072	76,621	-	-	23,082,296	
	Financial assets measured at amortized cost	26,117,815	7,906,750	5,155,973	-	(1,466,902)	37,713,636	
		31 December 2017 (Note 1)						
Financial assets		Normal assets			Past due but not impaired	Impaired	Provision for impairment	Total
		Investment grade	Non-investment grade or unrated					
	Cash and cash equivalents	\$200,921,255	\$-	\$-	\$-	\$-	\$200,921,255	
	Financial assets at fair value through profit or loss	17,133,088	1,998,554	-	-	-	19,131,642	
	Available-for-sale financial assets	436,351,502	79,857,709	-	-	-	516,209,211	
	Derivative financial assets for hedging	246,444	-	-	-	-	246,444	
	Debt instrument investments for which no active market exists	2,320,427,781	58,371,481	-	388,024	(388,024)	2,378,799,262	
	Held-to-maturity financial assets	50,808,599	-	-	-	-	50,808,599	
	Other financial assets	4,500,000	-	-	-	-	4,500,000	
	Total	\$3,030,388,669	\$140,227,744	\$-	\$388,024	\$(388,024)	\$3,170,616,413	
	Proportion	95.6%	4.4%	-	-	-	100.0%	

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.

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b. Secured loans of Cathay Life

31 December 2018 (Note)							
Stage 1	Stage 2	Stage 3		Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets			Gross carrying amount
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Loss allowance			
Secured loans	\$411,821,024	\$111,237	\$4,554,753	\$-	\$(682,254)	\$(5,126,352)	\$410,678,408

31 December 2017 (Note)								
Secured loans and overdue receivables	Neither past due nor impaired			Past due but 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

Note: Cathay Life and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay Life and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Ageing analysis of past due but not impaired secured loans:

Based on the historical default rate, Cathay Life believes that provision for loans past due within a month is not necessary unless indicator of impairment exists.

	Past due but not impaired		
	Due in 1~2 months	Due in 2~3 months	Total
2018.12.31 (Note)			
2017.12.31	\$176,870	\$31,620	\$208,490

Note: Cathay Life and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay Life and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

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(H) Movement of loss allowance is summarized below:

a. Debt instrument investments at fair value through other comprehensive income

	Lifetime expected credit losses				Total of impairment charged in accordance with IFRS 9
	12-month expected credit losses	Collectively assessed	Not purchased or originated credit-impaired financial asset	Purchased or originated credit-impaired financial assets	
1 January 2018	\$455,064	\$96,965	\$-	\$-	\$552,029
Changes due to financial instruments recognized as at 1 January					
Transfer to lifetime expected credit losses	(1,372)	1,372	-	-	-
Transfer to credit-impaired financial assets	(19)	-	19	-	-
Transfer to 12-month expected credit losses	127	(127)	-	-	-
New financial assets originated or purchased	197,122	-	4,313	-	\$201,435
Financial assets that have been derecognized during the period	(218,560)	(139,162)	-	-	(357,722)
Changes in models/risk parameters	21,707	57,581	8,007	-	87,295
Foreign exchange and other movements	14,211	420	-	-	14,631
31 December 2018	\$468,280	\$17,049	\$12,339	\$-	\$497,668

b. Financial assets measured at amortized cost

	Lifetime expected credit losses				Total of impairment charged in accordance with IFRS 9
	12-month expected credit losses	Collectively assessed	Not purchased or originated credit-impaired financial asset	Purchased or originated credit-impaired financial assets	
1 January 2018	\$754,100	\$705,758	\$-	\$-	\$1,459,858
Changes due to financial instruments recognized as at 1 January					
Transfer to lifetime expected credit losses	(4,597)	4,597	-	-	-
Transfer to credit-impaired financial assets	(696)	-	696	-	-
Transfer to 12-month expected credit losses	29,348	(29,348)	-	-	-
New financial assets originated or purchased	236,156	-	294,207	-	530,363
Financial assets that have been derecognized during the period	(110,906)	(366,214)	-	-	(477,120)
Changes in models/risk parameters	(24,051)	371,227	415,541	-	762,717
Foreign exchange and other movements	25,076	19,602	-	-	44,678
31 December 2018	\$904,430	\$705,622	\$710,444	\$-	\$2,320,496

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The debt instruments measured at fair value through other comprehensive income and one of financial assets measured at amortized cost – foreign bonds held by Cathay Life were downgraded by the international credit rating agencies, and the credit impairment occurred in January 2019. Cathay Life transferred the 12-month expected credit losses to lifetime expected credit losses while assessing allowance of impairment.

c. Other financial assets

	Lifetime expected credit losses				Total of impairment charged in accordance with IFRS 9
	12-month expected credit losses	Collectively assessed	Not purchased or originated credit-impaired financial asset	Purchased or originated credit-impaired financial assets	
1 January 2018	\$901	\$-	\$-	\$-	\$901
Foreign exchange and other movements	(307)	-	-	-	(307)
31 December 2018	\$594	\$-	\$-	\$-	\$594

d. Secured loans

	Lifetime expected credit losses				Total of impairment charged in accordance with IFRS 9	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	
	12-month expected credit losses	Collectively assessed	Not purchased or originated credit-impaired financial asset	Purchased or originated credit-impaired financial assets		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	(15)	15	-	-	-	-	-
Transfer to credit-impaired financial assets	(338)	(44)	382	-	-	-	-
Transfer to 12-month expected credit losses	2,763	(1,036)	(1,727)	-	-	-	-
New financial assets originated or purchased	23,349	-	8,284	-	31,633	-	31,633
Financial assets that have been derecognized during the period	(12,626)	(124)	(69,442)	-	(82,192)	-	(82,192)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	(311,726)	(311,726)
Changes in models/risk parameters	(31,445)	179	52,718	-	21,452	-	21,452
31 December 2018	\$90,567	\$201	\$591,486	\$-	\$682,254	\$5,126,352	\$5,808,606

There is no significant change in loss allowance due to significant change in the carrying amount of the abovementioned financial instruments.

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(I) The exposure to credit risk and loss allowance of receivables

Measurement of loss allowance of Cathay Life's receivables which are in the scope of the impairment requirements under IFRS 9 is based upon the lifetime expected credit losses under simplified approach. The assessment of loss allowance as of 31 December 2018 is addressed below.

Cathay Life's receivables which are in the scope of the impairment requirements under IFRS 9 included notes receivable in the amount of \$72,825 thousand and other receivables in the amount of \$11,351,131 thousand. Loss allowance measured by a provision matrix under simplified approach is as follows:

	Recognition				Total
	Not yet due/ within 1 month	1-3 months	3-6 months	Over 6 months	
Gross carrying amount	\$11,311,658	\$111,076	\$1,219	\$3	\$11,423,956
Loss rate	0%	2%	10%	50%	
Lifetime expected credit losses	\$-	\$2,222	\$123	\$1	\$2,346

The abovementioned expected credit losses measured by a provision matrix under simplified approach amounted to \$2,346 thousand. The movement in loss allowance is as follows:

	2018.1.1~ 2018.12.31
Beginning balance (in accordance with IAS 39)	\$2,175
Transition adjustment to retained earnings as at 1 January	-
Beginning balance (in accordance with IFRS 9)	2,175
Addition for the current period	171
Ending balance	\$2,346

In accordance with the transition provision in IFRS 9 that was adopted on 1 January 2018, Cathay Life elected not to restate prior periods at the date of initial application. Please refer to Note 6 for the movements in allowance for bad debts of receivables for the year ended 31 December 2017.

B. Liquidity risk analysis

(A) Sources of liquidity risk

Liquidity risks of the financial instruments are classified as "funding liquidity risk" and "market liquidity risk". "Funding liquidity risk" represents the default risk that Cathay Life is unable to turn assets into cash or obtain sufficient funds. "Market liquidity risk" represents the risk of significant changes in fair value that Cathay Life faces when it sells or offsets its assets during market disorder.

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(B) Liquidity risk management

Cathay Life assesses the characteristics of business, monitors short-term cash flows, and constructs the completed mechanism of liquidity risk management. Furthermore, Cathay Life manages market liquidity risk cautiously by considering market trading volumes and adequacy of holding positions with symmetric.

Cathay Life uses cash flow model and stress testing to assess cash flow risk based on actual management needs or special situation. Also, for abnormal and urgent financing needs, Cathay Life makes an emergency management operating procedure to deal with significant liquidity risks.

(C) Maturity analysis of financial liabilities:

The analysis of cash outflows to Cathay Life and its subsidiaries is listed below and based on the residual term to maturity on balance sheet date. The disclosed amounts are in conformity of contract cash flows and the results of the differences from the disclosed amounts on balance sheet.

a. Maturity analysis of non-derivative financial liability:

2018.12.31	Less than 6 months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Payables	\$31,044,618	\$239,517	\$285,769	\$1,242,728	\$9,636	\$32,822,268
Bonds payables (Note)	-	1,608,951	2,415,000	7,245,000	78,400,000	89,668,951

2017.12.31	Less than 6 months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Payables	\$19,484,551	\$212,530	\$86,508	\$87,619	\$5,364,761	\$25,235,969
Bonds payables (Note)	414,540	1,194,411	2,415,000	7,245,000	80,815,000	92,083,951
Preferred stock liability	-	5,080,005	-	-	-	5,080,005

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

b. Maturity analysis of derivative financial liability:

2018.12.31	Less than 6 months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$14,230	\$3,686	\$3,978	\$2,587	\$-	\$24,481
Forward	5,538,893	53,900	-	-	-	5,592,793
CS	23,555,917	10,107,225	-	-	-	33,663,142

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2017.12.31	Less than 6 months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$31,508	\$14,615	\$23,524	\$(230)	\$-	\$69,417
Forward	286,470	-	-	-	-	286,470
CS	1,369,037	-	-	-	-	1,369,037

C. Market risk analysis

(A) Sources of market risk

Market risk is the risk of losses or decrease in value of portfolio in positions arising from movements in exchange rate, product price, interest rate, credit spread, and stock price.

(B) Cathay Life and its subsidiaries assesses, monitors, and manages market risks completely and effectively by applying Value at Risk (“VaR”) and stress testing consistently.

a. Value at Risk

Value-at-Risk (“VaR”) is the maximum loss on the portfolio with a given probability defined as the confidence level, over a given period of time. Cathay Life and its subsidiaries uses one-week 95% and 99% VaR to measure market risk.

b. Stress testing

Cathay Life and its subsidiaries measure and evaluate potential risks of the occurrence of extreme and abnormal events regularly in addition to Value at Risk models.

Cathay Life and its subsidiaries performs position stress testing regularly by using “Simple Sensitivity” and “Scenario Analysis” methods. The test is capable of representing the position loss resulted from the movement of a specific risk factor under different kinds of historical scenarios:

(a) Simple Sensitivity

Simple Sensitivity is to measure the dollar amount change for the portfolio value from the movement of specific risk factors.

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(b) Scenario Analysis

Scenario Analysis is to measure the dollar amount changes for the total value of investment positions if possible future events occur. The types of scenario include:

(i) Historical scenario

In consideration of the fluctuation of risk factors when a specific historical event happened, Cathay Life simulates what the dollar amount of losses for the current investment portfolio would be in the same period of time.

(ii) Hypothetical scenario

Cathay Life makes hypothesis with rational expectations from the extreme market movements to assess the dollar amount of losses for the investment position by taking into consideration the movement of relevant risk factors.

Risk management department performs the stress testing with historical and hypothetical scenarios regularly. Cathay Life's risk analysis, early warning, and business management are in accordance with the stress testing report.

Table of Stress Testing
2018.1.1~2018.12.31

Risk Factors	Changes (+/-)	Gain (loss)
Equity risk (Price)	Price decreases by 10%	\$(71,190,476)
Interest rate risk (Yield curve)	The main yield curve shifts up by 100 bps	(111,404,367)
Exchange risk (Foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(10,932,445)

Table of Stress Testing
2017.1.1~2017.12.31

Risk Factors	Changes (+/-)	Gain (loss)
Equity risk (Price)	Price decreases by 10%	\$(67,589,109)
Interest rate risk (Yield curve)	The main yield curve shifts up by 100 bps	(40,098,053)
Exchange risk (Foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(8,280,120)

Note1: Impacts of credit spread changes are not included

Note2: Effects of hedging are included

Note3: Information of subsidiaries is excluded considering the insignificant impact from subsidiaries.

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c. Sensitivity Analysis

Summarization of Sensitivity Analysis
2018.1.1~2018.12.31

Risk Factors	Variables (+/-)		Change in Income	Change in Equity
Foreign currency risk	USD/NTD	appreciates 1%	\$5,703,586	\$5,189,911
	CNY(CNH)/USD	appreciates 1%	834,767	536,707
	HKD/USD	appreciates 1%	1,978	614,256
	EUR/USD	appreciates 1%	93,336	197,382
	GBP/USD	appreciates 1%	30,281	245,729
Interest rate risk	Yield curve (USD)	parallelly shifts up 1 bp	2,040	(912,051)
	Yield curve (AUD)	parallelly shifts up 1 bp	1,501	-
	Yield curve (EUR)	parallelly shifts up 1 bp	3,709	(8,246)
	Yield curve (NTD)	parallelly shifts up 1 bp	491	(161,089)
Equity price risk	Equity price increases 1%		135,986	7,006,951

Summarization of Sensitivity Analysis
2017.1.1~2017.12.31

Risk Factors	Variables (+/-)		Change in Income	Change in Equity
Foreign currency risk	USD/NTD	appreciates 1%	\$3,340,835	\$5,024,663
	CNY(CNH)/USD	appreciates 1%	1,030,594	354,944
	HKD/USD	appreciates 1%	(1,293)	347,739
	EUR/USD	appreciates 1%	132,515	133,280
	GBP/USD	appreciates 1%	89,699	11,739
Interest rate risk	Yield curve (USD)	parallelly shifts up 1 bp	100	(191,051)
	Yield curve (AUD)	parallelly shifts up 1 bp	-	(317)
	Yield curve (EUR)	parallelly shifts up 1 bp	-	(3,158)
	Yield curve (NTD)	parallelly shifts up 1 bp	1,261	(182,921)
Equity price risk	Equity price increases 1%		91,623	6,671,264

Note 1: Impacts of credit charges are not included.

Note 2: Effects of hedging are included.

Note 3: Impacts of change in income are not included in the calculation of change in equity.

Note 4: Profit and loss on the changes in foreign currency risk sensitivity does not consider the impact from reserving or reversing foreign exchange volatility reserve.

Note 5: Information of subsidiaries is excluded considering the insignificant impact from subsidiaries.

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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.

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(A) Market risk management process

a. Identification and measurement

The operating department and risk management department of Cathay United Bank identified the market risk factors of risk exposure position, and measured the market risk further. Market risk factors are the components that could have an impact on value of financial instrument, such as interest rates, foreign exchange rates, equity securities...etc., including position, gain and loss, the loss of stress test, sensitivity (DV01, Delta, Vega, Gamma) and Value at Risk (VaR), etc., to measure the extent of investment portfolio that is influenced by interest risk, foreign exchange risk and equity securities.

b. Monitoring and reporting

The risk management department of Cathay United Bank periodically reports the execution of market risk management target, position and gain/loss control, sensitivity analysis, stress test, and VaR of equity securities to the board of directors, and helps the board of directors to fully understand the status of market risk management. Cathay United Bank also establishes a clear reporting process. Each transaction has the requirements about limitation and stop-loss points. If the transaction reaches its stop-loss limitation, stop-loss process will be implemented immediately. If the stop-loss process is not implemented, the transaction department should document the reason of non-implementing stop loss process and responding plan. Furthermore, the department shall be report to the executive management for approval and report to the board of directors regularly.

(B) Risk management policy of the trading book

The trading book is the portfolio of financial instruments and physical investment for the purpose of trading or the hedge on the trading book. Portfolio is held for trading, which is intended to earn the profit from bid-ask spread. Any positions aside from the above trading book will be in the banking book.

a. Strategy

In order to control market risk effectively and ensure flexibility in operating the transaction strategy, Cathay United Bank carries out various assessment and control. The portfolio of trading book has the risk limitation of each investment portfolio which is set according to the transaction strategy, category of investment and the annual profit target.

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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.

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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.

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(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.

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d. Measured methodology

The risk of equity securities prices in trading book is mainly controlled by VaR.

Cathay United Bank's risk of equity securities prices from its non-trading portfolio should be controlled by each bank according to its own business scale to develop a stress test under appropriate scenarios and report to the risk management committee.

Cathay United Bank adopts many methodologies to manage its market risk. Value-at-risk (VaR) is one of the methodologies. VaR is a statistical measure that assesses potential losses that might be caused by changes in risk factors over a specified period of time and at a specific level of statistical confidence. Cathay United Bank applies historical simulation with a statistic confidence of 99% to extrapolate the VaR of one-year fluctuations. The following table indicates that VaR is the estimated based on the potential amount of loss within one day, while the statistic confidence of 99% represents the possible fluctuations that would be included in assumed adverse market changes. Base on the assumption, the VaR may exceed the amounts listed in 1 of 100 days due to the price changes in the market. The overall VaR in the market may be less than the aggregate VaR of individual market risk factors.

2018.12.31			
Factors of market risk (Note)	Average balance	Maximum balance	Minimum balance
Interest rate	\$307,882	\$701,219	\$52,816
Foreign exchange	147,353	202,948	104,364
Equity Securities price	318,530	424,067	230,176

2017.12.31			
Factors of market risk (Note)	Average balance	Maximum balance	Minimum balance
Interest rate	\$569,756	\$858,800	\$273,155
Foreign exchange	252,124	554,769	115,940
Equity Securities price	232,500	303,251	165,345

Note: The information of factors of market risk is defined by trading book risk management.

Cathay United Bank enters into a variety of derivatives transactions for both trading and non-trading purposes. The objectives in using derivative instruments are to meet customers' needs, to manage Cathay United Bank's exposure to risks and to generate revenues through trading activities. Cathay United Bank trades derivative instruments on behalf of customers and for its own positions. Cathay United Bank provides derivative contracts to address customers' demands for customized derivatives and also takes proprietary positions for its own accounts.

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(G) Stress testing

The stress testing is used to measure the maximum losses of risk asset portfolio under the worst scenario. Cathay United Bank’s stress testing considers various types of risk factors and reports the results to the executive management.

Stress Test (Note)			
Market/ Product	Scenarios	2018.12.31	2017.12.31
Stock Market	Major Stock Exchanges +15%	\$990,610	\$2,668,120
	Major Stock Exchanges -15%	(935,918)	(2,668,120)
Interest Rate/ Bond Market	Major Interest Rate + 100bp	(417,490)	(2,433,910)
	Major Interest Rate - 100bp	701,613	2,689,997
Foreign Exchange Market	Major Currencies + 3%	245,686	(196,649)
	Major Currencies - 3%	(233,535)	229,928
Composite	Major Stock Exchanges -15%		
	Major Interest Rate + 100bp	(1,107,722)	(5,298,679)
	Major Currencies +3%		

Note: The information of stress test is defined by trading book risk management.

(H) Sensitivity analysis

a. Interest rate risk

Interest rate factor sensitivities (the present value of one basis point, or “PVBP”) represent the change in the net present value of the interest rate derivatives portfolios caused by a parallel unit shift of 1 bp in the interest rates in various yield curves affecting the portfolio.

b. Foreign exchange risk

Foreign exchange rate factor sensitivities (“FX delta”) represent the change of the foreign exchange portfolios (forward transactions and currency exchange) caused by the underlying currency exchange rate fluctuation.

c. Equity securities price risk

Equity securities price factor sensitivities (“Equity delta”) represent the change of the equity securities price portfolio caused by a parallel unit shift of 1% in the underlying stocks prices fluctuation. Cathay United Bank’s equity portfolios include stocks and equity index options.

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Market risk factor sensitivity of Cathay United Bank

		2018.12.31	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	108,556	\$-
	HKD+1%	(6,980)	-
	JPY+1%	(905)	-
	AUD+1%	(354)	-
	CNY+1%	2,563	-
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	1,347	-
	Yield curves (HKD) parallel shift+1bp	183	-
	Yield curves (JPY) parallel shift+1bp	(1)	-
	Yield curves (AUD) parallel shift+1bp	(359)	-
	Yield curves (CNY) parallel shift+1bp	(210)	-
Equity securities price factor sensitivity (Equity Delta)	Equity securities price +1%	(1,011)	66,545
		2017.12.31	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	\$(38,635)	\$-
	HKD+1%	32	-
	JPY+1%	1,488	-
	AUD+1%	4,983	-
	CNY+1%	22,123	-
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	(5,645)	-
	Yield curves (HKD) parallel shift+1bp	(11)	-
	Yield curves (JPY) parallel shift+1bp	-	-
	Yield curves (AUD) parallel shift+1bp	(129)	-
	Yield curves (CNY) parallel shift+1bp	(895)	-
Equity securities price factor sensitivity (Equity Delta)	Equity securities price +1%	48,183	129,692

Note: The information of equity securities price risk test is defined by trading book risk management.

C. Credit risk

Credit risk represents the risk of loss that Cathay United Bank and its subsidiaries would incur if a counterparty fails to perform its contractual obligations.

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The credit risk strategy and material risk policy of Cathay United Bank, Indovina Bank, and Cathay United Bank (China) are approved by the board of directors. Cathay United Bank, Indovina Bank, and Cathay United Bank (China) perform periodic and systematic detailed reviews of its Department of Market Risk Management, department of credit and operation risk management, department of consumer banking review, department of corporate banking review and department of international review under department of risk management, and distributed the procedure of credit approving, management of limit, credit rating, the information of collateral, periodic review, and remedial management. The departments related to credit risk of credit business, investment business, and financial instrument or contract are the departments of performing credit risk management, that manage the credit quality and follow rules to review and track the missing of auditing to strengthen management of afterwards risk.

Cathay United Bank, Indovina Bank, and Cathay United Bank (China) maintain a strict policy to evaluate customers' credit ratings when providing loans, loan commitments and guarantees. Certain customers are required to provide appropriate collateral for the related loans, and Cathay United Bank, Indovina Bank, and Cathay United Bank (China) retains the legal right to foreclose on or liquidate the collateral. The disclosure of the maximum credit exposure shall not take into account any collateral held or other enhancements.

The board of directors of CUBC Bank resolved that a risk management department would be established to manage the credit risk. The board of directors sets the counterparty credit limits, which are then implemented by the credit committee

Loan Committee is the top lending authority within CUBC Bank. It is in charged with approval of all credit in excess of CUBC Bank lending authorities. Certain customers are required to provide appropriate collateral for the related loans, and CUBC Bank retains the legal right to foreclose on or liquidate the collateral. The disclosure of the maximum credit exposure shall not take account of any collateral held or other enhancements.

The management procedure and measurement methodology of credit risk in Cathay United Bank and its subsidiaries' main business are as follows:

(A) The judgement of significant increase in credit risk after the initial recognition

Cathay United Bank and Cathay United Bank (China)

Cathay United Bank and Cathay United Bank (China) assesses the movement in default risk during the expected lifetime of various types of credit assets at each reporting date to determine if the credit risk has increased significantly since the initial recognition. To make this assessment, Cathay United Bank and its subsidiaries have considered to show the reasonable and corroborative information (including prospective information) on the significant increase in credit risk after the initial recognition. The key indicators for consideration include:

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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.

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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.

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(B) Default and credit impairment of financial asset

Cathay United Bank and Cathay United Bank (China)

Cathay United Bank and Cathay United Bank (China) 's definition of financial assets default is the same as with that of the credit impairment of financial assets. Where one or more of the following conditions are met, Cathay United Bank determines the financial assets to be subject to default and credit impairment.

a. Quantitative indicator

(a) Changes on credit rating

Where the credit rating at the reporting date fell into the default level, it is determined as credit impairment.

(b) Information on the overdue status of the contract

Where the contract payment was overdue for more than 90 days as at the reporting date, it is determined as credit impairment.

b. Qualitative indicator

Where the information observed at the reporting date meets the following conditions, it is determined as credit impairment.

- (a) Bailout, reorganization, individual agreement due to debtor's financial difficulties
- (b) Lawsuit action has been taken
- (c) Debt settlement, debt negotiation
- (d) Issuer or borrower has gone bankrupt or may file bankruptcy or financial reorganization
- (e) Principal or interest failed to be paid according to the issuing terms
- (f) Other internal or external information on judging the deterioration in credit quality

The aforementioned definition of default and credit impairment applies to all financial assets held by Cathay United Bank, and is consistent with the definition applied on the significant financial assets for the purpose of internal credit risk management, and is also applied in the relevant impairment assessment model.

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Indovina Bank

Indovina Bank assesses the following indicators to determine if the financial assets at each reporting date is credit-impaired:

a. Notch downgrade

An obligor who is rated as default at the reporting date is considered to be credit-impaired.

b. Past Due Information

The contract payment over 90 days past due would be classified as a credit-impaired loan.

c. Internal Credit Assessment Indicators

The indicators with credit deterioration information used for internal credit risk management purpose at the reporting date would be recognized as credit-impaired assets.

CUBC Bank

CUBC Bank assesses the following indicators to determine if the financial assets at each reporting date is credit-impaired:

a. Past Due Information

The contract payment over 90 days past due would be classified as a credit-impaired loan.

b. Loan Classification from NBC

A loan contract with specific positions, such as substandard, doubtful and loss, at reporting date would be classified as credit-impaired.

c. Internal Credit Assessment Indicators

The indicators with credit deterioration information used for internal credit risk management purpose at the reporting date would be recognized as credit-impaired assets.

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(C) The measurement of expected credit loss

Cathay United Bank and Cathay United Bank (China)

For the purpose of assessing the expected credit losses, Cathay United Bank and Cathay United Bank (China) classifies the credit assets into the following groups based on credit category, credit rating, risk characteristics, enterprise size, product category and so on.

Credit category	Definition
Corporate loan	Grouped by risk characteristics, corporate size and internal/external credit rating
Consumer loan	Grouped by product category and internal credit rating
Credit card	Grouped by product category and internal credit rating

Where the credit risk of the financial instrument has not increased significantly after the initial recognition (Stage 1), the allowance for losses should be measured at the expected credit losses over 12 months by Cathay United Bank and Cathay United Bank (China). Where the credit risk of the financial instrument has increased significantly (Stage 2) or the credit impairment has existed (Stage 3) after the initial recognition, the allowance for losses should be measured at the expected credit losses over the remaining term to maturity by Cathay United Bank and Cathay United Bank (China).

For the measurement of the expected credit losses, Cathay United Bank calculates its expected credit losses over 12 months and the remaining term to maturity separately by multiplying three factors, i.e. probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”) of the borrower over the next 12 months and the remaining term to maturity, also considering the effect of the time value of money.

The PD and LGD applied in the impairment assessment of the credit business of Cathay United Bank and Cathay United Bank (China) are adjusted and calculated based on the internal and external information of each group as well as the currently observable data and the overall economic outlook (such as economic growth rate, etc.).

Cathay United Bank and Cathay United Bank (China) assessed the EAD of loan at the reporting date. According to internal and external information, the Bank considers the portion of the loan commitment that is expected to be drawn on over 12 months after the reporting date and the remaining term to maturity, to determine the EAD for calculating the expected credit losses.

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The PD used in the impairment assessment of Cathay United Bank and Cathay United Bank (China)'s debt instrument measured at fair value through other comprehensive income and measured at amortized cost, represents the PD of the issuer, guarantee agency or borrower. The LGD represents the loss rate resulted from the default of the issuer, guarantee agency or borrower. The LGD used in Cathay United Bank and Cathay United Bank (China)'s relevant impairment assessment is based on the information regularly published by Moody's, an international credit rating agency; the PD is based on the information regularly published by Taiwan Ratings and Moody's, and calculated after adjusting the historical data based on the currently observable data and the overall economic information (e.g. gross domestic product and economic growth rate, etc.). The EAD is measured at the amortized cost of financial assets and interests receivable.

The valuation techniques or significant assumptions for assessing the expected credit losses have no significant change in 2018.

Indovina Bank

Indovina Bank estimated the portfolio expected credit loss incorporating product types, borrower types and counterparty types based on the credit risk characteristics the Bank is exposed to.

Credit category	Definition
Loan portfolio	Grouped by borrower types and enterprise size.
Debt Instrument	Grouped by product class, external credit rating and payment ranks.

a. Loan portfolio

The segmentation of the bank's loan portfolio is based on its risk characteristics, such as product class, counterparty type and enterprise size. The measurement of expected credit loss is estimated by three main parameters, including probability of default, loss given default and exposure at default. The probability of default and loss given default were built by the bank's historical delinquent information and recovery data and calibrated by selected macroeconomic factors for forward-looking adjustment. The estimated amounts of exposure at default were calculated by the amortized cost and interest receivable. At each financial reporting date, the above criteria for a significant increase in credit risk since initial recognition are not hit, the allowance loss shall be measured on the basis of the 12-month expected credit loss method. If financial assets meet the foregoing conditions of significant increases in credit risk or credit deterioration since initial recognition, the allowance losses shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

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b. Debt instrument

The segmentation of the bank's bond portfolio is based on its product class, external rating and payment rank. The measurement of expected credit loss is estimated by three main parameters, including probability of default, loss given default and exposure at default. The probability of default and loss given default were built by external information with sufficient historical default data and recovery rates and calibrated by selected macroeconomic factors for forward-looking adjustment. The estimated amounts of exposure at default were calculated by the amortized cost and interest receivable. At each financial reporting date, the above criteria for a significant increase in credit risk since initial recognition are not hit, the allowance loss shall be measured on the basis of the 12-month expected credit loss method. If financial assets meet the foregoing conditions of significant increases in credit risk or credit deterioration since initial recognition, the allowance losses shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

Cathay United Bank Cambodia (CUBC)

CUBC estimated the portfolio expected credit loss incorporating product types, borrower types and counterparty types based on the credit risk characteristics CUBC is exposed to.

Credit category	Definition
Loan portfolio	Grouped by product and borrower types.
Credit Card	Grouped as a whole to estimate by product characteristic

The segmentation of CUBC's loan portfolio is based on its risk characteristics, such as product class, counterparty type and loan classification by NBC. The measurement of expected credit loss is estimated by three main parameters, including probability of default, loss given default and exposure at default. The probability of default and loss given default were built by the internal and external historical delinquent information, default rates and written-off amounts and calibrated by selected macroeconomic factors for forward-looking adjustment. The estimated amounts of exposure at default were calculated by the amortized cost and interest receivable. At each financial reporting date, the above criteria for a significant increase in credit risk since initial recognition are not hit, the allowance loss shall be measured on the basis of the 12-month expected credit loss method. If financial assets meet the foregoing conditions of significant increases in credit risk or credit deterioration since initial recognition, the allowance losses shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

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(D) Write-off policy

If any of the following conditions apply, Cathay United Bank and its subsidiaries writes off its non-performing and nonaccrual loans as uncollectible, less the estimated recoverable amount.

Cathay United Bank and its subsidiaries can't expect reasonably to collect the financial assets that including the following index:

- a. The recovery activity has stopped.
- b. Assessed the borrower doesn't have sufficient assets or sources of income to pay the overdraft.

Financial assets have been written-off by Cathay United Bank and its subsidiaries may still have ongoing recovery activity, and continue to follow the relevant policies to litigation proceedings.

(E) The consideration of prospective information

Cathay United Bank and Cathay United Bank (China)

Cathay United Bank and Cathay United Bank (China) uses historical data to analyze and identify the significant economic factors that affect the credit risks and expected credit losses of each group of assets, and uses the regression model or imputation adjustment method to estimate the impairment parameter after the prospective adjustment. The significant economic factors and their impact on PD and LGD differ depending on the type of financial instruments.

The significant economic factors identified by Cathay United Bank and Cathay United Bank (China) in 2018 are as follows:

Credit category	Probability of Default (PD)	Loss Given Default (LGD)
Enterprise loan	GDP% Inflation Index Proportion of investment in GDP(%)	GDP%
Consumer loan	Growth rate of GDP(%) Proportion of savings in GDP(%) Unemployment rate % Implied Purchasing Power Parities ("PPP") rate	
Credit card	Growth rate of GDP(%) Proportion of government revenue in GDP(%)	

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Indovina Bank

Based on the qualitative and quantitative analysis of historical default data and macroeconomic factors, the bank applies the selected local and global economic factors in different portfolios. Regression models and interpolation adjustment were used to estimate the forward-looking parameters complied with regulatory requirements. The selected economic factors and their effects on PDs and LGDs varied from different types of portfolios.

The macroeconomic factors selected by Indovina Bank for the forward-looking adjustments in 2018 are as follows:

Segment	Selected Factors
Loan portfolio	Vietnam GDP growth rate
Debt instrument	Global GDP growth rate Global inflation index

Cathay United Bank Cambodia (CUBC)

Based on the qualitative and quantitative analysis of historical default data and regional macroeconomic factors, CUBC chooses the local macroeconomic factor for parameter adjustments. The weighted average method and interpolation adjustment were used to estimate the forward-looking parameters complied with regulatory requirements. The selected economic factors and their effects on PDs varied from different groups of products.

The macroeconomic factors selected by CUBC for the forward-looking adjustments in 2018 are as follows:

Segment	Selected Factors
Corporate loan	Cambodia GDP growth rate
Consumer loan	
Credit Card	

(F) Loss allowance

a. Movement of allowance for doubtful accounts of discounts and loans

The reconciliation from beginning balance to ending balance of allowance for bad debts of discounts and loans for the year ended 31 December 2018 are as follows:

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b. Movement of allowance for doubtful accounts of receivables

The reconciliation from beginning balance to ending balance of allowance for doubtful accounts of receivables for the year ended 31 December 2018 are as follows:

	Stage 1	Stage 2		Stage 3		Subtotal		
							Difference from	
							impairment	
							charged in	
							accordance with	
				Lifetime			“Regulations	
				expected	Lifetime		Governing the	
				credit losses	expected		Procedures for	
				(Not	credit losses		Banking	
				purchased or	(Purchased or		Institutions to	
		Lifetime	Lifetime	originated	originated		Evaluate Assets	
		expected	expected	credit-	credit-	Impairment	and Deal with	
	12-month	credit losses	credit losses	impaired	impaired	charged in	Non-	
	expected	(Collectively	(Individually	financial	financial	accordance	performing/Non-	
	credit losses	assessed)	assessed)	asset)	assets)	with IFRS 9	-accrual Loans”	Total
Beginning balance	\$78,157	\$63,923	\$-	\$2,106,749	\$-	\$2,248,829	\$14,830	\$2,263,659
Changes due to financial instruments recognized as at 1 January								
Transfer to lifetime expected credit losses	(1,861)	64,210	-	(1,634)	-	60,715	-	60,715
Transfer to credit-impaired financial assets	(377)	(637)	-	62,160	-	61,146	-	61,146
Transfer to 12-month expected credit losses	1,251	(19,979)	-	(2,667)	-	(21,395)	-	(21,395)
Financial assets that have been derecognized during the period	(53,572)	(37,863)	-	(296,585)	-	(388,020)	-	(388,020)
New financial assets originated or purchased	80,911	54,338	-	287,174	-	422,423	-	422,423
Difference from impairment charged in accordance with “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”	-	-	-	-	-	-	37,522	37,522
Bad loans write-offs	-	-	-	(442,217)	-	(442,217)	-	(442,217)
Foreign exchange and other movements	21,513	(7,027)	-	55,512	-	69,998	(1,882)	68,116
Ending balance	\$126,022	\$116,965	\$-	\$1,768,492	\$-	\$2,011,479	\$50,470	\$2,061,949

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c. Movement of impairment loss of financial assets at fair value through other comprehensive income

The reconciliation from beginning balance to ending balance of impairment loss of financial assets at fair value through other comprehensive income for the year ended 31 December 2018 are as follows:

	Stage 1	Stage 2		Stage 3		Total
	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	\$24,182	\$-	\$-	\$-	\$-	\$24,182
Changes due to financial instruments recognized as at 1 January						
Transfer to lifetime expected credit losses	-	-	-	-	-	-
Transfer to credit-impaired financial assets	-	-	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-	-	-
Financial assets that have been derecognized during the period	(38,897)	-	-	-	-	(38,897)
New financial assets originated or purchased	327,459	-	-	-	-	327,459
Foreign exchange and other movements	1,889	-	-	-	-	1,889
Ending balance	\$314,633	\$-	\$-	\$-	\$-	\$314,633

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d. Movement of the allowance for impairment debt instrument investments measured at amortized cost

The reconciliation from beginning balance to ending balance of allowance for impairment of the debt instrument investments measured at amortized cost for the year ended 31 December 2018 are as follows:

	Stage 1	Stage 2		Stage 3		Total
	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	(32,282)					(32,282)
New financial assets originated or purchased	58,290	-	-	-	-	58,290
Foreign exchange and other movements	(9,673)	-	-	-	-	(9,673)
Ending balance	\$31,187	\$-	\$-	\$-	\$-	\$31,187

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- e. Movement of Reserve for losses on guarantees, the letters of credit receivables and reserve for financing commitments

The reconciliation from beginning balance to ending balance of the reserve for losses on guarantees, the letters of credit receivables and reserve for financing commitments for the year ended 31 December 2018 are as follows:

	Stage 1	Stage 2	Stage 3		Subtotal			
						Difference from		
						impairment		
						charged in		
				Lifetime		accordance with		
				expected	Lifetime	“Regulations		
				credit losses	expected	Governing the		
				(Not	credit losses	Procedures for		
				purchased or	(Purchased or	Banking		
				originated	originated	Institutions to		
		Lifetime	Lifetime	credit-	credit-	Impairment	Evaluate Assets	
		expected	expected	impaired	impaired	charged in	and Deal with Non-	
	12-month	credit losses	credit losses	financial	financial	accordance with	performing/Non-	
	expected	(Collectively	(Individually	asset)	assets)	IFRS 9	accrual Loans”	Total
	credit losses	assessed)	assessed)					
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	(434)	19,554	-	(24)	-	19,096	-	19,096
Transfer to credit-impaired financial assets	(24)	(35)	-	8,027	-	7,968	-	7,968
Transfer to 12-month expected credit losses	873	(11,728)	-	(445)	-	(11,300)	-	(11,300)
Financial assets that have been derecognized during the period	(58,795)	(9,046)	-	(19,919)	-	(87,760)	-	(87,760)
New financial assets originated or purchased	174,392	57,160	-	1,606	-	233,158	-	233,158
Difference from impairment charged in accordance with “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”	-	-	-	-	-	-	18,375	18,375
Foreign exchange and other movements	21,554	(4,366)	-	(7,521)	-	9,667	-	9,667
Ending balance	\$251,972	\$73,536	\$-	\$5,118	\$-	\$330,626	\$71,327	\$401,953

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f. Movement of the allowance for impairment other financial assets

The reconciliation from beginning balance to ending balance of allowance for bad debts of the other financial assets for the year ended 31 December 2018 are as follows:

	Stage 1	Stage 2	Stage 3		Subtotal			
			Lifetime expected credit losses (Not purchased or originated credit- impaired financial asset)	Lifetime expected credit losses (Individually assessed)	Lifetime expected credit losses (Collectively assessed)	Impairment charged in accordance with IFRS 9	Difference from “Regulations of overdue collections”	Total
Beginning balance	\$19,028	\$-	\$-	\$-	\$-	\$19,028	\$9	\$19,037
Changes due to financial instruments recognized as at 1 January								
Transfer to lifetime expected credit losses	-	-	-	-	-	-	-	-
Transfer to credit-impaired financial assets	-	-	-	-	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-	-	-	-	-
Financial assets that have been derecognized during the period	(1,581)	-	-	-	-	(1,581)	-	(1,581)
New financial assets originated or purchased	55,191	-	-	-	-	55,191	-	55,191
Difference from “Regulations of overdue collections”	-	-	-	-	-	-	-	-
Foreign exchange and other movements	258	-	-	-	-	258	-	258
Ending balance	\$72,896	\$-	\$-	\$-	\$-	\$72,896	\$9	\$72,905

Cathay United Bank and its subsidiaries in estimating expected credit losses include cash and cash equivalents, due from the Central Bank and call loans to banks, securities purchased under agreements to resell other financial assets and other assets.

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g. Movement of the gross carrying amounts of discounts and loans

The movement of the gross carrying amounts of discounts and loans for the year ended 31 December 2018 are as follows:

	Stage1	Stage2	Stage3		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)
Beginning balance	\$1,399,416,842	\$47,973,789	\$-	\$10,407,468	\$-	\$1,457,798,099
Transfer to lifetime expected credit losses	(23,802,859)	23,861,030	-	(58,171)	-	-
Transfer to credit-impaired financial assets	(2,338,666)	(909,935)	-	3,248,601	-	-
Transfer to 12-month expected credit losses	18,817,944	(18,381,206)	-	(436,738)	-	-
Financial assets that have been derecognized during the period	(493,360,455)	(16,171,418)	-	(313,462)	-	(509,845,335)
New financial assets originated or purchased	647,027,046	23,815,923	-	2,167,168	-	673,010,137
Foreign exchange and other movements	3,945,197	(912,449)	-	(133,550)	-	2,899,198
Bad loans write-offs	-	-	-	(3,111,607)	-	(3,111,607)
Ending balance	\$1,549,705,049	\$59,275,734	\$-	\$11,769,709	\$-	\$1,620,750,492

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h. Movement of the gross carrying amounts of receivables

The movement of the gross carrying amounts of receivables for the year ended 31 December 2018 are as follows:

	Stage1	Stage2		Stage3		
				Lifetime expected	Lifetime expected	
				credit losses (Not	credit losses	
		Lifetime expected	Lifetime expected	purchased or	(Purchased or	
	12-month	credit losses	credit losses	originated credit-	originated credit-	
	expected credit	(Collectively	(Individually	impaired financial	impaired financial	
	losses	assessed)	assessed)	asset)	assets)	Total
Beginning balance	\$74,426,480	\$2,070,086	\$-	\$2,915,898	\$-	\$79,412,464
Transfer to lifetime expected						
credit losses	(639,711)	642,075	-	(2,364)	-	-
Transfer to credit-impaired						
financial assets	(81,508)	(9,042)	-	90,550	-	-
Transfer to 12-month						
expected credit losses	280,500	(276,613)	-	(3,887)	-	-
Financial assets that have						
been derecognized during						
the period	(68,728,339)	(1,848,225)	-	(594,290)	-	(71,170,854)
New financial assets						
originated or purchased	79,100,185	1,081,499	-	459,513	-	80,641,197
Foreign exchange and other						
movements	(400,794)	1,209	-	1,597	-	(397,988)
Bad loans write-offs	-	-	-	(444,144)	-	(444,144)
Ending balance	\$83,956,813	\$1,660,989	\$-	\$2,422,873	\$-	\$88,040,675

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- i. Movement of the gross carrying amounts of financial assets at fair value through other comprehensive income

The movement of the gross carrying amounts of financial assets at fair value through other comprehensive income for the year ended 31 December 2018 are as follows:

	Stage1	Stage2		Stage3		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)	
Beginning balance	\$159,385,272	\$-	\$-	\$-	\$-	\$159,385,272
Transfer to lifetime expected credit losses	-	-	-	-	-	-
Transfer to credit-impaired financial assets	-	-	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-	-	-
Financial assets that have been derecognized during the period	(58,653,554)	-	-	-	-	(58,653,554)
New financial assets originated or purchased	85,649,879	-	-	-	-	85,649,879
Foreign exchange and other movements	2,201,136	-	-	-	-	2,201,136
Ending balance	\$188,582,733	\$-	\$-	\$-	\$-	\$188,582,733

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- j. Movement of the gross carrying amounts of the debt instrument investments measured at amortized cost and off-balance sheet debt instruments

The movement of the gross carrying amounts of the debt instrument investments measured at amortized cost and off-balance sheet debt instruments for the year ended 31 December 2018 are as follows:

	Stage1	Stage2		Stage3		
		Lifetime expected	Lifetime expected	Lifetime expected	Lifetime expected	
		credit losses	credit losses	credit losses (Not	credit losses	
		(Collectively	(Individually	purchased or	(Purchased or	
	12-month	assessed)	assessed)	originated credit-	originated credit-	
	expected credit			impaired financial	impaired financial	
	losses			asset)	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	(321,363,670)	-	-	-	-	(321,363,670)
New financial assets						
originated or purchased	329,822,852	-	-	-	-	329,822,852
Foreign exchange and other						
movements	36,526,451	-	-	-	-	36,526,451
Ending balance	\$421,053,693	\$-	\$-	\$-	\$-	\$421,053,693

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k. Movement of the gross carrying amounts of reserve for losses on guarantees, the letters of credit receivables and reserve for financing commitments

The movement of the gross carrying amounts of the reserve for losses on guarantees, the letters of credit receivables and reserve for financing commitments for the year ended 31 December 2018 are as follows:

	Stage1	Stage2		Stage3		
		Lifetime expected	Lifetime expected	Lifetime expected	Lifetime expected	
				credit losses (Not	credit losses	
				purchased or	(Purchased or	
	12-month	credit losses	credit losses	originated credit-	originated credit-	
	expected credit	(Collectively	(Individually	impaired financial	impaired financial	
	losses	assessed)	assessed)	asset)	assets)	Total
Beginning balance	\$1,159,174,758	\$20,791,905	\$-	\$2,720,794	\$-	\$1,182,687,457
Transfer to lifetime expected						
credit losses	(21,702,661)	21,708,781	-	(6,120)	-	-
Transfer to credit-impaired						
financial assets	(156,808)	(13,707)	-	170,515	-	-
Transfer to 12-month						
expected credit losses	10,454,858	(10,413,362)	-	(41,496)	-	-
Financial assets that have						
been derecognized during						
the period	(310,563,088)	(10,285,353)	-	(551,715)	-	(321,400,156)
New financial assets						
originated or purchased	358,028,697	22,984,631	-	869,489	-	381,882,817
Foreign exchange and other						
movements	12,092,772	257,474	-	952	-	12,351,198
Ending balance	\$1,207,328,528	\$45,030,369	\$-	\$3,162,419	\$-	\$1,255,521,316

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1. Movement of the gross carrying amounts of other financial assets

The movement of the gross carrying amounts of other financial asset for the year ended 31 December 2018 are as follows:

	Stage1	Stage2		Stage3		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)	
Beginning balance	\$275,151,890	\$-	\$-	\$-	\$-	\$275,151,890
Transfer to lifetime expected credit losses	-	-	-	-	-	-
Transfer to credit-impaired financial assets	-	-	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-	-	-
Financial assets that have been derecognized during the period	(80,449,326)	-	-	-	-	(80,449,326)
New financial assets originated or purchased	24,126,618	-	-	-	-	24,126,618
Foreign exchange and other movements	254,825					254,825
Ending balance	\$219,084,007	\$-	\$-	\$-	\$-	\$219,084,007

Other financial assets contained cash and cash equivalents, due from the Central Bank and call loans to banks, securities purchased under agreements to resell, guarantee deposits paid and exchange bills negotiated.

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

(A) Category of credit risk

The credit risk of Cathay United Bank was classified into five categories. Normal credit assets shall be classified as “Category One.” The remaining unsound credit assets shall be evaluated based on the status of the loan collaterals and the length of time overdue. Assets that require special mention shall be classified as “Category Two,” assets that are substandard shall be classified as “Category Three,” assets that are doubtful shall be classified as “Category Four,” and assets for which there is loss shall be classified as “Category Five”. For managing the default credits, Cathay United Bank established the regulations governing the procedure to deal with non-performing loans, non-accrual loans and bad debts.

(B) Grade of credit quality

Cathay United Bank sets the level of credit quality based on the characteristics and scale of business (such as establishing the internal rating model of credit risk, setting the credit rating table or relevant rules to classify) to proceed with the risk management.

In order to measure the credit risk of the clients, Cathay United Bank employs the statistical methods and the professional judgment from the experts. Cathay United Bank develops the rating model of business credit after considering the clients’ relevant information. The model shall be reviewed periodically to verify if the calculated results conformed to the reality and revised every parameter to optimize the results.

With respect to consumer credit assets such as mortgages, credit cards, and small-amount credit loans, Cathay United Bank also evaluates default risk of clients by using the credit rating scores developed by Cathay United Bank and the external due diligence services.

The credit quality of Cathay United Bank’s corporate borrowers is classified as excellent, good, average and bad.

To ensure the reasonable estimated values of credit rating system’s design, process, and relevant risk factors, Cathay United Bank executes the relevant verification and test in the model according to the actual default every year so that the calculated results will be close to actual default.

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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.

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

a. Cathay United Bank and its subsidiaries' discounts and loans

	Stage 1	Stage 2	Stage 3		Difference from impairment charged in accordance with Purchased or originated credit-impaired financial assets		Total
2018.12.31	12-month expected credit loss	Lifetime expected credit losses	Lifetime expected credit losses		Guidelines for Handling Assessment of Assets		
Rating grade							
Consumer banking							
Excellent	\$566,722,439	\$471,033	\$-	\$-	\$-		\$567,193,472
Good	365,880,239	867,356	-	-	-		366,747,595
General	9,499,671	5,864,797	-	-	-		15,364,468
Bad	-	-	5,400,428	-	-		5,400,428
Corporate banking							
Excellent	386,965,775	23,866,950	-	-	-		410,832,725
Good	198,235,569	21,375,110	-	-	-		219,610,679
General	22,401,356	6,830,488	-	-	-		29,231,844
Bad	-	-	6,263,226	-	-		6,263,226
Credit card							
Excellent	-	-	-	-	-		-
Good	-	-	-	-	-		-
General	-	-	-	-	-		-
Bad	-	-	106,055	-	-		106,055
Total carrying amount	1,549,705,049	59,275,734	11,769,709	-	-		1,620,750,492
Less: Allowance impairment	(3,914,449)	(1,667,321)	(4,912,617)	-	-		(10,494,387)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	(14,932,854)		(14,932,854)
Total	\$1,545,790,600	\$57,608,413	\$6,857,092	\$-	\$(14,932,854)		\$1,595,323,251

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b. Cathay United Bank and its subsidiaries' receivables

	Stage 1	Stage 2	Stage 3		Difference from		Total
	12-month expected credit loss	Lifetime expected credit losses	Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	impairment charged in accordance with Guidelines for Handling Assessment of Assets		
2018.12.31							
Rating grade							
Consumer banking							
Excellent	\$313,967	\$1,520	\$-	\$-	\$-		\$315,487
Good	374,050	4,774	-	-	-		378,824
General	12,336	13,348	-	-	-		25,684
Bad	-	-	21,714	-	-		21,714
Corporate banking							
Excellent	3,200,148	376,766	-	-	-		3,576,914
Good	2,123,609	80,240	-	-	-		2,203,849
General	101,984	10,680	-	-	-		112,664
Bad	-	-	24,603	-	-		24,603
Credit card							
Excellent	44,617,166	23,730	-	-	-		44,640,896
Good	21,461,738	74,408	-	-	-		21,536,146
General	1,364,878	1,075,523	-	-	-		2,440,401
Bad	-	-	1,705,310	-	-		1,705,310
Others	10,386,937	-	671,246	-	-		11,058,183
Total carrying amount	83,956,813	1,660,989	2,422,873	-	-		88,040,675
Less: Allowance impairment	(126,022)	(116,965)	(1,768,492)	-	-		(2,011,479)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	(50,470)		(50,470)
Total	\$83,830,791	\$1,544,024	\$654,381	\$-	\$(50,470)		\$85,978,726

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- c. The amounts of the financial assets maximum exposures to credit risk that the impairment regulations are invalid to Cathay United Bank and its subsidiaries are as follows:

	2018.12.31	2017.12.31 (Note)
Financial assets at fair value through profit or loss		
Common stocks	\$3,657	
Short-term notes	162,478,516	
Funds and beneficiary Securities	96,785	
Bonds	38,630,552	
Derivative financial instruments	49,475,706	
Financial assets at fair value through other comprehensive income		
Equity instruments	12,087,150	

Note: Cathay United Bank and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay United Bank and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Without taking into account the collateral or other credit enhancement instrument, the maximum credit risk exposure of on-balance-sheet financial assets equals their carrying values. The maximum credit risk exposure of off-balance-sheet items (without considering the collaterals or other credit enhancement is irrevocable) are as follows:

- a. Cathay United Bank

Off balance sheet items	Maximum exposure to credit risk	
	2018.12.31	2017.12.31
Irrevocable loan commitments	\$154,605,389	\$211,222,089
Credit card commitments	669,232,204	626,829,201
Unused commercial letters of credit	4,217,682	3,765,996
Guarantees on duties and contracts	13,534,956	7,167,460
Total	\$841,590,231	\$848,984,746

- b. Indovina Bank

Off balance sheet items	Maximum exposure to credit risk	
	2018.12.31	2017.12.31
Unused commercial letters of credit	\$1,017,801	\$1,629,282
Finance guarantee contracts	2,262,842	2,587,848
Total	\$3,280,643	\$4,217,130

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c. CUBC Bank

Off balance sheet items	Maximum exposure to credit risk	
	2018.12.31	2017.12.31
Irrevocable loan commitments	\$-	\$647,417
Credit card commitments	447,040	403,120
Finance guarantee contracts	78,161	60,673
Total	\$525,201	\$1,111,210

d. Cathay United Bank (China)

Off balance sheet items	Maximum exposure to credit risk	
	2018.12.31	2017.12.31
Irrevocable loan commitments	\$623,837	\$-
Unused commercial letters of credit	773,078	-
Finance guarantee contracts	170,835	-
Total	\$1,567,750	\$-

To reduce the risk from any businesses, Cathay United Bank conducts an overall assessment and takes appropriate risk reduction measures, such as obtaining collaterals and guarantors. For obtaining of collaterals, Cathay United Bank has *Collateral Management Guidelines*, to ensure that collaterals meet the specific criteria and has the effect of reducing the business risk.

The management deems Cathay United Bank and its subsidiaries able to control and minimize the credit risk exposures in off-balance-sheet items as Cathay United Bank and its subsidiaries use more strict rating procedures when extending credits and conduct reviews regularly.

(E) Credit concentration risk of Cathay United Bank and its subsidiaries

When the counterparties are obviously the same party, or there are several counterparties but engaging in similar business activities and sharing similar economic characteristics, and vulnerable to the same economic impacts or other changes, the credit concentration risk is apparent.

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Credit concentration risk of Cathay United Bank and its subsidiaries derives from the assets, liabilities and off-balance-sheet items, and arises from performing obligations or engaging in transactions or cross-line portfolio of risk exposures including credit extension, due from and call loans to other banks, securities investment, receivables and derivatives. Cathay United Bank and its subsidiaries do not significantly concentrate on a single client or counterparty, and the transaction amount with a single client or counterparty accounted for Cathay United Bank's total bills discounts and loans and overdue receivables is not significant. Discounts and loans, guarantees, bills purchased, and acceptances receivable of Cathay United Bank and its subsidiaries according to industry and country are listed below:

Items	2018.12.31		2017.12.31	
	amount	%	amount	%
Industry type				
Manufacturing	\$117,141,000	7.16	\$98,481,993	6.72
Financial institutions and insurance	74,995,593	4.58	67,599,101	4.61
Leasing and real estate	140,808,012	8.60	122,798,794	8.38
Individuals	900,573,664	55.03	822,631,846	56.14
Others	403,005,618	24.63	353,911,306	24.15
Total	<u>\$1,636,523,887</u>	<u>100.00</u>	<u>\$1,465,423,040</u>	<u>100.00</u>

Items	2018.12.31		2017.12.31	
	amount	%	amount	%
Geographic Region				
Domestic	\$1,360,278,586	83.12	\$1,223,249,877	83.47
Asia	160,134,030	9.78	130,593,968	8.91
America	31,418,258	1.92	28,077,424	1.92
Others	84,693,013	5.18	83,501,771	5.70
Total	<u>\$1,636,523,887</u>	<u>100.00</u>	<u>\$1,465,423,040</u>	<u>100.00</u>

(F) Credit quality analysis of the financial assets

Before 1 January 2018, some of the financial assets held by Cathay United Bank and its subsidiaries, such as cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at fair value through profit and loss, securities purchased under agreements to resell, refundable deposits, operating deposits and settlement fund, are excluded from this analysis since the counterparty is normally with good credit quality and is considered as low credit risk.

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In addition to all of the above, the credit quality analysis of the financial assets was shown as follows:

a. Credit quality analysis to loans and receivables of Cathay United Bank

2018.12.31: Cathay United Bank and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay United Bank and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

	Neither past due nor impaired				Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment allowances (D)		Net balance (A)+(B)+(C)- (D)
	Excellent	Good	Average	Subtotal(A)				With objective evidence of impairment individual	Without objective evidence of impairment individual	
2017.12.31										
Receivables										
Credit card business	\$49,329,442	\$10,191,113	\$3,585,181	\$63,105,736	\$170,565	\$161,634	\$63,437,935	\$130,938	\$1,238,855	\$62,068,142
Others	13,169,520	2,658,060	64,064	15,891,644	6,803	52,462	15,950,909	12,657	1,042,859	14,895,393
Loans	941,240,553	413,585,185	48,456,790	1,403,282,528	868,799	17,579,331	1,421,730,658	4,239,528	18,313,706	1,399,177,424

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

2018.12.31: Cathay United Bank and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay United Bank and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

2017.12.31	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	\$288,306,859	\$61,393,161	\$9,757,389	\$359,457,409
Unsecured personal loans	33,796,775	19,384,730	5,789,780	58,971,285
Others	362,886,985	68,568,088	9,065,468	440,520,541
Corporate banking				
Secured	41,310,306	162,034,535	20,899,707	224,244,548
Unsecured	214,939,628	102,204,671	2,944,446	320,088,745
Total	<u>\$941,240,553</u>	<u>\$413,585,185</u>	<u>\$48,456,790</u>	<u>\$1,403,282,528</u>

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

2018.12.31: Cathay United Bank and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay United Bank and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

2017.12.31	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment (D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade or non-credit rating	Subtotal (A)					
Available-for-sale financial assets								
Bonds	\$124,014,858	\$1,824,503	\$125,839,361	\$-	\$-	\$125,839,361	\$-	\$125,839,361
Stocks	1,512,618	14,319,641	15,832,259	-	146,379	15,978,638	146,379	15,832,259
Others	-	541,355	541,355	-	-	541,355	-	541,355
Held-to-maturity financial assets								
Bonds	24,522,472	2,109,403	26,631,875	-	-	26,631,875	-	26,631,875
Others	5,221,668	-	5,221,668	-	-	5,221,668	-	5,221,668
Investments in debt securities with no active market								
Bonds	69,662,593	-	69,662,593	-	-	69,662,593	-	69,662,593
Others	318,625,000	-	318,625,000	-	-	318,625,000	-	318,625,000

d. Aging analysis on past due but not impaired financial assets of Cathay United Bank

Past due but not impaired loans might result from some temporary administration reasons so the customers is in the early stages of delinquency but no actual impairment has occurred yet. Unless there is other objective evidence shown otherwise, according to the internal credit risk assets impairment evaluation guideline, a loan that is past due for no more than 30 days is typically not to be treated as impairment.

2018.12.31: Cathay United Bank and its subsidiaries adopted IFRS 9 on 1 January 2018. Cathay United Bank and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

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2017.12.31	Less than 60 days	61 - 90 days	Total
Receivables			
Credit card business	\$98,072	\$72,493	\$170,565
Others	4,299	2,504	6,803
Discounts and loans			
Consumer banking			
Residential mortgage loans	273,792	50,936	324,728
Unsecured personal loans	91,079	76,553	167,632
Others	255,977	45,463	301,440
Corporate banking			
Secured	60,166	-	60,166
Unsecured	14,833	-	14,833

(G) Impairment analysis of financial assets of Cathay United Bank and its subsidiaries

- a. Cathay United Bank and its subsidiaries have recognized accumulated impairment loss for available-for-sale financial assets in the amount of \$146,379 thousand as of 31 December 2017, due to the existence of objective impairment evidence.
- b. Cathay United Bank's impairment assessment of discounts, loans and receivables, please refer to Note 6.(6) and Note 6.(7).

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

- a. Foreclosed properties management policy

Foreclosed properties will be sold when they are available for sale. The proceeds are used to reduce or repay the outstanding claim. Foreclosed properties are classified under other assets in the consolidated balance sheets.

Cathay United Bank, Indovina Bank, and Cathay United Bank (China) have no foreclosed properties. The foreclosed properties in CUBC Bank exhibited objective impairment evidence. CUBC Bank has no recognized impairment loss for foreclosed properties for the years ended 31 December 2018 and 2017. The accumulated impairment loss amounted to \$49,656 thousand and \$53,726 thousand as of 31 December 2018 and 31 December 2017, respectively.

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D. Liquidity risk

The purpose of liquidity risk management is to ensure the availability of funds to meet present and future financial obligations. Liquidity risk is also managed by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds the Bank believes it can generate within that period. The management systems and systems includes the measurement of liquidity risk, Interest rate sensitivity analysis, scenario analysis and emergency response plan. And adopt quantitative management to adjust the liquidity gap in order to ensure proper liquidity in response to changes in daily capital flows and market conditions. The strategic planning of the Bank's liquidity management is under the responsibility of the Asset and Liability Management Committee, and the daily operation and execution are the responsibility of the Treasury Marketing Unit Department. As part of our liquidity risk management, the Group focuses on a number of components, including tapping available sources of liquidity, preserving necessary funds at reasonable cost and continuous contingency planning.

(A) Analysis of financial assets and non-derivative financial liabilities by remaining contractual maturities

a. Financial assets were held to manage liquidity risk

Cathay United Bank and its subsidiaries hold highly marketable and diverse financial assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The financial assets were held to manage liquidity risk including cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at fair value through profit and loss, financial assets at fair value through other comprehensive income, financial assets measured at amortized cost, discounts and loans.

b. Maturity analysis of non-derivative financial liabilities of Cathay United Bank

The table below shows the analysis of the cash outflow of non-derivative financial liabilities on time remaining until the contractual maturity date. The amount disclosed is based on the contractual cash flows and may be different from that included in the consolidated balance sheets.

2018.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$33,388,821	\$17,227,043	\$17,187,533	\$147,450	\$67,950,847
Non-derivative financial liabilities at fair value through profit or loss	-	-	610,767	51,992,332	52,603,099
Securities sold under agreements to repurchase	30,140,774	10,582,338	-	15,436,901	56,160,013
Payables	12,118,626	6,512,187	909,069	402,186	19,942,068
Deposits and remittances	353,788,658	872,227,988	834,010,982	116,509,145	2,176,536,773
Financial debentures payable	7,800	727,699	1,537,213	53,900,000	56,172,712
Other capital outflow at maturity	27,116,530	40,057,002	8,599,063	1,251,007	77,023,602

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2017.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$39,789,043	\$23,513,092	\$18,408,292	\$2,851,614	\$84,562,041
Non-derivative financial liabilities at fair value through profit or loss	49,914	-	593,179	50,124,009	50,767,102
Securities sold under agreements to repurchase	97,261,840	9,954,474	-	2,896,151	110,112,465
Payables	11,947,054	7,208,487	70,925	372,275	19,598,741
Deposits and remittances	326,857,503	809,442,125	815,158,881	106,700,709	2,058,159,218
Financial debentures payable	3,850,000	3,900,000	-	56,190,661	63,940,661
Other capital outflow at maturity	20,427,101	37,656,749	7,500,761	729,552	66,314,163

(B) Maturity analysis of derivative financial liabilities

a. Net settled derivative financial instruments

Net settled derivatives engaged by Cathay United Bank include:

- (a) Foreign exchange derivative instruments: foreign exchange options, non-delivery forwards;
- (b) Interest rate derivative instruments: swap options, net settled interest rate swaps and other interest rate agreements.

The table below shows the net settled derivative financial instruments on time remaining until the contractual maturity date. Analysis of contractual maturity date helps to illustrate all derivative financial instruments listed in the consolidated balance sheet. The amount disclosed is based on contractual cash flow and may be different from that included in the consolidated balance sheet. Maturity analysis of net settled derivative financial liabilities was as follows:

2018.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	\$86,688	\$45,095	\$229,800	\$199	\$361,782
- Interest rate derivative instruments	21,092	285,082	543,248	23,522,719	24,372,141
Total	\$107,780	\$330,177	\$773,048	\$23,522,918	\$24,733,923

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2017.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	\$98,475	\$14,663	\$213,193	\$463	\$326,794
- Interest rate derivative instruments	3,061,667	292,540	147,564	11,944,700	15,446,471
Total	\$3,160,142	\$307,203	\$360,757	\$11,945,163	\$15,773,265

b. Maturity analysis of gross settled derivative financial instruments

Gross settled derivatives engaged by Cathay United Bank include:

- (a) Foreign exchange derivative instruments: currency futures and swaps
- (b) Interest rate derivative instruments: cross currency swaps
- (c) Credit derivative instruments: all derivatives shown in gross pay a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of such a credit event

The contract maturity date is the basic element to understand Cathay United Bank's gross settled derivative instruments as at balance sheet dates. The disclosed amounts are based on the contractual cash flows and part of the disclosed are not in conformity with related items on consolidated balance sheet. Maturity analysis of gross settled derivative financial liabilities was as follows:

2018.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
- Cash outflow	\$(3,875,082)	\$(4,718,572)	\$(558,507)	\$(296,855)	\$(9,449,016)
- Cash inflow	24,170	17,928	717	-	42,815
- Interest rate derivative instruments					
- Cash outflow	(10,384)	(56,742)	(107,229)	(423,860)	(598,215)
- Cash inflow	-	-	-	-	-
Cash outflow subtotal	(3,885,466)	(4,775,314)	(665,736)	(720,715)	(10,047,231)
Cash inflow subtotal	24,170	17,928	717	-	42,815
Net cash flow	\$(3,861,296)	\$(4,757,386)	\$(665,019)	\$(720,715)	\$(10,004,416)

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2017.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
- Cash outflow	\$(2,282,100)	\$(4,014,702)	\$(744,683)	\$(111,439)	\$(7,152,924)
- Cash inflow	11,422	7,488	-	-	18,910
- Interest rate derivative instruments					
- Cash outflow	(59,474)	(233,906)	(130,287)	(205,167)	(628,834)
- Cash inflow	-	-	-	-	-
Cash outflow subtotal	(2,341,574)	(4,248,608)	(874,970)	(316,606)	(7,781,758)
Cash inflow subtotal	11,422	7,488	-	-	18,910
Net cash flow	\$(2,330,152)	\$(4,241,120)	\$(874,970)	\$(316,606)	\$(7,762,848)

(C) Maturity analysis of off-balance sheet items

- a. Irrevocable commitments: include Cathay United Bank's irrevocable loan commitments and credit card commitments.
- b. Financial guarantee contracts: Cathay United Bank acts as a guarantor or an issuer of credit line in a financing guarantee agreement.
- c. Leasing commitments: Cathay United Bank acts as a lessee in an irrevocable operating lease agreement and the minimum lease payments are shown as follows:

2018.12.31	Not later than		Later than	Total
	1 year	1~5 years	5 years	
Irrevocable loan commitments	\$109,990,204	\$35,237,143	\$9,378,042	\$154,605,389
Credit card commitments	55,543,412	237,450,848	376,237,944	669,232,204
Financial guarantee contracts	12,492,672	4,793,131	466,835	17,752,638
Leasing commitments				
Non-cancellable operating lease payments	1,435,798	3,501,147	277,120	5,214,065
Total	\$179,462,086	\$280,982,269	\$386,359,941	\$846,804,296

2017.12.31	Not later than		Later than	Total
	1 year	1~5 years	5 years	
Irrevocable loan commitments	\$191,776,099	\$18,595,520	\$850,470	\$211,222,089
Credit card commitments	52,188,926	285,821,408	288,818,867	626,829,201
Financial guarantee contracts	9,933,790	940,456	59,210	10,933,456
Leasing commitments				
Non-cancellable operating lease payments	1,666,530	2,938,921	75,995	4,681,446
Total	\$255,565,345	\$308,296,305	\$289,804,542	\$853,666,192

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Cathay Century and its subsidiaries

Cathay Century and its subsidiaries' principal financial risk management objective are to manage the market risk, credit risk and liquidity risk related to its operating activities. Cathay Century and its subsidiaries identifies, measures and manages the aforementioned risks based on the Company's policy and risk appetite.

Cathay Century and its subsidiaries have established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the board of directors and audit committee must be carried out based on related protocols and internal control procedures. Cathay Century and its subsidiaries comply with its financial risk management policies at all times.

A. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk (such as equity instrument).

In practice, it is rarely the case that a single risk variable will change independently from other risk variable; there is usually interdependency between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

(A) Foreign currency risk

Cathay Century and its subsidiaries are exposed to foreign exchange risk from US and NT dollars exchanges for investing in foreign special purpose money trust. Since the amount of investment is significant, Cathay Century and its subsidiaries engage in forward foreign exchange contracts for hedging purposes.

Cathay Century and its subsidiaries is further exposed to exchange rate risk for engaging in reinsurance business involving transactions denominated in non-functional currency. Because this type of transaction usually has a relatively shorter collection period, the exchange rate fluctuations are not significant. Cathay Century and its subsidiaries do not engage in hedging in relation to this type of transaction.

Cathay Century and its subsidiaries' self-evaluation showed that the terms of the hedging instrument and the hedged items are the same, so as to maximize the effectiveness of the hedge.

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(B) Interest rate risk

Interest rate risk results from changes in the market interest rates which cause the fair value of financial instruments or the future cash flow to fluctuate. Cathay Century and its subsidiaries' interest rate risk primarily results from floating rate investments classified as financial assets at fair value through profit and loss and financial assets at fair value through other comprehensive income.

(C) Equity price risk

Cathay Century and its subsidiaries hold equity securities of local and foreign listed companies. Their prices are affected by uncertainties about the future values of the investment securities. Equity securities of listed companies held by Cathay Century and its subsidiaries are classified under financial assets at fair value through profit and loss or financial assets at fair value through other comprehensive income. Cathay Century and its subsidiaries manage the equity price risk through diversification and placing limits on individual and total equity instruments.

B. Credit risk

The credit risk of insurance contracts comes mainly from reinsurance business. That is, the reinsurer's default or bad financial condition which leads to the inability to pay the reinsurance claims. Reinsurance contracts are arranged in accordance with the "Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms". The reinsurer with whom Cathay Insurance and its subsidiaries reinsure are mostly reinsurers with better credit ratings and qualified as reinsurers. Relevant risk control procedures are also established to regularly keep track and monitor changes in the credit rating of reinsurers.

In compliance with Article 5 of the "Regulations Governing the Provision of Unqualified Reinsurance Reserves for Insurance Company", transactions with unqualified reinsurers are disclosed in the notes to the financial statements which include summary of unqualified reinsurance contracts and types of reinsurance, reinsurance premium expense of unqualified reinsurance contracts, as well as general description of the amount of unqualified reserve and its components.

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(A) Cathay Century's major unqualified reinsurance counterparties are listed below:

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Name	Type
Best RE (L) Limited	Reinsurance ceded contracts of liability insurance
Tugu Insurance Company HK	Facultative reinsurance of marine and fire insurance
Cathay Insurance Company Ltd. (China)	Facultative reinsurance of marine insurance
Emirates Re	Reinsurance ceded contracts of fire insurance
Trust International Insurance and Reinsurance Company B.S.C.	Reinsurance ceded contracts of marine and fire insurance
	Facultative reinsurance of marine, fire and liability insurance

As of 31 December 2017

Name	Type
Best RE (L) Limited	Reinsurance ceded contracts of Other property insurance
	Facultative reinsurance of marine and fire insurance
Lemma Insurance Company	Facultative reinsurance of fire insurance
Cathay Insurance Company Ltd. (China)	Facultative reinsurance of marine insurance

(B) As of 31 December 2018 and 2017, Cathay Century's unqualified reinsurance expenses amounted to \$35,899 and \$11,554 thousand, respectively. °

(C) The reserve for unqualified reinsurance and the components of this account include:

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Unearned premium reserve	\$17,949	\$5,777
Claims recoverable from reinsurers of paid claims overdue less than nine month	60,165	2,524
Claims recoverable from reinsurers which were reported but unpaid	5,003	40,060
Reserve for unqualified reinsurance	<u>\$83,117</u>	<u>\$48,361</u>

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(D) Credit risk management policies

Cathay Century and its subsidiaries trade only with established and creditworthy third parties. Cathay Century and its subsidiaries' policy is that all customers who trade on credit terms are subject to credit verification procedures and that premium receivable and notes receivable collections are monitored on an ongoing basis. Therefore, Cathay Century and its subsidiaries' bad debt are insignificant. On the other hand, in the event counterparty's creditworthiness deteriorates, Cathay Century and its subsidiaries will suspend the related contracts and resume exercising relevant rights and obligations when transaction status is restored.

Cathay Century and its subsidiaries' secured lending operations must be approved and verified by performing credit verification procedures, and obtain real property security provided by the counterparty. In the event the counterparty's creditworthiness deteriorates, Cathay Century and its subsidiaries may exercise under their own discretion the relevant security rights upon presentation, to protect Cathay Century and its subsidiaries' interests.

Cathay Century and its subsidiaries' credit risk exposure of financial transaction include: issuer risk, counterparty risk and the credit risk of underlying assets.

- a. Issuer risk is the risk that the issuer of the debt instrument held by Cathay Century and its subsidiaries or banks with which Cathay Century and its subsidiaries maintain deposits fail to deliver in accordance with the agreement due to default, bankruptcy or settlement, and Cathay Century and its subsidiaries incur financial losses as a result.
- b. Counterparty risk is the risk that a counterparty of Cathay Century and its subsidiaries fail to deliver as obligated before the settlement date which then cause losses to Cathay Century and its subsidiaries
- c. Credit risk of the underlying assets is the risk of loss due to weakened credit quality, increase in credit premium, credit rating downgrade or default of underlying assets linked to a financial instrument.

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(E) Credit concentration risk analysis

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

2018.12.31	The amount of credit risk exposure - by area					
Financial assets	Taiwan	Asia	Europe	North Americas	Emerging market and others	Total
Cash and cash equivalents	\$8,039,616	\$215,539	\$224,365	\$927,751	\$759,722	\$10,166,993
Financial assets at fair value through profit or loss	785,960	-	-	-	-	785,960
Financial assets at fair value through other comprehensive income	1,045,844	-	-	-	-	1,045,844
Financial assets measured at amortized cost (Note)	2,118,265	356,861	1,493,025	3,275,261	1,802,130	9,045,542
Total	\$11,989,685	\$572,400	\$1,717,390	\$4,203,012	\$2,561,852	\$21,044,339
Proportion	56.97%	2.72%	8.16%	19.97%	12.18%	100.00%

2017.12.31	The amount of credit risk exposure - by area					
Financial assets	Taiwan	Asia	Europe	North Americas	Emerging market and others	Total
Cash and cash equivalents	\$5,891,152	\$95,401	\$87,956	\$541,678	\$912,916	\$7,529,103
Financial assets at fair value through profit or loss	90,521	-	-	-	-	90,521
Available-for-sale financial assets (Note)	2,138,591	79,416	-	-	221,805	2,439,812
Debt instruments investments with no active market exists	1,100,000	272,655	321,203	304,210	10,512	2,008,580
Held-to-maturity investments	999,988	-	1,130,412	2,942,947	1,532,959	6,606,306
Total	\$10,220,252	\$447,472	\$1,539,571	\$3,788,835	\$2,678,192	\$18,674,322
Proportion	54.73%	2.40%	8.24%	20.29%	14.34%	100.00%

Note: Guarantee deposits paid in bonds are included.

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(F) Determinants for whether the credit risk has increased significantly since initial recognition

- a. Cathay Century and its subsidiaries assesses, at each reporting date, whether the credit risk of a financial instrument in the scope of impairment requirements under IFRS 9 has increased significantly since initial recognition. To make this assessment, Cathay Century and its subsidiaries considered reasonable and supportable information (including forward-looking information) which indicated that credit risk has increased significantly since initial recognition. The main indicators included external credit rating, past due information, credit spread and other market information which showed that the credit risk related to borrowers and issuers has increased significantly.
- b. Low credit risk: If the credit risk at the reporting date is determined to be low, an entity can assume that the credit risk of the financial instrument has not increased significantly since initial recognition.

(G) Definitions of a default occurring on a financial asset and a credit-impaired financial asset

The definition of a default occurring on financial assets of Cathay Century and its subsidiaries is the same as a credit-impaired financial asset. If one or more of the criteria below are met, a default occurs and a financial asset is credit-impaired:

- a. Quantitative factor: when contractual payments are more than 90 days past due, a default occurs and a financial asset is credit-impaired.
- b. Qualitative factor: an evidence indicates that the issuers or borrowers cannot pay the contractual payments or that they have significant financial difficulties, for example:
 - (a) The issuers and borrowers have entered bankruptcy or are probable to file bankruptcy or financial reorganization.
 - (b) The borrowers fail to make interest or principal payments based on original terms and conditions.
 - (c) The collaterals of the borrowers are seized provisionally or enforced.
 - (d) The borrowers file for a change in credit conditions due to financial difficulties.

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- c. The abovementioned definitions of default and credit impairment are applicable to all financial assets held by Cathay Century and its subsidiaries, and are aligned with those of financial assets for internal credit risk management. The definitions are also applicable to related impairment assessment model.

(H) Measurement of expected credit losses

a. Methods and assumptions adopted

For financial instruments on which the credit risk has not increased significantly since initial recognition, Cathay Century and its subsidiaries measured loss allowance for financial instruments at an amount equal to 12-month expected credit losses; for financial instruments on which the credit risk has increased significantly since initial recognition or are credit-impaired, Cathay Century and its subsidiaries measured loss allowance for financial instruments at an amount equal to the lifetime expected credit losses.

To measure expected credit losses, Cathay Century and its subsidiaries multiply exposure at default by 12-month and the lifetime probability of default of the issuers, guarantee agencies and counterparties and loss given default. Cathay Century and its subsidiaries also considered the effect of the time value of money to calculate 12-month expected credit losses and the lifetime expected credit losses respectively.

Default rate is the rate that an on issuer, guarantee agency or counterparty defaults. Loss given default is the loss rate resulted from the default of issuers, guarantee agencies and counterparties. Loss given default used by Cathay Century and its subsidiaries in impairment assessment is based on information regularly issued by Moody's. Probability of default is based on information regularly issued by Taiwan Ratings and Moody's and is determined based upon current observable information and macroeconomic information (gross domestic product and economic growth rate, for example) with adjustments of historic data. Exposure at default is measured at the amortized cost and interest receivables of the financial assets.

b. Consideration of forward-looking information

Cathay Century and its subsidiaries take forward-looking information into consideration while measuring expected credit losses of the financial assets.

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(I) Gross carrying amount of maximum credit risk exposure and category of credit quality

a. Financial assets of Cathay Century

		2018.12.31					Gross carrying amount
		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	
Investment grade	Debt instruments at fair value through other comprehensive income	\$1,045,844	\$-	\$-	\$-	\$(148)	
	Financial assets measured at amortized cost (Note 3)	8,539,903	-	-	-	(3,587)	8,536,316

Financial assets	2017.12.31 (Note 1)					
	Normal assets (Note 2)		Past due but not impaired	Impaired	Impaired reserve	Total
	Investment grade	Non- investment grade				
Cash and cash equivalents	\$7,529,103	\$-	\$-	\$-	\$-	\$7,529,103
Financial assets at fair value through profit or loss	90,521	-	-	-	-	90,521
Available-for-sale financial assets (Note 3)	2,439,812	-	-	-	-	2,439,812
Debt instruments investments with no active market exists	2,008,580	-	-	-	-	2,008,580
Held-to-maturity investments	6,606,306	-	-	-	-	6,606,306
Total	\$18,674,322	\$-	\$-	\$-	\$-	\$18,674,322
Proportion	100.00%	0.00%	0.00%	0.00%	0.00%	100.00%

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

Note 2: Investment grade assets refer to those with credit rating of at least BBB- granted by a credit rating agency; non-investment grade assets are those with credit rating lower than BBB- granted by a credit rating agency.

Note 3: Guarantee deposits paid in bonds are included.

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b. Loans of Cathay Century

2018.12.31

	Stage 1	Stage 2	Stage 3		Loss allowance	Gross carrying amount
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased or originated credit-impaired financial assets		
Non-investment Loans						
grade	\$239,701	\$-	\$-	\$-	\$(2,885)	\$236,816

	2017.12.31(Note)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Secured loans								
Consumer Finance	\$244,769	\$-	\$-	\$-	\$-	\$244,769	\$2,922	\$241,847
Corporate Finance	-	-	-	-	10,125	10,125	202	9,923
Total	\$244,769	\$-	\$-	\$-	\$10,125	\$254,894	\$3,124	\$251,770

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

(J) Movement of loss allowance is summarized below:

a. Debt instruments at fair value through other comprehensive income

	Lifetime expected credit losses					Total of impairment charged in accordance with IFRS 9
	12-month expected credit losses	Collectively assessed	Individually assessed	Not purchased or originated credit-impaired financial assets	Purchased or originated credit-impaired financial assets	
2018.1.1	\$150	\$-	\$-	\$-	\$-	\$150
Changes in models/risk parameters	(2)	-	-	-	-	(2)
2018.12.31	\$148	\$-	\$-	\$-	\$-	\$148

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b. Financial assets measured at amortized cost

	Lifetime expected credit losses					Total of impairment charged in accordance with IFRS 9
	12-month expected credit losses	Collectively assessed	Individually assessed	Not purchased or originated	Purchased or originated	
				credit-impaired financial assets	credit-impaired financial assets	
2018.1.1	\$3,571	\$-	\$-	\$-	\$-	\$3,571
Changes in models/risk parameters	(29)	-	-	-	-	(29)
2018.12.31	\$3,542	\$-	\$-	\$-	\$-	\$3,542

c. Other assets

	Lifetime expected credit losses					Total of impairment charged in accordance with IFRS 9
	12-month expected credit losses	Collectively assessed	Individually assessed	Not purchased or originated	Purchased or originated	
				credit-impaired financial assets	credit-impaired financial assets	
2018.1.1	\$68	\$-	\$-	\$-	\$-	\$68
Changes in models/risk parameters	(23)	-	-	-	-	(23)
2018.12.31	\$45	\$-	\$-	\$-	\$-	\$45

d. Loans

	Lifetime expected credit losses					Subtotal of impairment charged in accordance with IFRS 9	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	Total
	12-month expected credit losses	Collectively assessed	Individually assessed	Not purchased or originated	Purchased or originated			
				credit-impaired financial assets	credit-impaired financial assets			
2018.1.1	\$45	\$-	\$-	\$-	\$-	\$45	\$3,079	\$3,124
Changes in models/risk parameters	8	-	-	-	-	8	-	8
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	-	(247)	(247)
2018.12.31	\$53	\$-	\$-	\$-	\$-	\$53	\$2,832	\$2,885

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C. Operational Risk

In order to avoid the potential losses caused by failed internal controls, employee fraud or misconduct and management negligence, Cathay Century had set up the standard operating procedures and computer systems based on the business nature of the front, middle, and back departments, and manage the operational risk effectively by strict systems of internal control, internal audits, external audits, and regulatory compliance. Cathay Century had set and implemented “Regulations Reporting the Losses by Operational Risk” as well to establish the data base of losses resulting from operational risk by “Losses by Operational Risk Reporting System”.

D. Liquidity risk

(A) Source of liquidity risk

Liquidity risks of the financial instruments are classified as “funding liquidity risk” and “market liquidity risk”. “Funding liquidity risk” represents the default risk that Cathay Century is unable to turn assets into cash or obtain sufficient funds. “Market liquidity risk” represents the risk of significant changes in fair value that Cathay Century faces when it sells or offsets its assets during market disorder.

(B) Liquidity risk management

Cathay Century and its subsidiaries established a capital liquidity management mechanism based on the business features and monitoring short-term cash flow. Considering the trading volume and holding position, Cathay Century and its subsidiaries carefully manage the market liquidity risk. Moreover, Cathay Century and its subsidiaries have drawn up a plan for capital requirements with respect to abnormal and emergency conditions to deal with significant liquidity risk.

Depending on the actual management need or special situation, Cathay Century and its subsidiaries uses models to assess cash flow risk, such as cash flow model or stress testing model.

Stress testing analysis is used to test changes of capital liquidity in the event of extreme in order to ensure liquidity. Stress scenarios, including significant market volatility, a variety of credit events, non-anticipated events of the financial market liquidity crunch and any other scenario which may trigger liquidity pressures is used to assess Cathay Century and its subsidiaries’ overall capital supply, demand and changes in cash flow gap.

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In the event of cash flow gap, the risk management department will conduct an internal discussion and report the result to supervisors and the funding management department. The risk management department will take necessary measures to prevent further stressful events.

(C) The table below summarizes the maturity profile of Cathay Century and its subsidiaries' financial liabilities based on contractual undiscounted payments.

Liabilities	2018.12.31					
	Book value	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Payables	\$2,622,777	\$2,607,649	\$5,053	\$4,379	\$5,696	\$-
Financial liabilities at fair value through profit or loss	50,041	50,041	-	-	-	-

Liabilities	2017.12.31					
	Book value	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Payables	\$2,542,406	\$2,515,114	\$15,234	\$4,707	\$7,351	\$-
Financial liabilities at fair value through profit or loss	3,238	3,238	-	-	-	-
Preferred stock liability	1,000,000	-	1,000,000	-	-	-

E. Market risk analysis

Market risk is the risk of potential revenue and portfolio value reduction due to the fluctuations of market risk factors, such as exchange rates, commodity prices, interest rates, credit spreads, and stock prices.

Cathay Century and its subsidiaries continue to use market risk management tools such as value-at-risk and stress testing to completely and effectively measure, monitor and manage market risk.

(A) Value-at-risk

Value-at-risk is used to measure the maximum potential loss of a portfolio in a certain future time horizon and confidence level when the market risk factors changes. Cathay Century and its subsidiaries estimate value at risk on the next day (week or two weeks) with a 99% level of confidence.

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The value-at-risk model must reasonably, completely and accurately measure the maximum potential risk to be used as Cathay Century and its subsidiaries' risk management model. The risk management model must conduct back testing on an ongoing basis to ensure the model can effectively measure the maximum potential risk of a financial instrument or a portfolio.

(B) Stress testing

In addition to the value-at-risk model, Cathay Century and its subsidiaries periodically uses stress testing to assess the potential risk of extreme incidents. Stress testing is used to evaluate the potential impact on portfolio values when a series of financial variables undergo extreme changes.

Cathay Century and its subsidiaries conduct stress testing regularly on positions by simple sensitivity analysis and scenario analysis. The stress testing contains changes of various risk factors in all historical scenarios that may cause losses in an investment portfolio.

a. Simple Sensitivity

Simple sensitivity mainly measures changes in value of portfolio caused by specific risk factor.

b. Scenario Analysis

Scenario Analysis measures the change in the total value of portfolio under stressful events. The measures include:

(a) Historical scenarios

The measure selects from historical data of a certain period and adds the volatility of the risk factors selected to a given portfolio, and then calculates the amount of loss.

(b) Hypothetical scenarios

Hypothetical scenario makes reasonable hypothesis with respect to possible extreme market changes and includes the risk factors related to the changes in the current portfolio to estimate the amount of loss that may incur.

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The risk management department conducts stress testing regularly under historical scenario and hypothetical scenario for Cathay Century and its subsidiaries to perform risk analysis, risk alert and business management based on the stress test report.

2018.12.31	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$(339,393)
Interest rate risk (Yield curve)	20bp	(145,145)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(109,381)

2018.12.31		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	\$318	\$295
	CNY appreciate 1 %	8,888	-
	HKD appreciate 1 %	901	3,538
	USD appreciate 1 %	34,043	5,143
	VND appreciate 1 %	6,138	-
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(4,935)	-
	Yield curve (CNY) flat rises 1bp	(92)	-
	Yield curve (NTD) flat rises 1bp	(1,354)	(946)
Equity securities price sensitivity	Increase 1% in equity price	-	33,939

2017.12.31	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$(590,461)
Interest rate risk (Yield curve)	20bp	(175,672)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(124,777)

2017.12.31		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	\$16	\$868
	CNY appreciate 1 %	9,765	680
	HKD appreciate 1 %	565	3,933
	USD appreciate 1 %	31,139	8,884
	VND appreciate 1 %	5,896	-
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(6,100)	(66)
	Yield curve (CNY) flat rises 1bp	(62)	(53)
	Yield curve (NTD) flat rises 1bp	(1,390)	(1,029)
Equity securities price sensitivity	Increase 1% in equity price	-	59,046

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Cathay Securities and its subsidiaries

A. Risk management policies

(A) Risk management objectives

Adhering to the risk management policies of the Company, Cathay Securities and its subsidiaries manage the risks efficiently and elastically on operating activities to maximize the profit in conformity with domestic and foreign regulations.

(B) Risk management policies

Cathay Securities and its subsidiaries uses “risk management policies” as a guiding principle to establish risk management objectives, coverage, organization duties and operating, management principles and reports etc.

The management policies of Cathay Securities and its subsidiaries cover different types of risk including market risk, credit risk, operation risk, liquidity risk, capital adequacy management, regulation risk and other risks related to operating activities. Cathay Securities and its subsidiaries identify relevant risks and have integrated planning of risk management in accordance with the management policies before operating business.

(C) Risk management organizational structure

a. Board of directors

The board of directors has the ultimate responsibilities for risk management. The board has the primary responsibility for the determination of the risk management strategies and for ensuring that approved risk management policies are in accordance with the nature of operating activities, types of operating business and they cover different types of risk. Also, the board is required to monitor that the implementation of risk management policies is effective.

b. Risk Management Committee

The Risk Management Committee is responsible for reviewing risk management policies, principles, and directions of trading management, and for determining the appropriate degree of risk exposures and monitoring the implementation of the risk management policies. Risk Management Committee is established by the board of directors and the members include general manager, finance executive, accounting executive, and risk management executive, as relevant trading executive. The committee meetings are typically held quarterly and provisional meetings are called by the chairman of the board.

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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.

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(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.

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c. Operational Risk

(a) Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes the legal risk, but excludes strategy risk and credit risk.

(b) Controls

Cathay Securities and its subsidiaries establish authority levels and the segregation of duties for the processes of front, middle and back offices. Trading, confirmation, settlement, financial accounting, and trading document are archive for future reference. The strict processes are also established to prevent fraud and negligence. Cathay Securities and its subsidiaries request each department to establish and implement internal audit and control policies authentically. The reporting mechanism for loss events from operational risk and database are established to understand causes of the loss.

In addition, the auditing office is established and reports to the board of directors. The functions of the office are to implement daily process check to establish completed internal audit control and provide internal review report periodically to lower the loss arising from the operation failures.

d. Liquidity Risk

(a) Definition

Liquidity is defined as the capability of Cathay Securities and its subsidiaries to acquire the sufficient capital and to support assets growth and payout the liabilities. Market liquidity is the risk of loss caused by significant changes in market prices when dealing with or offsetting the position of the market due to lack of market depth or disorder.

(b) Controls

Measurement index for liquidity risk is established and Cathay Securities and its subsidiaries compiles the liquidity risk management report periodically to review capital conditions and cash flow gap as of balance dates. Capital allocation planning is based on the compiled structure analysis as of balance sheet dates. Meanwhile, acquiring the credit line of short-term financing from other financial institutions and managing receipts and payments properly to sustain appropriate liquidity and ensure the ability to make the payment. The investment business unit shall conduct market liquidity risk control at the time of purchase according to market liquidity management indicators and specifications.

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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 and its subsidiaries establishes capital adequacy index and compiles the report periodically to evaluate the appropriateness of capital adequacy ratio and the perfection of the capital structure.

g. Reputation risk and strategy risk

(a) Definition

Reputation Risk is a risk of loss resulting from damages to Cathay Securities and its subsidiaries' reputation to lose customers or revenues, and Cathay Securities and its subsidiaries might need to undertake a prodigious amount of legal fees or other losses from damages. Strategy risk is another risk of current or potential loss to revenue or capital resulting from a strategy that turns out to be defective or inappropriate, or lack of proper responses to the competitors.

(b) Controls

Cathay Securities and its subsidiaries establish internal responses and reactions to the reputation risk and strategy risk for mitigation of damages.

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Risk management policies and principles are established based on above mentioned risks and management mechanisms from each risk source are set out specifically. Cathay Securities and its subsidiaries also establish the constraint for each risk and review the appropriateness of each constraint periodically. Moreover, the risk management implementation reports are reported to the risk management committee, board of directors, and risk management office of Cathay financial holdings to elaborate on Cathay Securities and its subsidiaries' risk tolerance and the appropriateness of current risk management scheme.

(E) Hedge and Mitigation of Risk Strategy

The hedge and mitigation of risk strategy for Cathay Securities and its subsidiaries are to implement dynamic hedge through investment products to duplicate the same cash flows when derivatives mature. The hedge for outstanding stock warrants and structured products uses Delta Neutral as a principle. If the prices of those investment positions fluctuate significantly in the financial market, the violation of hedge operating due to the impact from the significant events, or the violation of the hedge operation occurs due to material events, the business department is required to explain in writing and report to the risk management department.

Cathay Securities and its subsidiaries establish the approval limit and stop-loss mechanism by each attributes of the product. When the position meets the stop-loss point, the risk management department will inform the supervisor or position administrator in time and monitor the change of the position. In addition, the business department should operate in accordance with approval limits. If the stop-loss point is met, the investment position should be sold or the business department is required to provide an exception report detailing the reason and specific responding measures.

B. Credit risk analysis

(A) Source of credit risk

Issuer credit risk is a risk that Cathay Securities and its subsidiaries may encounter. Credit risks due to conducting financial transactions include the credit risks from issuers, counterparties, and underlying assets:

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- 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:

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- a. Qualitative factor: an evidence indicates that the issuers or borrowers cannot pay the contractual payments or that they have significant financial difficulties, for example:
 - (a) The issuers and borrowers have entered bankruptcy or are probable to cease business, apply for reorganization, bankruptcy or dissolution of the sale of the main assets that have a significant impact on the continued operation of the Cathay Securities and its subsidiaries; or
 - (b) The borrowers fail to make interest or principal payments based on original terms and conditions.
- b. The abovementioned definitions of a default occurring on a financial asset and a credit impairment are applicable to all financial assets held by Cathay Securities and its subsidiaries, and are align with those of relevant financial assets for internal credit risk management. The definitions are also applicable to related impairment assessment model.

(D) Measurement of expected credit losses

a. Methods and assumptions adopted

For financial instruments on which the credit risk has not increased significantly since initial recognition, Cathay Securities and its subsidiaries measure loss allowance for financial instruments at an amount equal to 12-month expected credit losses; for financial instruments on which the credit risk has increased significantly since initial recognition or are credit-impaired, Cathay Securities and its subsidiaries measure loss allowance for financial instruments at an amount equal to the lifetime expected credit losses.

To measure expected credit losses, Cathay Securities and its subsidiaries multiply exposure at default by 12-month and the lifetime probability of default of the issuers, guarantee agencies and borrowers and loss given default. Cathay Securities and its subsidiaries also consider the effect of the time value of money to calculate 12-month expected credit losses and the lifetime expected credit losses respectively.

Default rate is the rate that an issuer, guarantee agency and a borrower defaults. Loss given default is the loss rate resulted from the default of issuers, guarantee agencies and borrowers. Loss given default used by Cathay Securities and its subsidiaries in impairment assessment is based on information regularly issued by Moody's. Probability of default is based on information regularly issued by Taiwan Ratings and Moody's and is determined based upon current observable information and macroeconomic information (gross domestic product and economic growth rate, for example) with adjustments of historic data. Exposure at default is measured at the amortized cost and interest receivables of the financial assets.

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b. Consideration of forward-looking information

Cathay Securities and its subsidiaries take forward-looking information into consideration while measuring expected credit losses of the financial assets.

C. Capital Liquidity Risk Analysis:

(A) Cash flow analysis

Capital liquidity risk is the risk that Cathay Securities and its subsidiaries are unable to acquire the sufficient capital at the reasonable cost within the reasonable time and results in cash flow gap, or the risk that Cathay Securities and its subsidiaries sell assets at a loss to meet the cash flow requirement.

2018.12.31					
Cash Flows Analysis of Financial Liabilities					
Financial Liabilities	Payment Terms				Total
	Less than 1 month	1 to 3 months	3 to 6 months	More than 6 months	
Short-term loans	\$336,381	\$-	\$-	\$-	\$336,381
Bonds payables	3,729,367	-	-	-	3,729,367
Financial liabilities at fair value through profit or loss – current	2,712,304	-	-	-	2,712,304
Liabilities for bonds with repurchase agreements	3,332,528	-	-	-	3,332,528
Deposits for securities borrowed	42,173	84,346	126,519	506,073	759,111
Securities lending margin – deposit received	731	1,462	2,193	8,773	13,159
Futures trader's equity	5,839,564	-	-	-	5,839,564
Ledgers of securities firms' settlement accounts customer's equity	7,653	-	-	-	7,653
Account payables	4,863,717	-	-	345,795	5,209,512
Other financial liabilities - current	105,870	-	-	-	105,870
Others	44,731	647	-	-	45,378
Total	\$21,015,019	\$86,455	\$128,712	\$860,641	22,090,827
Proportion	95.13%	0.39%	0.58%	3.90%	100.00%

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

Financial Assets	2018.12.31 Cash Flow Gap				Total
	Received Terms				
	Less than 1 month	1 to 3 months	3 to 6 months	More than 6 months	
Cash and cash equivalents	\$3,158,088	\$-	\$-	\$-	\$3,158,088
Financial assets at fair value through profit or loss-current					
Operation Securities	4,634,086	-	-	-	4,634,086
Call option-futures	19,149	-	-	-	19,149
Futures trading margin	433,813	-	-	-	433,813
Structured products	272	-	-	-	272
Financial assets at fair value through other comprehensive income-current	3,379,521	-	-	-	3,379,521
Securities financing receivables	146,700	293,400	440,100	1,760,405	2,640,605
Refinancing margin and refinancing deposits receivable	1,215	2,430	3,645	14,586	21,876
Security lending receivable	66,890	-	-	-	66,890
Client margin accounts	5,847,830	-	-	-	5,847,830
Security lending deposits price and security lending margin – deposits paid	102,118	204,236	306,354	1,225,411	1,838,119
Account receivables	4,721,054	-	-	25,942	4,746,996
Others	381,826	-	-	900,000	1,281,826
Subtotal	22,892,562	500,066	750,099	3,926,344	28,069,071
Residual cash	\$1,877,543	\$413,611	\$621,387	\$3,065,703	\$5,978,244

(B) Capital liquidity risk stress testing

Cathay Securities and its subsidiaries perform stress testing periodically to measure and evaluate the changes of capital liquidity under occurrence of extreme and abnormal events for ensuring that Cathay Securities and its subsidiaries sustain the proper capital liquidity. Stress scenario including the significant fluctuation in the financial market, the occurrence of all kinds of credit event, and the assumption of unexpected tightening of capital liquidity in financial market are used to measure the capability of acquiring sufficient capital to meet the demand on cash and the changes of cash flow gap.

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If the cash flow gap arises under the specific stress scenario, the following procedures are used to prevent the occurrence of the stress events:

- a. Raising funding and balance sheet adjustment are made in accordance with Cathay Securities and its subsidiaries “Crisis Management Principles” and “Regulations of Emergency Management”.
- b. Financing: (i) short-term loan credit line (ii) collateralized time deposits (iii) issuance of commercial paper.
- c. Balance sheet adjustment: (i) sales of securities (ii) collect short-term capital invested in currency market.

D. Market risk analysis

Cathay Securities and its subsidiaries assess, monitor, and manage market risks completely and effectively by applying sensitivity analysis, Value at Risk (“VaR”) and stress testing continuously

(A) Sensitivity Analysis

Sensitivity analysis is to measure the degree of impacts on each products and portfolio from the movement of specific market simple. The monitoring and relevant controls to the businesses Cathay Securities and its subsidiaries operate are established. The degree of risk exposure are monitored and measured by the following sensitivity:

- a. Price value of basis point (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 and its subsidiaries Value at Risk (“VaR”) is the risk of the most probable loss on the portfolio in position arising from the movements in market risk simples by measuring portfolio over a specific time frame and at a certain confidence level. Cathay Securities measures VaR for the next day within an investment portfolio over a week and at 99% confidence level. Also, Back Test at VaR is performed each year to ensure the accuracy of this model.

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VaR at one single trading day within 99% confidence level

2018.1.1~2018.12.31	NT\$ (in thousands)
Period Ended	\$11,948
Average	32,631
Lowest	6,389
Highest	154,268

(C) Stress Test

Cathay Securities and its subsidiaries perform monthly Stress Test to assess the degree of impact on the asset portfolio arising from foreign and domestic significant events and find the risk simples which have more significant influence on the asset portfolio. Follow-up and review reports will be documented. Customized or extreme scenario which take rapid changes in foreign and domestic financial environment into consideration are also performed irregularly and measured the maximized losses arising from these scenarios for ensuring that Cathay Securities and its subsidiaries manage each potential scenario effectively.

Stress Test Scenario including Historical Scenario and Hypothesis Scenario:

a. Historical Scenario

Cathay Securities and its subsidiaries assess the dollar amount of losses for the investment portfolio by choosing a specific time frame of historical event and taking the fluctuation of risk simples into the consideration such as the immediate, significant, and comprehensive impact on financial market from bankruptcy of Lehman Brothers in 2008 and Great East Japan earthquake in 2011.

b. Hypothesis Scenario

Cathay Securities and its subsidiaries make hypothesis with rational expectations from the extreme market movements to assess the dollar amount of losses for the investment position by taking the movement of relevant risk simples into consideration including 10% drop on the total values of stock market arising from the global system breakdown.

2018.12.31
Table of Stress Test

Risk Simples	Price Risk	Changes (+/-)	Changes in profit and loss
Equity Risk	Stock index	-10%	\$69,450
Interest Risk	Yield Curve	+100bps	(149,493)
Exchange Risk	Exchange Rate	+3%	(1,527)
Product Risk	Price	-10%	-

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(8) Structured entities

A. Consolidated structured entities

Cathay life and its subsidiaries own real estate investment and management organizations as consolidated structured entities. As of 31 December 2018 and 31 December 2017, Cathay life and its subsidiaries provides loans amounting to all GBP 345,000 thousand to the consolidated structured entities, respectively.

B. Unconsolidated structured entities

(A) The Group do not provide financial support or other support to the unconsolidated structured entities. The Group's maximum exposure to loss from its interests in the unconsolidated structured entities are limited to the carrying amount of assets the Group recognized. The information of the recognized unconsolidated structured entities is disclosed as follows:

<u>Types of structured entity</u>	<u>Nature and purpose</u>	<u>Interests owned</u>
Private equity fund	Investment in private equity funds to receive returns	Investment in shares or limited partnership interests issued by the fund
Securitization vehicle	Investment in asset-backed security to receive returns	Investment in securitization vehicles issued by the entity

(B) As of 31 December 2018 and 31 December 2017, the carrying amount of assets recognized by Cathay Life and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

	<u>2018.12.31</u>	
	<u>Private equity funds</u>	<u>Asset-backed securities</u>
Financial assets at fair value through profit or loss	\$77,198,514	\$28,847,287
Financial assets at fair value through other comprehensive income	-	53,974,279
Financial assets measured at amortized cost	-	152,673,283
Total	\$77,198,514	\$235,494,849

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	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	<u>\$51,152,449</u>	<u>\$215,823,342</u>

(C) As of 31 December 2018 and 31 December 2017 the carrying amount of assets recognized by Cathay United Bank and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

	2018.12.31	
	Private Fund	Asset Securitization commodity
Financial assets at fair value through other comprehensive income	\$3,191,683	\$-
Financial assets measured at amortized cost	47,970,374	-
Total	<u>\$51,162,057</u>	<u>\$-</u>

	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	<u>\$-</u>	<u>\$37,567,272</u>

(D) As of 31 December 2018 and 31 December 2017 the carrying amount of assets recognized by Cathay Century and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

	2018.12.31	
	Private Fund	Asset Securitization commodity
Financial assets at fair value through profit or loss	\$96,907	\$-
Financial assets measured at amortized cost	640,847	-
Total	<u>\$737,754</u>	<u>\$-</u>

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	2017.12.31	
	Private Fund	Asset Securitization commodity
Available-for-sale financial assets	\$-	\$117,283
Held-to-maturity financial assets	-	680,481
Total	\$-	\$797,764

(9) Exchange rates used to translate material financial assets and liabilities denominated in foreign currencies are disclosed as follows at 31 December 2018 and 31 December 2017:

	2018.12.31			2017.12.31		
	Foreign Currency	Exchange Rate	NT\$	Foreign Currency	Exchange Rate	NT\$
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	\$116,959,170	30.7330	\$3,594,506,172	\$100,965,332	29.8480	\$3,013,613,230
CNY	21,336,505	4.4762	95,506,464	31,634,624	4.5835	144,997,299
<u>Non-Monetary Items</u>						
USD	9,875,093	30.7330	303,491,233	13,110,182	29.8480	391,312,712
<u>Financial Liabilities</u>						
<u>Monetary Items</u>						
USD	13,039,573	30.7330	400,745,197	12,348,268	29.8480	368,571,103

As the Group has a large variety of foreign currencies, it is not possible to disclose the foreign currency exchange gains or losses based on each foreign currency's exposure to major impact. The foreign currency exchange gains for the years ended 31 December 2018 and 2017 were \$57,450,748 thousand and \$(116,155,990) thousand, respectively.

(10) Discretionary account management

As of 31 December 2018 and 31 December 2017, Cathay Life contracts with securities investment trust business for discretionary investments management. The investment details are disclosed as follows:

Items	2018.12.31		2017.12.31	
	Carrying amount	Fair value	Carrying amount	Fair value
Domestic stocks	\$118,377,980	\$118,377,980	\$146,469,572	\$146,469,572
Overseas stocks	60,215,861	60,215,861	55,439,633	55,439,633
Reverse repurchase bonds	12,410,000	12,410,000	8,910,000	8,910,000
Cash in banks	17,914,307	17,914,307	34,384,975	34,384,975
Beneficiary certificates	1,830,959	1,830,959	318,911	318,911
Futures and options	216,603	216,603	138,296	138,296
Total	\$210,965,710	\$210,965,710	\$245,661,387	\$245,661,387

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As of 31 December 2018, Cathay Life entered into discretionary account management contracts in the amounts of \$97,612,149 thousand, US\$1,417,500 thousand, and HK\$2,023,000 thousand. As of 31 December 2017, Cathay Life entered into discretionary account management contracts in the amounts of \$107,000,000 thousand, US\$1,595,000 thousand, and HK\$2,750,000 thousand.

As of 31 December 2018 and 31 December 2017, Cathay Century and its subsidiaries contract with securities investment trust business for discretionary investments management. The investment details are disclosed as follows:

Items	2018.12.31		2017.12.31	
	Carrying amount	Fair value	Carrying amount	Fair value
Listed stocks	\$736,041	\$736,041	\$1,076,002	\$1,076,002
Repurchase bonds	150,000	150,000	320,431	320,431
Cash in banks	640,437	640,437	203,770	203,770
Futures and options	2,009	2,009	2,008	2,008
Total	\$1,528,487	\$1,528,487	\$1,602,211	\$1,602,211

As of 31 December 2018 and 31 December 2017, Cathay Century and its subsidiaries entered into discretionary account management contracts all in the amount of \$1,200,000 thousand.

(11) Capital management

Currently, the Group and its subsidiaries' capital adequacy ratios meet the statutory requirements. Under the pretext that the Company and its subsidiaries meet the statutory capital adequacy requirement, dynamic capital management mechanism is employed to increase the capital efficiency of the subsidiaries. After the redistribution of capital, the subsidiaries' ability to take risks will not be affected. Under such scenario, the Company will conduct overall planning based on the distribution of the subsidiaries' capital in order to strengthen the efficiency of capital operation within the group.

A. Capital adequacy ratio on a consolidated basis

2018.12.31			
Items	Ownership interest	Eligible capital	Statutory capital
The Company	100.00%	519,377,399	584,547,133
Cathay United Bank	100.00%	247,142,545	162,837,923
Cathay Securities	100.00%	5,208,773	2,070,194
Cathay Life	100.00%	488,752,735	335,101,600
Cathay Century	100.00%	9,831,977	5,318,228
Cathay Venture	100.00%	3,735,531	1,901,290
Cathay Securities Investment Trust	100.00%	2,559,779	1,497,116
Less: Item		(629,644,535)	(584,106,686)
Subtotal		(A) 646,964,204	(B) 509,166,798
Consolidated capital adequacy ratios		(C) =(A)/(B)	127.06%

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Items	Ownership interest	Eligible capital	Statutory capital
The Company	100.00%	\$598,740,346	\$640,868,787
Cathay United Bank	100.00%	245,474,892	142,872,941
Cathay Securities	100.00%	5,224,350	2,419,203
Cathay Life	100.00%	454,450,732	293,686,834
Cathay Century	100.00%	10,065,445	5,137,390
Cathay Venture	100.00%	3,548,009	1,793,578
Cathay Securities Investment Trust	100.00%	2,328,954	1,397,407
Less: Item		(687,553,971)	(640,207,073)
Subtotal		(A) \$632,278,757	(B) \$447,969,067
Consolidated capital adequacy ratios		(C) =(A)/(B)	141.14%

B. Eligible capital

2018.12.31

Items	Amount
Common Stock	125,632,102
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	15,333,000
Preferred Stocks and subordinated financial debenture	-
Capital collected in advance	-
Capital surplus	165,449,364
Legal reserve	40,976,121
Special reserve	149,346,119
Accumulated profit	95,553,376
Equity adjustments	(72,558,752)
Less: Goodwill	(1,330)
Less: Deferred assets	(352,601)
Less: Treasury stock	-
Consolidated eligible capital	\$519,377,399

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Items	Amount
Common Stock	\$125,632,102
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	8,333,000
Preferred Stocks and subordinated financial debenture	-
Capital collected in advance	-
Capital surplus	130,452,105
Legal reserve	35,339,841
Special reserve	149,106,971
Accumulated profit	99,296,739
Equity adjustments	50,906,313
Less: Goodwill	(6,649)
Less: Deferred assets	(320,076)
Less: Treasury stock	-
Consolidated eligible capital	\$598,740,346

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

Application form for all subsidiaries of a financial holding company's credit lending, endorsement, or other transactions to the same person, same related parties, or same affiliated enterprises.

2018.12.31

Expressed in millions of New Taiwan Dollars ; %

Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
Central Bank of the Republic of China (Taiwan)	399,277,531	76.69
Treasury Bond/ Treasury Bills	132,598,940	25.47
FREDDIE MAC	129,027,818	24.78
Taiwan Semiconductor Manufacturing Company Limited	74,238,519	14.26
United States Treasury Note/Bond	73,745,396	14.16
FANNIE MAE	67,563,733	12.98

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Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
AT&T Inc.	54,747,153	10.52
State of California	47,322,383	9.09
Citigroup Inc.	45,520,778	8.74
Bank of China Ltd.	41,541,278	7.98
Verizon Communications Inc.	40,902,017	7.86
Industrial & Commercial Bank of China	39,999,241	7.68
JPMorgan Chase & Co	39,314,331	7.55
Indonesia Government International Bond	39,001,702	7.49
Goldman Sachs Group Inc.	38,553,202	7.41
National Treasury Agency, Ministry of Finance	37,227,000	7.15
Wells Fargo & Co	36,977,710	7.1
China Development Bank Corp	34,559,700	6.64
TAIPEIFUBON COMMERCIAL BANK CO., LTD	33,014,661	6.34
Bank Of America N.A.	32,493,184	6.24
Government National Mortgage Association	32,474,771	6.24
Central Taiwan Science Park Administration	30,000,000	5.76
ELECTRICITE DE FRANCE	29,955,463	5.75
HSBC Holdings PLC	29,837,825	5.73
Comcast Corp	29,023,420	5.57
Southern Taiwan Science Park Administration	28,610,000	5.5
Russian Foreign Bond - Eurobond	27,766,225	5.33
Barclays PLC	26,008,631	5.0
Mexico Government International Bond	25,860,368	4.97
Saudi Government International Bond	24,633,394	4.73
BNP Paribas	24,287,648	4.67
Qatar Government International Bond	23,861,711	4.58
UBS AG	23,314,932	4.48
LARGAN Precision Co., Ltd.	22,579,209	4.34
Lloyds Bank PLC	21,380,340	4.11
Bank of Taiwan	20,954,003	4.02
NATIONAL BANK OF CANADA	20,592,332	3.96
MediaTek Inc.	20,315,238	3.9

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Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
ROYAL BANK OF SCOTLAND PLC	20,268,289	3.89
Taiwan Cooperative Bank Co., Ltd.	20,225,711	3.88
Colombia Government International Bond	20,152,170	3.87
China Construction Bank Corp	19,794,649	3.8
Morgan Stanley	19,734,027	3.79
Societe Generale	19,277,505	3.7
Microsoft Corp	18,915,896	3.63
CVS Health Corp	18,475,907	3.55
CTBC Bank Co., Ltd.	18,164,325	3.49
Fubon Financial Holding Co., Ltd.	17,995,905	3.46
Anheuser-Busch InBev Worldwide Inc.	17,923,421	3.44
Standard Chartered PLC	17,100,953	3.28
Postal Savings Bank of China Co., Ltd.	17,097,907	3.28
China Cinda Asset Management Co., Ltd.	16,700,737	3.21
Sinopec Group Overseas Development Ltd.	16,507,620	3.17
Amazon.com Inc.	16,400,406	3.15
Credit Suisse Group AG	16,349,486	3.14
Nan Ya Plastics Corporation	16,320,582	3.13
Panama Government International Bond	16,161,211	3.1
European Investment Bank	15,927,657	3.06
Vietnam Government Bond	15,518,405	2.98
Hua Nan Commercial Bank	15,193,303	2.92
Cooperatieve Centrale Raiffeisen-Boerenleenbank BA/Netherlands	15,000,705	2.88
CITIC LIMITED	14,959,944	2.87
Corp Nacional del Cobre de Chile	14,858,901	2.85
Australia and New Zealand Banking Group Limited	14,808,087	2.84
Credit Agricole Corporate & Investment Bank SA	14,760,152	2.84
Formosa Plastics Corporation	14,715,681	2.83
Vodafone Group PLC	14,664,014	2.82
Taiwan Mobile Co., Ltd.	14,655,757	2.81
Barings Global Investment Fund plc	14,536,425	2.79

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Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
Yuanta Securities Investment Trust Co., Ltd.	14,509,609	2.79
Apple Inc	14,490,084	2.78
Taiwan Business Bank Co., Ltd.	14,295,753	2.75
Israel Government International Bond	14,125,228	2.71
BPCE SA	13,890,630	2.67
Land Bank Of Taiwan Co., Ltd.	13,594,840	2.61
Anthem Inc.	13,579,509	2.61
Chang Hwa Commercial Bank	13,431,068	2.58
CTBC Financial Holding Co., Ltd.	13,371,051	2.57
TransCanada PipeLines Ltd.	13,258,252	2.55
Telefonica Emisiones SAU	13,152,875	2.53
Hon Hai Precision Industry Co., Ltd.	13,026,873	2.5
CNOOC Ltd.	12,907,397	2.48
Mega International Commercial Bank Co., Ltd.	12,761,985	2.45
Nationwide Building Society	12,722,694	2.44
E.SUN COMMERCIAL BANK, LTD.	12,624,035	2.42
Prudential Financial Inc.	12,436,788	2.39
American International Group Inc.	12,091,464	2.32
Barclays Bank	11,803,503	2.27
Peruvian Government International Bond	11,772,959	2.26
Chunghwa Telecom Co., Ltd.	11,627,796	2.23
Bank of Nova Scotia	11,579,292	2.22
National Australia Bank Ltd.	11,573,255	2.22
Far Eastone Telecommunications Co., Ltd.	11,394,113	2.19
Yuanta Futures Co., Ltd.	11,326,745	2.18
AbbVie Inc.	11,204,647	2.15
YUANTA COMMERCIAL BANK	11,103,992	2.13
Far East Horizon Limited	11,086,205	2.13
Natixis	10,947,587	2.1
ROYAL BANK OF CANADA	10,884,935	2.09
Credit Agricole SA	10,860,644	2.09
Commonwealth Bank of Australia	10,826,985	2.08

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Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
Taiwan Cement Corp.	10,789,871	2.07
Deutsche Bank AG	10,764,464	2.07
Nexen Energy ULC	10,697,511	2.05
Westpac Banking Corp	10,665,973	2.05
Alibaba Group Holding Ltd.	10,665,685	2.05
AIA Group Ltd.	10,503,624	2.02
ABN AMRO Bank	10,483,469	2.01
Phillips 66	10,298,126	1.98
CPC Corporation, Taiwan	10,294,792	1.98
Kommunalbanken AS	10,248,040	1.97
Abbott Laboratories	10,150,243	1.95
BECTON DICKINSON AND CO	10,110,907	1.94
Bank SinoPac	10,107,817	1.94
Petroleos Mexicanos	10,088,747	1.94
MetLife Inc.	10,071,984	1.93
THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.	10,022,755	1.93
Department of Finance, Taipei City Government	10,000,000	1.92
New Taipei City Government	10,000,000	1.92
Southern Copper Corp	9,906,550	1.9
HSBC	9,852,189	1.89
Capital Futures Corp.	9,750,118	1.87
Capital Investment Trust Corporation.	9,708,450	1.86
LONDON CLEARING HOUSE	9,694,417	1.86
DRAGON STEEL CORPORATION	9,688,298	1.86
Comision Federal de Electricidad	9,601,515	1.84
Woori Bank	9,441,294	1.81
BAT CAPITAL CORP	9,429,619	1.81
Oracle Corp	9,416,563	1.81
Brazilian Government International Bond	9,383,260	1.8
China Bills Finance Corporation	9,362,585	1.8
State Grid Overseas Investment Ltd.	9,279,275	1.78

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A. Same person		
Bank of Communications Co., Ltd.	9,238,859	1.77
America Movil SAB de CV	9,195,100	1.77
iShares US Preferred Stock ETF	9,178,323	1.76
UnitedHealth Group Inc.	9,026,415	1.73
BBVA Global Markets BV	9,016,149	1.73
Tencent Holdings Ltd.	8,973,168	1.72
Formosa Chemicals & Fibre Corporation	8,964,498	1.72
Enel Finance International NV	8,889,716	1.71
First Commercial Bank	8,858,482	1.7
Hungary Government International Bond	8,797,160	1.69
Banco Santander SA	8,776,444	1.69
Reliance Industries Ltd.	8,771,411	1.68
REPUBLICA ORIENT URUGUAY	8,740,843	1.68
Amgen Inc.	8,641,521	1.66
BBVA Bancomer SA	8,607,564	1.65
PERTAMINA PT	8,459,151	1.62
Altria Group Inc.	8,414,231	1.62
OVPH LTD	8,365,813	1.61
AstraZeneca PLC	8,363,500	1.61
Halliburton Co	8,354,403	1.6
SG Issuer	8,258,105	1.59
MIZUHO SECURITIES CO., LTD.	8,255,001	1.59
China Steel Corporation	8,168,286	1.57
Express Scripts Holding Co	8,124,222	1.56
Spain Government International Bond	8,104,814	1.56
ING Groep NV	8,055,005	1.55
Pfizer Inc.	8,017,248	1.54
AXA Funds Management SA	8,011,272	1.54
Shinhan Bank	7,959,854	1.53
QUANTA COMPUTER INC.	7,903,465	1.52
Export-Import Bank of China	7,831,265	1.5
Agricultural Bank of Taiwan	7,729,353	1.48
Credit Suisse Group Funding Guernsey Ltd.	7,700,610	1.48
KRAFT HEINZ FOODS CO	7,603,571	1.46

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Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
Mega Financial Holding Company Ltd.	7,593,878	1.46
Taishin International Bank	7,525,515	1.45
China Government Bond	7,499,052	1.44
CTBC Securities	7,485,924	1.44
SOUTHERN CO	7,461,438	1.43
United Technologies Corp	7,438,728	1.43
Central American Bank for Economic Integration	7,436,298	1.43
ASE Technology Holding Co., Ltd.	7,431,235	1.43
Agricultural Development Bank of China	7,321,511	1.41
STANDARD LIFE INVESTMENTS	7,301,933	1.4
QUALCOMM Inc.	7,275,781	1.4
Bayer US Finance LLC	7,262,414	1.39
China Overseas Land & Investment Ltd.	7,245,169	1.39
Taiwan Railways Administration	7,222,930	1.39
MEGA BILLS FINANCE CO., LTD.	7,170,043	1.38
Taishin Financial Holding Co., Ltd.	6,974,693	1.34
Gilead Sciences Inc.	6,921,183	1.33
South Africa Government International Bond	6,899,174	1.33
DP World Ltd.	6,864,745	1.32
ADCB Finance Cayman Ltd.	6,853,937	1.32
IPIC GMTN Ltd.	6,830,458	1.31
BHP Billiton Finance USA Ltd.	6,806,582	1.31
HKT Capital No 1 Ltd.	6,786,730	1.3
CELGENE CORP	6,760,899	1.3
Occidental Petroleum Corp	6,715,724	1.29
Fubon Life Insurance Co., Ltd.	6,704,181	1.29
Hon Han Investment Co., Ltd.	6,703,950	1.29
Intel Corp	6,666,873	1.28
Invesco Management S.A.	6,635,425	1.27
Enbridge Inc.	6,608,544	1.27
Aetna Inc.	6,591,793	1.27
Yuanta Financial Holding Co., Ltd.	6,451,609	1.24
Delta Electronics, Inc.	6,413,400	1.23
ALLERGAN FUNDING SCS	6,251,203	1.2

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A. Same person		
Cornell Capital LLC	6,244,899	1.2
Bank Nederlandse Gemeenten NV	6,177,654	1.19
Walgreens Boots Alliance Inc.	6,113,962	1.17
Malayan Banking Bhd	6,109,303	1.17
DUKE ENERGY CORP	6,108,676	1.17
Intesa Sanpaolo SpA	6,062,655	1.16
Kroger Co.	6,055,931	1.16
Molson Coors Brewing Co.	6,037,330	1.16
Discovery Communications LLC	6,020,560	1.16
HUA NAN FINANCIAL HOLDINGS CO., LTD.	6,014,872	1.16
Advanced Semiconductor Engineering, Inc.	6,000,000	1.15
CHINA DEVELOPMENT FINANCIAL HOLDING CORP.	5,990,579	1.15
Vale Overseas Ltd.	5,916,914	1.14
Bank of Tokyo-Mitsubishi UFJ Ltd.	5,902,902	1.13
CATCHER TECHNOLOGY CO., LTD.	5,857,017	1.12
Blackstone Group LP	5,846,399	1.12
Dow Chemical Co	5,842,965	1.12
Deutsche Telekom International Finance BV	5,818,068	1.12
Grupo Televisa SA	5,774,608	1.11
Waterland securities Investment consulting	5,749,817	1.1
Reynolds American Inc.	5,728,870	1.1
Burlington Northern Santa Fe LLC	5,711,997	1.1
Shell International Finance BV	5,697,324	1.09
China Network Systems Co., Ltd.	5,659,492	1.09
UniCredit SpA	5,555,582	1.07
Alphabet Inc.	5,536,292	1.06
Compal Electronics, Inc.	5,535,072	1.06
SinoPac Financial Holdings Co., Ltd.	5,530,976	1.06
Canadian Natural Resources Ltd.	5,520,126	1.06
Barrick North America Finance LLC	5,486,454	1.05
Yuanta Securities Co., Ltd.	5,455,704	1.05
BANCO DE BOGOTA SA	5,451,855	1.05
Italy Buoni Poliennali Del Tesoro	5,441,403	1.05

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Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
Marathon Petroleum Corp	5,424,335	1.04
ConocoPhillips	5,412,378	1.04
Rogers Communications Inc.	5,365,166	1.03
Newmont Mining Corp	5,268,077	1.01
First Financial Holding Co., Ltd.	5,242,161	1.01
National Bank of Abu Dhabi PJSC	5,239,732	1.01
Pacific Gas & Electric Co	5,228,349	1.0
21st Century Fox America Inc.	5,189,866	1.0
Petronas Capital Ltd.	5,151,449	0.99
DBS Bank Limited	5,100,317	0.98
EVA Airways Corporation	5,047,575	0.97
SinoPac Futures	5,044,766	0.97
Gazprom OAO Via Gaz Capital SA	5,044,044	0.97
HSBC France SA	5,037,301	0.97
CBS Corp	5,013,612	0.96
Taiwan Cooperative Financial Holding Co., Ltd.	5,007,375	0.96
Oman Government International Bond	4,943,405	0.95
KGI Futures	4,938,105	0.95
Chile Government International Bond	4,935,938	0.95
China Mobile Ltd.	4,881,893	0.94
Macquarie Group Ltd.	4,816,289	0.93
Robeco Asset Management	4,808,679	0.92
Apache Corp	4,735,781	0.91
BANK OF MONTREAL	4,673,378	0.9
Top Luxury Investment Ltd.	4,661,855	0.9
Fubon Securities Investment Trust Corporation.	4,620,201	0.89
Realty Income Corp	4,617,692	0.89
GRAND CENTRAL LIMIT	4,609,950	0.89
CYBER COMPANY INC.	4,609,950	0.89
SIGNUM MAGNOLIA LIMITED	4,608,639	0.89
Banco Santander Mexico SA Institucion de Banca Multiple Grupo Financiero Santand	4,572,572	0.88
BELLAVITA COMPANY	4,570,581	0.88
Anheuser-Busch InBev Finance Inc.	4,561,869	0.88

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Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
QNB Finance Ltd.	4,556,923	0.88
The Vanguard Group, Inc.	4,542,322	0.87
UBAM	4,529,334	0.87
PTTEP Canada International Finance Ltd.	4,513,464	0.87
CNAC HK Finbridge Co., Ltd.	4,437,865	0.85
Landesbank Baden-Wuerttemberg	4,426,428	0.85
Union Pacific Corp	4,421,134	0.85
Caisse des Depots et Consignations	4,400,165	0.85
CIGNA CORP	4,314,758	0.83
O-Bank	4,298,298	0.83
MYRIAD INTL HOLDINGS BV	4,281,232	0.82
Suncor Energy Inc.	4,238,711	0.81
Evergreen Marine Corporation	4,223,713	0.81
Visa Inc.	4,223,388	0.81
Takeda Pharmaceutical Co., Ltd.	4,221,591	0.81
Valero Energy Corp	4,218,011	0.81
Sony Corp	4,154,945	0.8
Anadarko Petroleum Corp	4,150,745	0.8
Capital One Financial Corp	4,114,907	0.79
ENI SpA	4,109,101	0.79
Humana Inc	4,105,778	0.79
Fubon Securities Co., Ltd.	4,097,243	0.79
DBS Bank (Taiwan) Ltd.	4,092,138	0.79
JPMorgan Asset Management (Europe) S.a.r.l.	4,031,256	0.77
Berkshire Hathaway Energy Co	4,025,866	0.77
State Street Corporation	4,010,481	0.77
Taichung City Government	4,005,000	0.77
Hsin-Da-Huang Construction Co., Ltd.	3,995,857	0.77
Romanian Government International Bond	3,991,714	0.77
Nordea Bank AB	3,989,840	0.77
Jih Sun Securities Co., Ltd.	3,984,319	0.77
iShares JP Morgan USD Emerging Markets Bond ETF	3,965,129	0.76
Dominion Resources Inc.	3,949,938	0.76
Manulife Financial Corp	3,935,011	0.76

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A. Same person		
CHIPBOND TECHNOLOGY CORPORATION	3,921,160	0.75
SHERWIN-WILLIAMS CO	3,920,544	0.75
JPMorgan Chase	3,909,272	0.75
Commercial Mortgage Pass Through Certificates	3,900,152	0.75
China Merchants Bank Co., Ltd.	3,876,563	0.74
Qtel International Finance Ltd.	3,855,838	0.74
ICICI Bank Ltd.	3,852,313	0.74
Petroleos del Peru SA	3,842,956	0.74
Abu Dhabi National Energy Co	3,842,435	0.74
Global Infrastructure Management	3,827,445	0.74
Kinder Morgan Inc/DE	3,818,630	0.73
GAM Fund Management Limited	3,816,938	0.73
Orange SA	3,815,220	0.73
NRW.BANK	3,806,140	0.73
Globalwafers. Co., Ltd.	3,780,275	0.73
Voya Financial Inc.	3,776,259	0.73
Nederlandse Waterschapsbank NV	3,769,169	0.72
Formosa Petrochemical Corporation	3,761,184	0.72
Infraestructura Energetica Nova SAB de CV	3,741,365	0.72
TYSON FOODS INC	3,728,686	0.72
Honglong Industrial Co., Ltd.	3,690,000	0.71
Shamrock Group Limited	3,687,960	0.71
India Government	3,683,188	0.71
CNPC HK Overseas Capital Ltd.	3,676,571	0.71
MasterLink Securities Corp.	3,675,763	0.71
LEGAL & GENERAL GROUP	3,668,283	0.7
PCCW Capital No 5 Ltd.	3,664,967	0.7
EMERA US FINANCE LP	3,662,940	0.7
Thaioil Treasury Center Co., Ltd.	3,652,448	0.7
Thermo Fisher Scientific Inc.	3,644,981	0.7
DIGITIMES Inc.	3,643,362	0.7
Columbia Management Investment Advisers LLC	3,611,285	0.69
DAH CHUNG BILLS FINANCE CORP.	3,600,000	0.69
Enel Chile SA	3,552,780	0.68

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Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
Ping An Insurance Group Co	3,550,831	0.68
China Life Insurance Co., Ltd.	3,547,852	0.68
Principal Financial Group Inc.	3,523,252	0.68
BOC Aviation Pte Ltd.	3,520,400	0.68
Nucor Corp	3,512,473	0.67
Far Eastern Electronic Toll Collection Co., Ltd.	3,470,421	0.67
HONGKONG ELECTRIC FIN	3,438,865	0.66
Cisco Systems Inc.	3,436,211	0.66
Nisource Finance Corp	3,427,600	0.66
ING Bank NV	3,398,138	0.65
CIC	3,376,987	0.65
Marathon Oil Corp	3,375,402	0.65
Sumitomo Mitsui Banking Corp	3,360,554	0.65
SIMPLO TECHNOLOGY CO., LTD.	3,354,163	0.64
Lockheed Martin Corp	3,340,910	0.64
PayPal Holdings Inc.	3,338,273	0.64
SinoPac Securities Inc.	3,333,925	0.64
UBS AG	3,331,727	0.64
Banco de Credito e Inversiones	3,322,711	0.64
Sinopec Capital Ltd.	3,315,835	0.64
International Bills Finance Corporation	3,300,878	0.63
Srisawad Corp PCL	3,296,702	0.63
SOUTHERN CO GAS CAPITAL	3,282,627	0.63
PERUSAHAAN GAS NEGARA PT	3,270,920	0.63
Turkey Government International Bond	3,257,419	0.63
Corp Andina de Fomento	3,256,458	0.63
United Overseas Bank Ltd.	3,247,135	0.62
Bell Canada	3,242,457	0.62
FREMF Mortgage Trust	3,239,822	0.62
Neuberger Berman Investment Funds plc.	3,233,503	0.62
Hartford Financial Services Group Inc.	3,232,194	0.62
Deutsche Bank A.G.	3,215,346	0.62
Hamilton Lane Advisors, L.L.C	3,211,287	0.62
Grupo Bimbo SAB de CV	3,205,652	0.62

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Name	Total balance	Total balance to financial holding company's net value (%)
A. Same person		
BanColombia SA	3,187,516	0.61
FedEx Corp	3,183,020	0.61
KINDOM CONSTRUCTION CORP.	3,168,000	0.61
Huarong Finance 2017 Co	3,161,541	0.61
Min Hue Company	3,150,000	0.61
Philippine Government International Bond	3,146,981	0.6
Salesforce.com Inc.	3,140,534	0.6
BARRICK GOLD CORP	3,122,884	0.6
Shen Shawn Company	3,100,000	0.6
Lincoln National Corp	3,097,595	0.59
Eirles Two Ltd.	3,073,300	0.59
INTERNATIONAL FAR EASTERN LEASING CO., LTD.	3,073,300	0.59
SILICONWARE PRECISION INDUSTRIES CO., LTD.	3,073,300	0.59
Export-Import Bank of Korea	3,070,506	0.59
Allstate Corp	3,066,806	0.59
AU Optronics Corporation	3,047,774	0.59
NVIDIA Corp	3,047,526	0.59
Banco de Credito del Peru	3,031,335	0.58
Devon Energy Corp	3,028,261	0.58
Yilan County Government	3,000,000	0.58

Name	Total balance	Total balance to financial holding company's net value (%)
B. The same natural person and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.		
Dong and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	13,531,091	2.6
Ko and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	11,197,935	2.15

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Su and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	10,868,286	2.09
Lee and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	6,120,340	1.18
Yang and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	5,727,840	1.1
Lee and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	5,722,840	1.1
Hsu and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	5,659,025	1.09
Chang and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	5,412,513	1.04
Wang and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	5,327,603	1.02
Jiang and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	4,587,258	0.88
Chen and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	3,223,391	0.62
Wu and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	3,150,135	0.61
Huang and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	3,040,844	0.58
Chen and his or her spouse, blood relative within second degree of kinship, and enterprise that owner is the same person or his or her spouse.	3,008,505	0.58

Name	Total balance	Total balance of Financial Holding company's net value (%)
C. The same related parties		
Government of the Republic of China and its supervisory agency	651,941,401	125.22
Government of the USA and its supervisory agency	302,811,718	58.16

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Name	Total balance	Total balance of Financial Holding company's net value (%)
C. The same related parties		
Group of TSMC	76,799,564	14.75
Group of Yuanta Financial Holding	51,418,506	9.88
Citigroup Inc and its related parties	47,899,859	9.2
JPMorgan and its related parties	44,612,097	8.57
Government of the Indonesia and its supervisory agency	42,294,178	8.12
HSBC Bank PLC and its related parties	42,028,266	8.07
Bank of China and its related parties	41,618,885	7.99
Goldman Sachs Group Inc and its related parties	39,230,796	7.54
Group of Fubon	38,526,802	7.4
Bank of America Corporation and its related parties	34,446,728	6.62
Government of the France and its supervisory agency	34,355,628	6.6
Government of the Russia and its supervisory agency	32,810,269	6.3
Group of TACB	28,710,276	5.51
State of Qatar and its related parties	27,717,549	5.32
Group of Yong Feng Yu	27,713,316	5.32
Group of Hon Tai	27,265,077	5.24
BNP Paribas and its related parties	26,814,795	5.15
UBS AG and its related parties	26,646,659	5.12
The Far Eastern Group	25,208,730	4.84
Government of the China and its supervisory agency	22,082,135	4.24
Group of Capital Financial	22,070,365	4.24
Standard Chartered Bank and its related parties	21,808,087	4.19
Group of China Steel Corporation	21,062,094	4.05
Group of CTBC Financial Holding Co., Ltd.	21,006,804	4.03
Morgan Stanley and its related parties	20,141,035	3.87
Anheuser-Busch InBev NV and its related parties	19,918,795	3.83
Group of ASE Technology Holding Co., Ltd.	19,788,508	3.8
Group of Nan Ya Plastics Corporation	18,584,246	3.57
BBVA and its related parties	17,623,713	3.39
Group of Mega Financial Holding Company Ltd.	17,458,979	3.35

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Name	Total balance	Total balance of Financial Holding company's net value (%)
C. The same related parties		
Group of China Development Financial Holding Corporation	15,486,401	2.97
Group of Taishin Financial Holding Company Ltd.	15,292,208	2.94
Credit Agricole SA and its related parties	15,196,391	2.92
Deutsche Bank AG and its related parties	14,752,557	2.83
Group of Formosa Plastics Corporation	14,732,373	2.83
Group of E.SUN FINANCIAL HOLDING COMPANY, LTD.	13,752,191	2.64
Group of O-Bank	13,745,795	2.64
Telefonica SA and its related parties	13,562,096	2.6
ING Group and its related parties	13,544,486	2.6
EVERGREEN Group	13,054,631	2.51
Barclays Bank PLC and its related parties	12,154,122	2.33
Group of CHT	11,889,576	2.28
National Australia Bank Ltd and its related parties	11,680,946	2.24
Foxconn Technology Group	11,668,239	2.24
NOVA SCOTIA and its related parties	11,601,457	2.23
He Shin Group	11,589,122	2.23
Commonwealth Bank of Australia and its related parties	10,845,181	2.08
Westpac Banking Corp and its related parties	10,666,005	2.05
Government of the UK and its supervisory agency	10,517,189	2.02
Taiwan Chemical Fiber Group	9,797,900	1.88
Group of Waterland	9,730,960	1.87
China Network Group	9,386,625	1.8
Triumph Transcend Group	8,772,179	1.68
Group of Hua Nan Financial Holdings Co., Ltd.	8,305,112	1.6
Pfizer Inc and its related parties	8,265,586	1.59
Quanta Computer Group	8,236,942	1.58
Uni-President Group	8,232,666	1.58
DBS and its related parties	7,673,756	1.47
Group of First Financial Holding Co. Ltd.	7,450,742	1.43
Barrick Gold Corp and its related parties	6,866,073	1.32

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Name	Total balance	Total balance of Financial Holding company's net value (%)
C. The same related parties		
Group of Delta Electronics	6,415,728	1.23
Group of Formosa Petrochemical Corporation	6,392,756	1.23
Dominion Resources Inc/VA and its related parties	5,759,656	1.11
NEW KINPO GROUP	5,662,232	1.09
ConocoPhillips and its related parties	5,492,184	1.05
Group of Sino-American Silicon	5,487,745	1.05
Suncor Energy Inc and its related parties	4,624,673	0.89
UMC Group	4,568,046	0.88
Group of Central Trade	4,481,435	0.86
Group of Shin Kong Financial Holding Co., Ltd.	4,286,387	0.82
TBC Group	3,966,586	0.76
BenQ Group	3,816,003	0.73
Sumitomo Corp and its related parties	3,765,227	0.72
SIMPLO TCHNOLOGY GROUP	3,354,186	0.64
SEASPANCORPORATION GROUP	3,336,501	0.64
Group of Kindom Construction	3,229,550	0.62
HueTeng Group	3,040,000	0.58
The Navigators Group	3,005,799	0.58

(13) Business or trading activities within Subsidiaries:

A. Business or trading behaviors

Please refer to Note 7 for further details.

B. Integrate business activities:

By integrating the insurance, securities, banking and other various financial institutions, the Company has become a full-functioning financial platform. Through 675 branches and nearly 30 thousand professional sales representatives across Taiwan, the Company is able to develop its cross-selling marketing strategy and provide a one-stop shopping service for its customers.

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C. Cross utilization of information:

In compliance with “Financial Holding Companies Act”, “Personal Data Protection Act”, “Financial Holding Subsidiaries Cross-selling Activities Acts”, “Self-disciplinary Rules Governing the Activities of the FHC” and other related regulations from FSC, Executive Yuan, the Company has stipulated “Cross-selling Activities Acts between Cathay Financial Holdings and its Subsidiaries”, “Cross-selling Activities Contracts between Cathay Financial Holdings and its Subsidiaries”, “Non-disclosure Agreement of Business Information and Customers’ Personal Data between Cathay Financial Holdings and its Subsidiaries”, “Non-disclosure Measures Declaration of Cathay Financial Holdings and its Subsidiaries”, “Cathay Financial Holdings’ Supervision of its Subsidiaries’ Marketing Practices”, and “Points Governing Cathay Financial Holdings’ Data Storage Management Measures” to provide customers with exit mechanism and to cross-utilize customers’ personal data under a safe and secure environment and provide comprehensive and integrated financial service to the customers.

D. Locations and business utilities:

In order to provide more comprehensive financial service and comply with the “Financial Holding Subsidiaries Cross-selling Activities Acts”, the Company has applied and obtained approval from the competent authority.

- (A) All the business units of Cathay United Bank (164 branches) may engage in cross-selling activities for insurance business and securities business. According to the opening regulations, Cathay United Bank on 29 April 2016 may engage in life insurance business and promote life insurance products.
- (B) Cathay Life may engage in cross-selling activities for banking, property and casualty insurance businesses in all its business and service units (122 locations).
- (C) Cathay Security may engage in cross-selling activities in Cathay Life’s Zhongxiao branch (and other 32 branches). The shared business locations are available for account opening.

E. Allocation of revenues, costs, expenses, profits and losses:

Revenue, costs, expenses, profits or losses arising from integrated business activities between the subsidiaries are allocated to each subsidiary based on the related business features or other reasonable allocation methods.

(14) Significant contracts

None

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13. Information regarding investment in Mainland China

(1) Information on significant transactions:

No.	Items	Schedule
A.	Aggregate purchases or sales of the same securities reaching NT\$300 million or 10 percent of paid-in capital or more.	None
B.	Acquisition of real estate reaching NT\$300 million or 10 percent of paid-in capital or more.	None
C.	Disposal of real estate reaching NT\$300 million or 10 percent of paid-in capital or more.	None
D.	Service charge discounts on transactions with related parties in an aggregate amount of \$5 million or more.	None
E.	Accounts receivable from related parties reaching NT\$300 million or 10 percent of paid-in capital or more.	Schedule 5
F.	Sell-off by a subsidiary of non-performing loans of NT\$5 billion or more.	Note 16.(3)
G.	The type of any securitization product offered or to be offered by a subsidiary that has applied for and received approval to do so in accordance with the Financial Asset Securitization Act or the Real Estate Securitization Act, and information related thereto.	None
H.	Trading derivative instruments.	Note 12.(1)

(2) Information on investees:

No.	Items	Schedule
A.	Lending funds to others.	None
B.	Providing endorsements or guarantees for others.	None
C.	Holding of securities at the end of the period.	Schedule 1
D.	Aggregate purchases or sales of the same securities reaching NT\$300 million or 10 percent of paid-in capital or more.	None
E.	Acquisition of real estate reaching NT\$300 million or 10 percent of paid-in capital or more.	Schedule 4
F.	Disposal of real estate reaching NT\$300 million or 10 percent of paid-in capital or more.	Schedule 4
G.	Service charge discounts on transactions with related parties in an aggregate amount of \$5 million or more.	None
H.	Accounts receivable from related parties reaching NT\$300 million or 10 percent of paid-in capital or more.	Schedule 2
I.	Trading in derivative instruments.	Note 12.(1)
J.	Names, locations and related information of investees.	Schedule 3

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(3) Information on investments in the Mainland Area:

- A. On 25 December 2002 and 24 July 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Life to remit USD 22,850 thousand and USD 27,150 thousand, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from USD 50,000 thousand to USD 48,330 thousand approved by MOEAIC on 20 December 2010. Also, MOEAIC authorized Cathay Life to remit USD 59,000 thousand as the registered capital again on 16 May 2008. MOEAIC authorized Cathay Life to remit USD 3,400 thousand as the registered capital again on 2 April 2012. MOEAIC also authorized the revision of the amount of USD 32,520 thousand of unexecuted project to CNY 200,000 thousand to avoid currency risk on 14 September 2013. The total registered capital was USD 110,730 thousand. On 25 September 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life's subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on 29 December 2004 and changed its name to Cathay Lujiazui Life Insurance Company Ltd. following approval by the China Insurance Regulatory Commission on 12 August 2014. Cathay Life has remitted USD 48,330 thousand to the subsidiary as of 31 December 2009. Cathay Life injected additional USD 29,880 thousand on 29 September 2010, CNY 200,000 thousand on 8 May 2014. On 23 August 2017, MOEAIC authorized Cathay Life to remit CNY 700,000 thousand and the amount was remitted on 20 September 2017. As of 31 December 2018, Cathay Life's remittances to the subsidiary totaled approximately CNY 900,000 thousand and USD 78,210 thousand. Please refer to Schedule 5.
- B. On 17 October 2007, MOEAIC authorized Cathay Life to remit USD 26,390 thousand as the registered capital to establish a China-based general insurance subsidiary (in the form of a joint venture with Cathay Century Insurance) of which was also approved by China Insurance Regulatory Commission on 8 October 2007. On 6 March 2008, MOEAIC authorized Cathay Life to increase the remittances from USD 26,390 thousand to USD 28,960 thousand. On 15 August 2008, MOEAIC further authorized Cathay Life to revise the remittance from USD 28,960 thousand to USD 28,140 thousand. The joint venture company named Cathay Insurance Company Ltd. (China) established by Cathay Life and Cathay Century Insurance in Shanghai has acquired a business license of an enterprise as legal person on 26 August 2008. On 28 May 2013, MOEAIC authorized Cathay Life to remit CNY 200,000 thousand to increase the share capital. As of 31 December 2018, Cathay Life's remittances to this general insurance company totaled approximately CNY 200,000 thousand and USD 28,140 thousand. Please refer to Schedule 5.

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- C. On 1 November 2011 and 11 April 2012, MOEAIC authorized Cathay Life to remit CNY 300,000 (USD 47,000) thousand and CNY 500,000 (USD 80,000) thousand, respectively. A total of USD 127,000 thousand was used as the registered capital to establish a China-based company named Lin Yuan (Shanghai) Real Estate Co., Ltd. Cathay Life's subsidiary, Lin Yuan (Shanghai) Real Estate Co., Ltd. has acquired a business license of an enterprise as legal person on 15 August 2012. On 1 April 2013, MOEAIC authorized Cathay Life to remit CNY 700,000 (USD 111,000) thousand to increase the share capital. As of 31 December 2018, Cathay Life's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately CNY 1,500,000 thousand. Please refer to Schedule 5.
- D. On 31 December 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Century to USD 28,963 thousand to establish an insurance subsidiary, engaging in the business of property insurance business. On 8 October 2007, China Insurance Regulatory Commission (CIRC) authorized Cathay Century to prepare to build a property insurance company in form of joint venture with Cathay life Insurance. The joint venture company named Cathay Insurance Company Ltd. (China) established in Shanghai has acquired a business license of an enterprise as a legal person on 26 August 2008. On 28 May 2013, the MOEAIC authorized Cathay Century to CNY 200,000 thousand to establish an insurance subsidiary. On 13 June 2013 and 18 March 2014, each amount of the company's remittance was CNY 100,000 thousand and was authorized by CIRC. Cathay Century was approved by the Ministry of Economic Affairs Investment Review Committee No. 10700281680 to remit CYN 245,000 thousand as share capital on 23 November 2018. As of 31 December 2018, Cathay Century has totally remitted USD 97,290 thousand. Please refer to Schedule 5.
- E. MOEAIC approved Cathay United Bank to remit to China CNY 400,000 (USD 60,070) thousand. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank's Shanghai Branch was CNY 400,000 (USD 59,770) thousand. The remaining amount of USD 300 thousand was repatriated by Shanghai Branch, Cathay United Bank on 5 November 2010. The investment amounts were revised by Cathay United Bank by reporting to MOEAIC in 18 January 2011 and were approved on 24 January 2011. In addition, MOEAIC further approved Cathay United Bank to remit CNY 600,000 (USD 95,020) thousand to China. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank's Shanghai Branch was CNY 600,000 (USD 94,930) thousand. The remaining amount of USD 90 thousand was repatriated by Cathay United Bank's Shanghai Branch on 1 February 2012. The investment amounts were revised by Cathay United Bank by reporting to MOEAIC on 20 March 2012 and were approved on 26 March 2012. MOEAIC approved Cathay United Bank's Shanghai Branch to increase the working capital of CNY 1,000,000 (USD 164,000) thousand on 27 February 2014. According to MOEAIC, further approved working capital of Cathay United Bank's Qingdao Branch was CNY 600,000 (USD 98,200) thousand on 21 January 2014. And the approved working capital of Cathay United Bank's Shamchun Branch was CNY 400,000 (USD 60,710) thousand on 5 January 2015. Please refer to Schedule 5.

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F. On 9 January 2012, MOEAIC authorized Cathay Securities Investments Trust to remit CNY 66,600 thousand as the registered capital to establish a China-based company named CDBS Cathay Asset Management (in the form of a joint venture with China Development Bank Securities). Cathay Securities Investment Trust held 33.3% number of shares. CDBS Cathay Asset Management's capital is CNY 200,000 thousand, and has acquired a business license of an enterprise legal person on 16 August 2013. On 9 November 2016, the board of Cathay Securities Investments Trust approved to increase investment in CDBS Cathay Asset Management accounted for using the equity method as percentage of original ownership amounted to CNY 53,280 thousand. The proposal was authorized by the FSC and MOEAIC on 16 May 2017 and 9 June 2017, respectively, on 29 September 2017 increase capital and will be executed after obtaining approval by the China authorities. As of 31 December 2018, Cathay Securities Investment Trust remittances to CDBS Cathay Asset Management totaled approximately CNY 119,880 thousand. Please refer to Schedule 5.

G. On 5 March 2014, MOEAIC authorized Cathay Securities to invest in Cathay Investment Consulting (Shanghai) Co. Ltd., which was granted business license with registration number 310115400293635 on 11 June 2014 by Shanghai Pudong New Area Market Supervisory Authority of the People's Republic of China. The registered paid-in capital amounted to CNY 8,000 (\$38,970) thousand. Please refer to Schedule 5.

14. Segment information

The Group separated operating segments based on the natures of business and they classified into five reportable segments for the purpose of management:

- (1) Banking operating segments: Banking operating segments operate the permitted businesses of commercial banks provided by the Banking Act of the Republic of China, foreign exchange business, guarantee business, advisory service of foreign currency investments, trust business, offshore banking units and other financial business of investments from returning expatriates.
- (2) Life insurance operating segments: Life insurance operating segments operate the sales of traditional insurance policies, investment-linked insurance policies and floating-rate annuity insurance products.

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- (3) Properties insurance operating segments: Properties insurance operating segments engage in fire insurance, marine insurance, land and air insurance, liability insurance, bonding insurance, reinsurance and other insurance.
- (4) Securities operating segments: Securities operating segments are responsible for securities brokerage, discretionary and underwriting and dedicates to the innovation and development of financial products and services by providing a variety of new financial products.
- (5) Other operating segments: Such segments include assets, liabilities, revenue and expenditure which are not able to be allocated to certain operating segments.

To formulate strategies of the allocation of resources and assessment of performance, the management monitors results of operating segments. The accounting policies are the same as the summary of significant accounting policies in Note 4.

A. Income information of reporting segment

2018.1.1~2018.12.31

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$33,538,751	146,668,694	544,505	169,704	(293,435)	180,628,219
Net income other than interest	18,220,102	259,033,019	5,955,454	2,743,592	7,345,660	293,297,827
Total income	51,758,853	405,701,713	6,499,959	2,913,296	7,052,225	473,926,046
Bad debt expenses, commitments and Provision for premiums reserve	(5,031,541)	443,350	-	(1,056)	(9,839)	(4,599,086)
The net change of insurance liabilities	-	(333,715,568)	(406,370)	-	-	(334,121,938)
Operating expenses	(30,212,098)	(35,753,800)	(3,558,008)	(2,284,372)	(7,797,970)	(79,606,248)
Income (loss) from continuing operations before income taxes	16,515,214	36,675,695	2,535,581	627,868	(755,584)	55,598,774
Income taxes (expense) benefit	(3,231,103)	1,986,759	(348,971)	(101,212)	(2,081,991)	(3,776,518)
Consolidated net income	13,284,111	38,662,454	2,186,610	526,656	(2,837,575)	51,822,256

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

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2017.1.1~2017.12.31

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$29,752,189	\$138,037,832	\$539,420	\$162,112	\$(30,803)	\$168,460,750
Net income other than interest	18,071,424	383,501,406	5,537,277	2,567,167	6,315,250	415,992,524
Total income	47,823,613	521,539,238	6,076,697	2,729,279	6,284,447	584,453,274
Bad debt expenses and Provision for premiums reserve	(3,494,144)	128,473	57	(93,930)	-	(3,459,544)
The net change of insurance liabilities	-	(445,842,583)	10,043	-	-	(445,832,540)
Operating expenses	(28,273,885)	(34,930,420)	(3,326,942)	(2,176,347)	(6,817,979)	(75,525,573)
Income (loss) from continuing operations before income taxes	16,055,584	40,894,708	2,759,855	459,002	(533,532)	59,635,617
Income taxes (expense) benefit	(2,765,646)	2,185,302	(296,675)	(79,029)	(2,006,345)	(2,962,393)
Consolidated net income	13,289,938	43,080,010	2,463,180	379,973	(2,539,877)	56,673,224

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

(A) Revenues from each external customer are all less than 10% of total revenue of the Group.

(B) Income of operating segments is measured before taxes. Income of operating segments is the basis of resources distribution and performance.

B. Segment information

Revenue from external customers

	2018.1.1~ 2018.12.31	2017.1.1~ 2017.12.31
Taiwan	\$47,681,807	\$47,519,365
Other countries	132,946,412	120,941,385
Total	<u>\$180,628,219</u>	<u>\$168,460,750</u>

Revenue is classified by the residency of customers.

Note:

(A) Revenues from each external customer were all less than 10% of total revenue of the Group.

(B) Income of operating segments is measured before taxes. Income of operating segments is the basis of resources distribution and performance.

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15. The company's financial statements

Cathay Financial Holding Co., Ltd.
Balance sheets
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)

	2018.12.31	2017.12.31
Assets		
Cash and cash equivalents	\$445,353	\$1,212,677
Financial assets at fair value through profit or loss	35,444,500	-
Financial assets at fair value through other comprehensive income	102,304	-
Receivables - net	266,902	527,534
Current income tax assets	6,428,841	4,341,510
Available-for-sale financial assets - net	-	91,136
Held-to-maturity financial assets - net	-	41,000,000
Investments accounted for using the equity method - net	548,662,186	605,207,073
Property and equipment - net	11,767	11,247
Intangible assets - net	1,330	6,649
Deferred tax assets	352,601	320,076
Other assets - net	59,474	31,797
Total assets	\$591,775,258	\$652,749,699
Liabilities & Equity		
Liabilities		
Commercial paper payable - net	\$59,260,000	\$42,940,000
Payables	9,894,697	1,156,176
Current income tax liabilities	1,719,191	8,262,477
Provisions	739,257	933,466
Deferred tax liabilities	266,714	226,707
Other liabilities	164,069	163,802
Total liabilities	72,043,928	53,682,628
Equity		
Capital stock		
Common stock	125,632,102	125,632,102
Preferred stock	15,333,000	8,333,000
Capital surplus	165,449,364	130,452,105
Retained earnings		
Legal reserve	40,976,121	35,339,841
Special reserve	149,346,119	149,106,971
Undistributed earnings	95,553,376	99,296,739
Other equity	(72,558,752)	50,906,313
Total equity	519,731,330	599,067,071
Total liabilities and equity	\$591,775,258	\$652,749,699

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Cathay Financial Holding Co., Ltd.
Statements of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars , except earning per share)

	<u>2018.1.1~2018.12.31</u>	<u>2017.1.1~2017.12.31</u>
Income		
Gains on investment - equity method	\$52,652,017	\$57,734,234
Other operating income	1,826,183	1,416,301
	<u>54,478,200</u>	<u>59,150,535</u>
Expenses and loss		
Operating expenses	(1,106,414)	(822,604)
Other expenses and losses	(310,465)	(213,888)
	<u>(1,416,879)</u>	<u>(1,036,492)</u>
Profit before income tax from continuing operations	53,061,321	58,114,043
Income tax expense	(1,594,078)	(1,807,308)
Profit after income tax from continuing operations	<u>51,467,243</u>	<u>56,306,735</u>
Net Income	<u>51,467,243</u>	<u>56,306,735</u>
Other comprehensive income		
Not to be reclassified to profit or loss in subsequent periods:		
Remeasurements of defined benefit plans	(2,507)	(4,019)
Unrealized gains from equity instruments investments measured at fair value through other comprehensive income	11,167	-
Share of other comprehensive income of associates and joint ventures accounted for using the equity method - not to be reclassified to profit or loss in subsequent periods	(648,367)	(1,543,727)
Income tax relating to the components not to be reclassified to profit or loss in subsequent periods	1,502	683
To be reclassified to profit or loss in subsequent periods:		
Unrealized gains from available-for-sale financial assets	-	5,448
Share of other comprehensive income of associates and joint ventures accounted for using the equity method - not to be reclassified to profit or loss in subsequent periods	(174,696,504)	46,224,976
Other comprehensive (loss) income, net of tax	<u>(175,334,709)</u>	<u>44,683,361</u>
Total comprehensive (loss) income	<u><u>\$(123,867,466)</u></u>	<u><u>\$100,990,096</u></u>
Earnings per share (expressed in dollars)		
Basic earnings per share:		
Net income	<u>\$3.95</u>	<u>\$4.47</u>

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Cathay Financial Holding Co., Ltd.
Statements of Changes in Equity
For the years ended 31 December 2018, 2017 and 2017
(Expressed in thousands of New Taiwan Dollars)

Items	Capital stock		Retained earnings		Other equity							Total			
	Common stock	Preferred stock	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of a foreign operation	Unrealized gains (losses) from financial assets at fair value through other comprehensive income	Unrealized gains (losses) from available-for-sale financial assets	Effective portions of gains (losses) on hedging instruments in cash flow hedges	Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk		Remeasurements of defined benefit plans	Revaluation gains on property	Other comprehensive income reclassified using overlay approach
Balance on 1 January 2017	\$125,632,102	\$8,333,000	\$130,448,697	\$30,577,724	\$149,108,336	\$73,801,761	\$ (7,274,912)	\$-	\$4,023,159	\$191,534	\$120,321	\$948,933	\$10,108,783	\$-	\$523,334,372
Appropriations and distribution for 2016															
Legal reserve				4,762,117		(47,621,117)									
Common stock cash dividends						(251,126,420)									(25,126,420)
Preferred stock cash dividends						(124,585)									(124,585)
Reversal of special reserve					(1,365)	1,365									
Other additional paid-in capital															(804)
Share of changes in net assets of associates and joint ventures accounted for using the equity method															
Net income for the years ended 31 December 2017 (Note 1)						563,066,735	(3,548,330)		49,766,641	12,113	(1,311,348)	(503,746)	268,031		56,306,735
Other comprehensive income for the years ended 31 December 2017							(3,548,330)		49,766,641	12,113	(1,311,348)	(503,746)	268,031		44,683,361
Comprehensive income for the years ended 31 December 2017						563,066,735			99,533,282	24,226	(2,622,696)	(1,007,492)	536,062		100,990,096
Share-based payment transaction															
Balance on 31 December 2017	\$125,632,102	\$8,333,000	\$130,452,105	\$35,339,841	\$149,106,971	\$99,296,739	\$ (10,823,242)	\$-	\$53,789,800	\$203,647	\$ (1,191,027)	\$ (1,449,679)	\$10,376,814	\$-	\$599,067,071
Balance on 1 January 2018	\$125,632,102	\$8,333,000	\$130,452,105	\$35,339,841	\$149,106,971	\$99,296,739	\$ (10,823,242)	\$-	\$53,789,800	\$203,647	\$ (1,191,027)	\$ (1,449,679)	\$10,376,814	\$-	\$599,067,071
Effects on retrospective application and restatement						(3,653,088)			(53,789,800)						(57,442,888)
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	(53,789,800)	203,647	(1,191,027)	(1,449,679)	10,376,814	55,941,777	634,999,486
Appropriations and distribution for 2016															
Legal reserve				5,636,280		(5,636,280)									
Special reserve					234,146	(234,146)									
Common stock cash dividends															
Preferred stock cash dividends															
Reversal of special reserve															
Appropriations and distribution for 2017															
Legal reserve															
Special reserve															
Common stock cash dividends															
Preferred stock cash dividends															
Reversal of special reserve															
Other additional paid-in capital															
Share of changes in net assets of associates and joint ventures accounted for using the equity method															(5,066)
Net income for the years ended 31 December 2018 (Note 2)						514,672,243	(1,326,629)	(67,339,757)		(30,358)	1,965,111	128,541	46,241	(108,757,858)	51,467,243
Other comprehensive income for the years ended 31 December 2018							(1,326,629)	(67,339,757)		(30,358)	1,965,111	128,541	46,241	(108,757,858)	(175,334,709)
Comprehensive income for the years ended 31 December 2018						514,672,243		(134,679,514)		(60,716)	3,930,222	257,082	92,482	(219,515,656)	(123,867,466)
Issue of preferred stock		7,000,000	35,000,000												42,000,000
Share-based payment transaction															2,325
Disposal of equity instrument at fair value through other comprehensive (losses) income								12,429,335							
Others															(55,144)
Balance on 31 December 2018	\$125,632,102	\$15,333,000	\$165,449,364	\$40,976,121	\$149,346,119	\$95,553,376	\$ (12,149,871)	\$ (17,586,946)	\$-	\$173,289	\$774,084	\$ (1,321,138)	\$10,367,911	\$ (52,816,081)	\$519,731,330

Note 1: For the year ended 2017, the remuneration to directors and supervisors in the amount of \$5,812 thousand have been deducted from the Statement of Comprehensive Income.
Note 2: For the year ended 2018, the remuneration to directors and supervisors in the amount of \$5,307 thousand have been deducted from the Statement of Comprehensive Income.

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Cathay Financial Holding Co., Ltd.
Statements of Cash Flows
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Cash flows from operating activities		
Profit before income tax from continuing operations	\$53,061,321	\$58,114,043
Adjustments :		
Income and other adjustments with no cash flow effects		
Depreciation expenses	2,621	2,094
Amortization expenses	5,319	5,319
Net gains from financial assets and liabilities at fair value through profit or loss	(469,000)	-
Interest expenses	271,859	171,795
Interest income	(1,322,284)	(1,405,666)
Share of profit of associates and joint ventures accounted for using the equity method	(52,652,017)	(57,734,234)
Losses on disposal of property and equipment	88	191
Gains on reversal of impairment losses	(2,888)	-
Unrealized foreign exchange (gains) losses	(3,084)	11,548
Others	2,325	4,212
Changes in operating assets and liabilities		
Decrease in other financial assets	-	430,111
Increase in other assets	(60)	(16,257)
Increase in payables	106,369	28,983
(Decrease) increase in provisions	(196,716)	10,683
Increase (decrease) in other liabilities	267	(22,063)
Interest received	1,433,990	1,410,223
Interest paid	(299,475)	(171,795)
Income taxes paid	(1,434,143)	(1,032,490)
Net cash used in operating activities	<u>(1,495,508)</u>	<u>(193,303)</u>
Cash flows from investing activities		
Disposal of financial assets at cost	6,000,000	-
Acquisition of investments accounted for using the equity method	(42,000,000)	(15,668,000)
Acquisition of property and equipment	(3,229)	(5,833)
Increase in other assets	-	(4,542)
Dividends received	11,716,278	20,483,981
Net cash (used in) flows from investing activities	<u>(24,286,951)</u>	<u>4,805,606</u>
Cash flows from financing activities		
Increase in commercial paper payable	16,320,000	6,960,000
Increase in cash capital	42,000,000	-
Cash dividends paid	(33,307,949)	(25,251,005)
Net cash flows from (used in) financing activities	<u>25,012,051</u>	<u>(18,291,005)</u>
Effects of exchange rate changes on cash and cash equivalents	<u>3,084</u>	<u>(11,548)</u>
Decrease in cash and cash equivalents	<u>(767,324)</u>	<u>(13,690,250)</u>
Cash and cash equivalents at the beginning of periods	<u>1,212,677</u>	<u>14,902,927</u>
Cash and cash equivalents at the end of periods	<u><u>\$445,353</u></u>	<u><u>\$1,212,677</u></u>
The components of cash and cash equivalents		
Cash and cash equivalents presented in balance sheet	\$445,353	\$1,212,677
Cash and cash equivalents at the end of periods	<u><u>\$445,353</u></u>	<u><u>\$1,212,677</u></u>

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16. Informaiton of subsidiaries

(1) The major subsidiaries' condensed balance sheets and statements of comprehensive income

**Cathay Life Insurance Co., Ltd.
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Cash and cash equivalents	\$164,504,001	\$201,115,297
Receivables	70,860,435	77,861,873
Financial assets at fair value through profit or loss	1,128,633,727	42,735,409
Financial assets at fair value through other comprehensive income	921,964,604	-
Available-for-sale financial assets	-	1,502,895,656
Financial assets for hedging/Derivative financial assets for hedging	216,611	246,444
Investments accounted for using the equity method	97,135,294	88,768,088
Financial assets measured at amortized cost	2,258,061,756	-
Investment in debt securities with no active market	-	2,378,799,262
Held-to-maturity financial assets	-	50,808,599
Other financial assets	1,999,406	4,500,000
Investment property	427,098,786	422,287,644
Loans	594,129,442	617,373,227
Reinsurance contract assets	1,480,860	726,118
Property and equipment	29,848,752	29,532,953
Intangible assets	33,545,574	35,653,303
Deferred tax assets	38,165,870	28,356,809
Other assets	36,918,943	23,898,695
Separate account product assets	546,852,734	555,129,997
Total assets	\$6,351,416,795	\$6,060,689,374
Liabilities		
Payables	\$27,799,042	\$16,112,637
Financial liabilities at fair value through profit or loss	27,499,106	1,104,658
Bonds payable	70,000,000	70,000,000
Preferred stock liability	-	5,000,000
Insurance liabilities	5,267,978,184	4,911,915,146
Reserve for insurance contract with feature of financial instruments	930,654	472,573
Foreign exchange volatility reserve	17,075,289	11,589,138
Liability reserve	56,245	56,245
Deferred tax liabilities	28,476,919	36,348,432
Other liabilities	8,155,913	17,372,503
Separate account product liabilities	546,852,734	555,129,997
Total liabilities	5,994,824,086	5,625,101,329
Stockholders' equity		
Capital stock	57,265,274	53,065,274
Capital surplus	51,535,925	13,767,663
Retained earnings	331,036,962	326,660,113
Other equity	(83,245,452)	42,094,995
Total stockholders' equity	356,592,709	435,588,045
Total liabilities and stockholders' equity	\$6,351,416,795	\$6,060,689,374

**Cathay Life Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$799,466,715	\$861,140,395
Operating costs	(751,709,190)	(807,086,790)
Operating expenses	(21,472,697)	(21,676,305)
Operating profit	26,284,828	32,377,300
Non-operating income and expenses	1,310,502	1,429,361
Profit from continuing operations before income tax	27,595,330	33,806,661
Income tax profit	2,593,990	2,483,477
Profit from continuing operations after income tax	30,189,320	36,290,138
Net income	30,189,320	36,290,138
Other comprehensive (loss) income	(173,807,449)	45,981,870
Total comprehensive (loss) income	\$(143,618,129)	\$82,272,008
Primary earnings per share	\$5.47	\$6.84

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**Cathay Lujiazui Life Insurance Co., Ltd.
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Cash and cash equivalents	\$1,388,582	\$2,799,589
Receivables	832,546	1,163,541
Financial assets at fair value through profit or loss	29,502,960	62,584
Available-for-sale financial assets	-	8,128,348
Financial assets measured at amortized cost	134,286	-
Investment in debt securities with no active market	-	14,024,356
Held-to-maturity financial assets	-	823,696
Loans	460,032	185,535
Reinsurance contract assets	38,050	32,340
Property and equipment	143,339	116,674
Intangible assets	38,541	27,330
Other assets	3,187,274	2,948,413
Separate account product assets	111,527	139,182
Total assets	\$35,837,137	\$30,451,588
Liabilities		
Payables	\$1,478,177	\$1,950,310
Current income tax liabilities	444,535	-
Insurance liabilities	15,555,689	10,036,076
Reserve for insurance contract with feature of financial instruments	8,388,059	8,289,036
Other liabilities	76,453	49,886
Separate account product liabilities	111,527	139,182
Total liabilities	26,054,440	20,464,490
Stockholders' equity		
Capital stock	13,497,155	13,497,155
Retained earnings	(3,502,959)	(3,522,642)
Other equity	(211,499)	12,585
Total stockholders' equity	9,782,697	9,987,098
Total liabilities and stockholders' equity	\$35,837,137	\$30,451,588

**Cathay Lujiazui Life Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$12,027,156	\$8,312,772
Operating costs	(9,773,603)	(6,674,558)
Operating expenses	(1,725,984)	(1,759,378)
Operating profit (loss)	527,569	(121,164)
Non-operating income and expenses	(1,976)	9,664
Profit (loss) from continuing operations before income tax	525,593	(111,500)
Income tax expense	(505,910)	(80,715)
Profit (loss) from continuing operations after income tax	19,683	(192,215)
Net income (loss)	19,683	(192,215)
Other comprehensive loss	(224,084)	(228,635)
Total comprehensive loss	\$(204,401)	\$(420,850)
Primary earnings per share	Note	Note

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

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**Cathay Life Insurance Company (Vietnam)
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Cash and cash equivalents	\$2,903,659	\$934,009
Receivables	502,968	381,301
Financial assets at fair value through profit or loss	8,881,532	-
Available-for-sale financial assets	-	6,426,711
Financial assets measured at amortized cost	477,000	-
Investment in debt securities with no active market	-	183,960
Loans	45,374	29,789
Property and equipment	10,781	13,886
Intangible assets	388	112
Other assets	85,851	62,321
Total assets	\$12,907,553	\$8,032,089
Liabilities		
Payables	\$103,318	\$58,664
Current income tax liabilities	-	17,860
Insurance liabilities	3,238,790	1,989,642
Other liabilities	195	304
Total liabilities	3,342,303	2,066,470
Stockholders' equity		
Capital stock	9,090,730	5,410,990
Retained earnings	124,494	478,442
Other equity	350,026	76,187
Total stockholders' equity	9,565,250	5,965,619
Total liabilities and stockholders' equity	\$12,907,553	\$8,032,089

**Cathay Life Insurance Company (Vietnam)
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$1,622,136	\$1,552,735
Operating costs	(1,445,934)	(1,065,596)
Operating expenses	(533,033)	(391,239)
Operating (loss) profit	(356,831)	95,900
Non-operating income and expenses	3,899	2,677
(Loss) profit from continuing operations before income tax	(352,932)	98,577
Income tax expense	(1,016)	(18,404)
(Loss) profit from continuing operations after income tax	(353,948)	80,173
Net (loss) income	(353,948)	80,173
Other comprehensive income	273,839	62,162
Total comprehensive (loss) income	\$(80,109)	\$142,335
Primary earnings per share	Note	Note

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

English Translation of Financial Statements Originally Issued in Chinese

Lin Yuan (Shanghai) Real Estate Co., Ltd.
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$1,065,285	\$843,290
Investment property	7,175,348	6,536,159
Property and equipment	4	549,458
Total assets	<u>\$8,240,637</u>	<u>\$7,928,907</u>
Liabilities		
Current liabilities	\$1,621	\$1,316
Deferred tax liabilities	410,120	307,251
Other liabilities	91,550	92,484
Total liabilities	<u>503,291</u>	<u>401,051</u>
Stockholders' equity		
Capital stock	7,223,435	7,223,435
Retained earnings	890,272	614,591
Other equity	(376,361)	(310,170)
Total stockholders' equity	<u>7,737,346</u>	<u>7,527,856</u>
Total liabilities and stockholders' equity	<u>\$8,240,637</u>	<u>\$7,928,907</u>

Lin Yuan (Shanghai) Real Estate Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$393,131	\$241,081
Operating expenses	(44,346)	(66,113)
Operating profit	348,785	174,968
Non-operating income and expenses	(64)	(17)
Profit from continuing operations before income tax	348,721	174,951
Income tax expense	(73,040)	(42,108)
Profit from continuing operations after income tax	275,681	132,843
Net income	275,681	132,843
Other comprehensive loss	(66,191)	(96,535)
Total comprehensive income	<u>\$209,490</u>	<u>\$36,308</u>
Primary earnings per share	<u>Note</u>	<u>Note</u>

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Woolgate Exchange Holding 1 Limited
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$2,431,476	\$2,178,540
Investment property	10,658,651	12,012,179
Total assets	<u>\$13,090,127</u>	<u>\$14,190,719</u>
Liabilities		
Current liabilities	\$104,856	\$99,103
Total liabilities	<u>104,856</u>	<u>99,103</u>
Stockholders' equity		
Capital stock	16,654,013	16,654,013
Retained earnings	495,404	1,166,022
Other equity	(4,164,146)	(3,728,419)
Total stockholders' equity	<u>12,985,271</u>	<u>14,091,616</u>
Total liabilities and stockholders' equity	<u>\$13,090,127</u>	<u>\$14,190,719</u>

**Cathay Woolgate Exchange Holding 1 Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$(285,888)	\$(106,998)
Operating expenses	(728)	(702)
Operating loss	<u>(286,616)</u>	<u>(107,700)</u>
Loss from continuing operations before income tax	(286,616)	(107,700)
Income tax expense	(118,505)	(145,611)
Loss from continuing operations after income tax	<u>(405,121)</u>	<u>(253,311)</u>
Net loss	(405,121)	(253,311)
Other comprehensive (loss) income	(435,729)	201,324
Total comprehensive loss	<u>\$(840,850)</u>	<u>\$(51,987)</u>
Primary earnings per share	<u>Note</u>	<u>Note</u>

Note: Cathay Woolgate Exchange Holding 1 Limited is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Woolgate Exchange Holding 2 Limited
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$24,448	\$22,438
Investment property	107,663	121,335
Total assets	\$132,111	\$143,773
Liabilities		
Current liabilities	\$973	\$952
Total liabilities	973	952
Stockholders' equity		
Capital stock	168,222	168,222
Retained earnings	4,994	12,278
Other equity	(42,078)	(37,679)
Total stockholders' equity	131,138	142,821
Total liabilities and stockholders' equity	\$132,111	\$143,773

**Cathay Woolgate Exchange Holding 2 Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$(2,890)	\$(1,086)
Operating expenses	(729)	(693)
Operating loss	(3,619)	(1,779)
Loss from continuing operations before income tax	(3,619)	(1,779)
Income tax expense	(1,010)	(1,340)
Loss from continuing operations after income tax	(4,629)	(3,119)
Net loss	(4,629)	(3,119)
Other comprehensive (loss) income	(4,399)	2,051
Total comprehensive loss	\$(9,028)	\$(1,068)
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 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$715,710	\$619,438
Investment property	20,859,540	22,019,380
Total assets	<u>\$21,575,250</u>	<u>\$22,638,818</u>
Liabilities		
Current liabilities	\$97,272	\$91,915
Other non-current liabilities	12,748,557	13,177,287
Total liabilities	<u>12,845,829</u>	<u>13,269,202</u>
Stockholders' equity		
Capital stock	10,189,090	10,189,090
Retained earnings	459,840	807,170
Other equity	(1,919,509)	(1,626,644)
Total stockholders' equity	<u>8,729,421</u>	<u>9,369,616</u>
Total liabilities and stockholders' equity	<u>\$21,575,250</u>	<u>\$22,638,818</u>

Cathay Walbrook Holding 1 Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$156,638	\$471,780
Operating costs	(474,491)	(419,367)
Operating expenses	(1,492)	(6,951)
Operating (loss) profit	<u>(319,345)</u>	<u>45,462</u>
(Loss) profit from continuing operations before income tax	(319,345)	45,462
Income tax expense	(27,985)	-
(Loss) profit from continuing operations after income tax	<u>(347,330)</u>	<u>45,462</u>
Net (loss) income	(347,330)	45,462
Other comprehensive (loss) income	(292,865)	139,286
Total comprehensive (loss) income	<u>\$(640,195)</u>	<u>\$184,748</u>
Primary earnings per share	<u>Note</u>	<u>Note</u>

Note: Cathay Walbrook Holding 1 Limited is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Walbrook Holding 2 Limited
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$34,867	\$30,556
Investment property	1,097,871	1,158,915
Total assets	<u>\$1,132,738</u>	<u>\$1,189,471</u>
Liabilities		
Current liabilities	\$4,953	\$4,838
Other non-current liabilities	670,977	693,541
Total liabilities	<u>675,930</u>	<u>698,379</u>
Stockholders' equity		
Capital stock	536,268	536,268
Retained earnings	21,286	40,247
Other equity	(100,746)	(85,423)
Total stockholders' equity	<u>456,808</u>	<u>491,092</u>
Total liabilities and stockholders' equity	<u>\$1,132,738</u>	<u>\$1,189,471</u>

Cathay Walbrook Holding 2 Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$8,244	\$24,827
Operating costs	(24,973)	(22,072)
Operating expenses	(929)	(849)
Operating (loss) profit	<u>(17,658)</u>	<u>1,906</u>
(Loss) profit from continuing operations before income tax	(17,658)	1,906
Income tax expense	(1,303)	-
(Loss) profit from continuing operations after income tax	<u>(18,961)</u>	<u>1,906</u>
Net (loss) income	(18,961)	1,906
Other comprehensive (loss) income	(15,323)	7,295
Total comprehensive (loss) income	<u>\$(34,284)</u>	<u>\$9,201</u>
Primary earnings per share	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 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$5,211,249	\$4,604,691
Financial assets at fair value through profit or loss	732,967	239,368
Financial assets at fair value through other comprehensive income	3,642	-
Investment in debt securities with no active market	-	3,006
Held-to-maturity financial assets	-	6,175,423
Investments accounted for using the equity method	2,711,174	-
Property and equipment	555,709	233,778
Intangible assets	10,460,456	10,592,201
Deferred tax assets	86,585	91,882
Other non-current assets	276,065	216,672
Total assets	\$20,037,847	\$22,157,021
Liabilities		
Current liabilities	\$3,589,885	\$7,222,207
Liability reserve	169,031	415,757
Deferred tax liabilities	382,176	388,369
Other non-current liabilities	424,208	379,310
Total liabilities	4,565,300	8,405,643
Stockholders' equity		
Capital stock	99,343	93,791
Capital surplus	15,624,196	14,413,268
Retained earnings	151,020	84,428
Other equity	(1,047,381)	(1,439,878)
Non-controlling interest	645,369	599,769
Total stockholders' equity	15,472,547	13,751,378
Total liabilities and stockholders' equity	\$20,037,847	\$22,157,021

Conning Holdings Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$6,314,239	\$5,804,132
Operating costs	(715,813)	(787,112)
Operating expenses	(5,368,382)	(4,898,966)
Operating profit	230,044	118,054
Profit from continuing operations before income tax	230,044	118,054
Income tax (expense) profit	(101,187)	98,597
Profit from continuing operations after income tax	128,857	216,651
Net income	128,857	216,651
Other comprehensive income (loss)	410,288	(1,091,949)
Total comprehensive income (loss)	\$539,145	\$(875,298)
Primary earnings per share	Note	Note

Note: Conning Holdings Limited is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Century Insurance Co., Ltd.
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Cash and cash equivalents	\$10,045,082	\$7,420,391
Receivables	2,256,600	2,095,541
Financial assets at fair value through profit or loss	5,887,384	90,521
Financial assets at fair value through other comprehensive income	1,451,444	-
Available-for-sale financial assets	-	11,050,902
Financial assets measured at amortized cost	8,017,014	-
Investments accounted for using the equity method	1,684,638	1,739,672
Investment in debt securities with no active market	-	1,998,068
Held-to-maturity financial assets	-	6,114,610
Loans	236,816	251,770
Reinsurance contract assets	5,859,867	6,186,264
Property and equipment	115,426	69,476
Intangible assets	65,246	46,492
Deferred tax assets	147,546	174,813
Other assets	1,760,175	679,965
Total assets	\$37,527,238	\$37,918,485
Liabilities		
Payables	\$2,556,850	\$2,512,322
Financial liabilities at fair value through profit or loss	50,041	3,238
Preferred stock liability	-	1,000,000
Insurance liabilities	23,433,602	22,594,714
Liability reserve	440,082	426,446
Deferred tax liabilities	298,914	254,789
Other liabilities	722,673	609,655
Total liabilities	27,502,162	27,401,164
Stockholders' equity		
Capital stock	3,057,052	3,057,052
Capital surplus	502,500	502,500
Retained earnings	7,278,171	7,256,757
Other equity	(812,647)	(298,988)
Total stockholders' equity	10,025,076	10,517,321
Total liabilities and stockholders' equity	\$37,527,238	\$37,918,485

**Cathay Century Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$18,370,972	\$17,581,119
Operating costs	(12,784,200)	(11,920,415)
Operating expenses	(3,702,149)	(3,488,954)
Operating profit	1,884,623	2,171,750
Non-operating income and expenses	(25,802)	(16,936)
Profit from continuing operations before income tax	1,858,821	2,154,814
Income tax expense	(348,985)	(296,677)
Profit from continuing operations after income tax	1,509,836	1,858,137
Net income	1,509,836	1,858,137
Other comprehensive (loss) income	(659,438)	224,239
Total comprehensive income	\$850,398	\$2,082,376
Primary earnings per share	\$4.94	\$6.32

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Insurance Co., Ltd (Vietnam)
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Cash and cash equivalents	\$140,839	\$127,944
Receivables	102,179	54,719
Financial assets measured at amortized cost	509,226	-
Investment in debt securities with no active market	-	10,512
Held-to-maturity financial assets	-	491,697
Reinsurance contract assets	249,311	294,563
Property and equipment	6,759	5,669
Intangible assets	149	2,355
Deferred tax assets	-	-
Other assets	38,543	36,446
Total assets	\$1,047,006	\$1,023,905
Liabilities		
Payables	\$70,307	\$32,226
Insurance liabilities	352,073	391,660
Deferred tax liabilities	134	106
Other liabilities	10,668	10,355
Total liabilities	433,182	434,347
Stockholders' equity		
Capital stock	845,585	845,585
Retained earnings	(97,383)	(116,597)
Other equity	(134,378)	(139,430)
Total stockholders' equity	613,824	589,558
Total liabilities and stockholders' equity	\$1,047,006	\$1,023,905

**Cathay Insurance Co., Ltd (Vietnam)
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$236,756	\$208,066
Operating costs	(73,657)	(66,691)
Operating expenses	(145,881)	(120,232)
Operating profit	17,218	21,143
Non-operating income and expenses	2,022	1,440
Profit from continuing operations before income tax	19,240	22,583
Income tax (expense) profit	(26)	3
Profit from continuing operations after income tax	19,214	22,586
Net income	19,214	22,586
Other comprehensive income (loss)	5,052	(45,699)
Total comprehensive income (loss)	\$24,266	\$(23,113)
Primary earnings per share	Note	Note

Note: Cathay Century (Vietnam) is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay United Bank Co., Ltd.
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Cash and cash equivalents	\$66,762,454	\$58,342,595
Due from the Central Bank and call loans to banks	102,596,003	121,859,843
Financial assets at fair value through profit or loss	246,407,565	309,972,777
Financial assets at fair value through other comprehensive income	180,253,805	-
Financial assets measured at amortized cost	419,828,413	-
Securities purchased under agreements to resell	40,462,461	85,388,175
Receivables	85,277,180	76,953,234
Discounts and loans	1,533,747,366	1,399,567,004
Available-for-sale financial assets	-	142,212,975
Held-to-maturity financial assets	-	31,853,543
Investments accounted for using the equity method	25,501,114	9,017,435
Other financial assets	1,271	1,276
Investment in debt securities with no active market	-	388,287,593
Property and equipment	24,755,100	24,262,267
Investment property	1,439,686	1,547,372
Intangible assets	7,509,044	7,398,865
Deferred tax assets	1,861,573	2,223,266
Other assets	34,418,482	23,704,316
Total assets	\$2,770,821,517	\$2,682,592,536
Liabilities		
Due to the Central Bank and call loans from banks	\$67,728,200	\$84,375,047
Financial liabilities at fair value through profit or loss	102,960,537	87,305,126
Securities sold under agreements to repurchase	55,974,509	109,941,425
Payables	23,816,109	22,794,360
Current income tax liabilities	87,061	408,947
Deposits and remittances	2,174,157,863	2,056,168,811
Financial debentures payable	55,600,000	63,350,000
Other financial liabilities	76,509,334	66,057,646
Liability reserve	3,389,976	3,187,664
Deferred tax liabilities	1,645,038	1,580,152
Other liabilities	7,187,344	8,959,880
Total liabilities	2,569,055,971	2,504,129,058
Stockholders' equity		
Capital stock	91,197,623	78,604,060
Capital surplus	33,610,983	33,610,983
Retained earnings	75,580,519	67,103,367
Other equity	1,376,421	(854,932)
Total stockholders' equity	201,765,546	178,463,478
Total liabilities and stockholders' equity	\$2,770,821,517	\$2,682,592,536

**Cathay United Bank Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Interest income	\$49,156,871	\$42,724,485
Interest expenses	(18,330,503)	(15,037,732)
Net interest income	30,826,368	27,686,753
Non-interest income	27,659,677	25,268,099
Total income	58,486,045	52,954,852
Bad debt expense and reserve for loss on guarantees	(4,341,281)	(2,729,328)
Operating expenses	(30,118,732)	(28,399,121)
Profit from continuing operations before income tax	24,026,032	21,826,403
Income tax expense	(3,005,700)	(2,524,000)
Profit from continuing operations after income tax	21,020,332	19,302,403
Net income	21,020,332	19,302,403
Other comprehensive loss	(917,206)	(1,112,732)
Total comprehensive income	\$20,103,126	\$18,189,671
Primary earnings per share	\$2.30	\$2.17

English Translation of Financial Statements Originally Issued in Chinese

Indovina Bank Limited
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.12.31	2017.12.31
Assets		
Cash and cash equivalents	\$7,227,395	\$6,211,898
Due from the Central Bank and call loans to banks	5,987,001	4,953,082
Financial assets at fair value through profit or loss	3,517,852	2,012,283
Financial assets at fair value through other comprehensive income	6,751,075	-
Financial assets measured at amortized cost	1,194,094	-
Securities purchased under agreements to resell	3,711,200	2,095,480
Available-for-sale financial assets	-	6,266,930
Receivables	236,705	124,196
Discounts and loans	35,458,419	29,183,283
Held-to-maturity financial assets	-	2,491,542
Property and equipment	358,040	370,421
Intangible assets	16,095	14,276
Deferred tax assets	10,969	-
Other assets	537,864	533,777
Total assets	\$65,006,709	\$54,257,168
Liabilities		
Due to the Central Bank and call loans from banks	\$17,064,034	\$10,099,989
Financial liabilities at fair value through profit or loss	-	102,525
Payables	803,520	765,044
Current income tax liabilities	15,349	1,755
Deposits and remittances	38,981,124	35,414,936
Liability reserve	15,349	-
Deferred tax liabilities	-	122,206
Other liabilities	44,371	62,536
Total liabilities	\$56,923,747	\$46,568,991
Stockholders' equity		
Capital stock	6,094,911	6,094,911
Retained earnings	1,671,965	1,769,012
Other equity	316,086	(175,746)
Total stockholders' equity	\$8,082,962	\$7,688,177
Total liabilities and stockholders' equity	\$65,006,709	\$54,257,168

Indovina Bank Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Interest income	\$3,659,132	\$3,065,431
Interest expenses	(1,923,480)	(1,420,766)
Net interest income	1,735,652	1,644,665
Non-interest income	129,098	641,449
Total income	1,864,750	2,286,114
Bad debt expense and reserve for loss on guarantees	(616,298)	(709,872)
Operating expenses	(683,495)	(650,912)
Profit from continuing operations before income tax	564,957	925,330
Income tax expense	(98,920)	(202,924)
Profit from continuing operations after income tax	466,037	722,406
Net income	466,037	722,406
Other comprehensive income (loss)	491,832	(340,943)
Total comprehensive income	\$957,869	\$381,463
Primary earnings per share	Note	Note

Note: Indovina Bank is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank (Cambodia) Corporation Limited
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.12.31	2017.12.31
Assets		
Cash and cash equivalents	\$1,915,910	\$2,237,632
Due from the Central Bank and call loans to banks	3,330,578	1,574,440
Financial assets at fair value through other comprehensive income	786	-
Available-for-sale financial assets	-	764
Receivables	134,914	127,783
Discounts and loans	6,787,997	5,807,880
Property and equipment	159,357	157,404
Intangible assets	63,118	57,336
Other assets	57,197	47,212
Total assets	\$12,449,857	\$10,010,451
Liabilities		
Payables	\$127,987	\$122,169
Current income tax liabilities	53,237	29,195
Deposits and remittances	8,952,862	6,784,217
Liability reserve	430	-
Deferred tax liabilities	9,902	10,473
Other liabilities	20,383	33,810
Total liabilities	9,164,801	6,979,864
Stockholders' equity		
Capital stock	3,020,769	3,020,769
Retained earnings	223,500	61,476
Other equity	40,787	(51,658)
Total stockholders' equity	3,285,056	3,030,587
Total liabilities and stockholders' equity	\$12,449,857	\$10,010,451

Cathay United Bank (Cambodia) Corporation Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Interest income	\$579,306	\$500,275
Interest expenses	(105,072)	(130,896)
Net interest income	474,234	369,379
Non-interest income	105,073	90,274
Total income	579,307	459,653
Bad debt expense and reserve for loss on guarantees	(63,543)	(54,945)
Operating expenses	(303,176)	(251,414)
Profit from continuing operations before income tax	212,588	153,294
Income tax expense	(50,564)	(35,649)
Profit from continuing operations after income tax	162,024	117,645
Net income	162,024	117,645
Other comprehensive income (loss)	92,444	(182,924)
Total comprehensive income (loss)	\$254,468	\$(65,279)
Primary earnings per share	\$1.61	\$1.34

English Translation of Financial Statements Originally Issued in Chinese

**Cathay United Bank (China) Co., Ltd.
Condensed Balance Sheet
As of 31 December 2018
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31
Assets	
Cash and cash equivalents	\$2,510,637
Due from the Central Bank and call loans to banks	5,483,627
Financial assets at fair value through profit or loss	759,799
Financial assets at fair value through other comprehensive income	13,567,235
Securities purchased under agreements to resell	438,471
Receivables	465,933
Discounts and loans	19,329,468
Property and equipment	82,396
Intangible assets	107,821
Other assets	47,706
Total assets	\$42,793,093
Liabilities	
Due to the Central Bank and call loans from banks	\$20,372,825
Financial liabilities at fair value through profit or loss	447,241
Payables	301,361
Current income tax liabilities	29,171
Deposits and remittances	5,569,841
Liability reserve	15,672
Deferred tax liabilities	2,828
Other liabilities	58,985
Total liabilities	26,797,924
Stockholders' equity	
Capital stock	14,377,562
Capital surplus	2,522,670
Retained earnings	135,424
Other equity	(1,040,487)
Total stockholders' equity	15,995,169
Total liabilities and stockholders' equity	\$42,793,093

**Cathay United Bank (China) Co., Ltd.
Condensed Statement of Comprehensive Income
For the period 3 September to 31 December 2018
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.9.3~2018.12.31
Interest income	\$635,948
Interest expenses	(274,946)
Net interest income	361,002
Non-interest income	119,529
Total income	480,531
Bad debt expense and reserve for loss on guarantees	(10,419)
Operating expenses	(234,745)
Profit from continuing operations before income tax	235,367
Income tax expense	(74,821)
Profit from continuing operations after income tax	160,546
Net income	160,546
Other comprehensive income	284,165
Total comprehensive income	\$444,711
Primary earnings per share	Note 1

Note 1: Cathay United Bank (China) is a limited company; there is no information about earnings per share.

Note 2: Cathay United Bank (China) Co., Ltd. was incorporated to the consolidated financial statements on 3 September 2018.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Securities Corporation
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$20,551,688	\$25,614,023
Financial assets at fair value through other comprehensive income - non current	106	-
Available-for-sale financial assets - non current	-	18
Investments accounted for using the equity method	1,923,564	1,559,266
Property and equipment	126,491	156,523
Intangible assets	52,757	47,520
Deferred tax assets	37,894	5,410
Other non-current assets	602,950	549,778
Total assets	\$23,295,450	\$27,932,538
Liabilities		
Current liabilities	\$15,537,861	\$20,652,294
Deferred tax liabilities	1,129	10,463
Other non-current liabilities	30,471	24,485
Total liabilities	15,569,461	20,687,242
Stockholders' equity		
Capital stock	5,700,086	5,510,000
Capital surplus	491,766	491,766
Retained earnings	1,258,708	1,008,860
Other equity	275,429	234,670
Total stockholders' equity	7,725,989	7,245,296
Total liabilities and stockholders' equity	\$23,295,450	\$27,932,538

**Cathay Securities Corporation
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Revenues	\$3,170,391	\$2,901,034
Service fee expenses	(116,540)	(99,310)
Employee benefit expenses	(1,070,928)	(994,707)
Share of the profit of associates and joint ventures accounted for using the equity method	(9,649)	(2,410)
Operating expenses	(1,434,388)	(1,472,514)
Non-operating income and expenses	23,677	20,807
Profit from continuing operations before income tax	562,563	352,900
Income tax expense	(101,212)	(79,029)
Profit from continuing operations after income tax	461,351	273,871
Net income	461,351	273,871
Other comprehensive income (loss)	19,606	(7,261)
Total comprehensive income	\$480,957	\$266,610
Primary earnings per share	\$0.81	\$0.48

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Futures Co., Ltd.
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$7,515,226	\$5,454,433
Financial assets at fair value through other comprehensive income - non current	326,429	-
Available-for-sale financial assets	-	328,236
Property and equipment	68,306	69,862
Investment property	290,341	290,341
Intangible assets	26,461	31,657
Other non-current assets	148,795	154,443
Total assets	\$8,375,558	\$6,328,972
Liabilities		
Current liabilities	\$7,159,143	\$5,148,201
Deferred tax liabilities	6,821	6,554
Other non-current liabilities	1,675	1,675
Total liabilities	7,167,639	5,156,430
Stockholders' equity		
Capital stock	667,000	667,000
Retained earnings	245,263	207,975
Other equity	295,656	297,567
Total stockholders' equity	1,207,919	1,172,542
Total liabilities and stockholders' equity	\$8,375,558	\$6,328,972

**Cathay Futures Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$317,407	\$239,019
Operating expenses	(331,931)	(259,367)
Operating loss	(14,524)	(20,348)
Non-operating income and expenses	82,637	54,375
Profit from continuing operations before income tax	68,113	34,027
Income tax expense	(7,494)	(93)
Profit from continuing operations after income tax	60,619	33,934
Net income	60,619	33,934
Other comprehensive (loss) income	(1,911)	22,421
Total comprehensive income	\$58,708	\$56,355
Primary earnings per share	\$0.91	\$0.51

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**Cathay Securities (Hong Kong) Limited
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$1,334,030	\$1,173,810
Property and equipment	17,811	16,005
Intangible assets	1,937	1,880
Other non-current assets	35,216	80,360
Total assets	<u>\$1,388,994</u>	<u>\$1,272,055</u>
Liabilities		
Current liabilities	\$691,159	\$904,870
Total liabilities	<u>691,159</u>	<u>904,870</u>
Stockholders' equity		
Capital stock	1,108,244	728,544
Retained earnings	(373,892)	(305,128)
Other equity	(36,517)	(56,231)
Total stockholders' equity	<u>697,835</u>	<u>367,185</u>
Total liabilities and stockholders' equity	<u>\$1,388,994</u>	<u>\$1,272,055</u>

**Cathay Securities (Hong Kong) Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Revenues	\$71,274	\$102,482
Service fee expenses	(4,028)	(5,263)
Employee benefit expenses	(42,377)	(39,166)
Operating expenses	(97,238)	(90,954)
Non-operating income and expenses	3,605	1,273
Loss from continuing operations before income tax	<u>(68,764)</u>	<u>(31,628)</u>
Income tax expense	-	-
Loss from continuing operations after income tax	<u>(68,764)</u>	<u>(31,628)</u>
Net loss	(68,764)	(31,628)
Other comprehensive income (loss)	19,714	(35,918)
Total comprehensive loss	<u>\$(49,050)</u>	<u>\$(67,546)</u>
Primary earnings per share	<u>Note</u>	<u>Note</u>

Note: Cathay Securities (Hong Kong) Limited is a limited company; there is no information about earnings per share.

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**Cathay Securities Investment Trust Co., Ltd.
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$2,265,450	\$1,927,099
Financial assets at fair value through other comprehensive income - non current	9,318	-
Available-for-sale financial assets - non current	-	8,362
Financial assets carried at cost - non current	-	13,986
Investments accounted for using the equity method	506,230	563,400
Property and equipment	45,880	54,691
Intangible assets	13,735	8,677
Deferred tax assets	23,303	16,367
Other non-current assets	304,793	259,320
Total assets	\$3,168,709	\$2,851,902
Liabilities		
Current liabilities	\$471,774	\$384,855
Other non-current liabilities	137,156	138,093
Total liabilities	608,930	522,948
Stockholders' equity		
Capital stock	1,500,000	1,500,000
Capital surplus	13,908	13,908
Retained earnings	1,116,659	855,115
Other equity	(70,788)	(40,069)
Total stockholders' equity	2,559,779	2,328,954
Total liabilities and stockholders' equity	\$3,168,709	\$2,851,902

**Cathay Securities Investment Trust Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$2,411,578	\$1,755,727
Operating expenses	(1,549,993)	(1,256,839)
Operating gross profit	861,585	498,888
Non-operating income and expenses	(48,656)	26,369
Profit from continuing operations before income tax	812,929	525,257
Income tax expense	(171,152)	(85,842)
Profit from continuing operations after income tax	641,777	439,415
Net income	641,777	439,415
Other comprehensive loss	(26,522)	(12,734)
Total comprehensive income	\$615,255	\$426,681
 Primary earnings per share	 \$4.28	 \$2.93

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**Cathay Private Equity Co., Ltd.
Condensed Balance Sheet
As of 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars)**

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$48,145	\$49,963
Other non-current assets	626	21
Total assets	<u>\$48,771</u>	<u>\$49,984</u>
Liabilities		
Current liabilities	\$611	\$86
Total liabilities	<u>611</u>	<u>86</u>
Stockholders' equity		
Capital stock	50,000	50,000
Retained earnings	(1,840)	(102)
Total stockholders' equity	<u>48,160</u>	<u>49,898</u>
Total liabilities and stockholders' equity	<u>\$48,771</u>	<u>\$49,984</u>

**Cathay Private Equity Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018
and for the period 15 November to 31 December 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2018.1.1~2018.12.31	2017.11.15~2017.12.31
Operating income	\$-	\$-
Operating expenses	(2,212)	(126)
Operating loss	(2,212)	(126)
Non-operating income and expenses	39	3
Loss from continuing operations before income tax	(2,173)	(123)
Income tax profit	435	21
Loss from continuing operations after income tax	(1,738)	(102)
Net loss	(1,738)	(102)
Total comprehensive loss	<u>\$(1,738)</u>	<u>\$(102)</u>
Primary earnings per share	<u>\$(0.35)</u>	<u>\$(0.02)</u>

Note : Cathay Private Equity Co., Ltd. was incorporated to the consolidated financial statements on 15 November 2017.

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Cathay Venture Inc.
Condensed Balance Sheet
As of 31 December 2018 and 31 December 2017
(Expressed in thousands of New Taiwan Dollars)

Items	2018.12.31	2017.12.31
Assets		
Current assets	\$239,721	\$753,153
Financial assets at fair value through other comprehensive income - non current	3,229,147	-
Available-for-sale financial assets - non current	-	2,549,427
Investments accounted for using the equity method	279,048	275,945
Property and equipment	3,842	3,064
Deferred tax assets	51,627	6,373
Other non-current assets	1,126	1,126
Total assets	<u>\$3,804,511</u>	<u>\$3,589,088</u>
Liabilities		
Current liabilities	\$62,904	\$35,670
Other non-current liabilities	6,076	5,408
Total liabilities	<u>68,980</u>	<u>41,078</u>
Stockholders' equity		
Capital stock	3,359,087	3,173,235
Capital surplus	128,625	128,625
Retained earnings	247,913	337,806
Other equity	(94)	(91,656)
Total stockholders' equity	<u>3,735,531</u>	<u>3,548,010</u>
Total liabilities and stockholders' equity	<u>\$3,804,511</u>	<u>\$3,589,088</u>

Cathay Venture Inc.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2018.1.1~2018.12.31	2017.1.1~2017.12.31
Operating income	\$230,565	\$283,108
Operating costs	(32,237)	(31,798)
Operating expenses	(14,028)	(21,032)
Non-operating income and expenses	(10,322)	(1,116)
Profit from continuing operations before income tax	173,978	229,162
Income tax profit (expense)	13,329	(22,659)
Profit from continuing operations after income tax	187,307	206,503
Net income	187,307	206,503
Other comprehensive income (loss)	214	(387,299)
Total comprehensive income (loss)	<u>\$187,521</u>	<u>\$(180,796)</u>
Primary earnings per share	<u>\$0.56</u>	<u>\$0.65</u>

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

(2) Profitability of The Company, consolidated profitability, and profitability of insurance business, bank business and securities business.

December 31, 2018

Items	Consolidated	The Company	Cathay Life	Cathay Century	Cathay United Bank	Cathay Securities	Unit: %	
Return on assets	before income tax	8.29	0.44	4.93	0.88	2.20		
	after income tax	8.04	0.48	4.00	0.77	1.80		
Return on equity	before income tax	9.19	6.69	18.10	12.53	7.52		
	after income tax	8.91	7.32	14.70	10.96	6.16		
Net profit margin	10.93	95.01	3.78	8.22	35.94	14.55		

December 31, 2017

Items	Consolidated	The Company	Cathay Life	Cathay Century	Cathay United Bank	Cathay Securities	Unit: %	
Return on assets	before income tax	9.51	0.58	5.68	0.84	1.42		
	after income tax	9.22	0.63	4.90	0.74	1.11		
Return on equity	before income tax	10.36	8.48	21.84	13.05	4.96		
	after income tax	9.96	9.11	18.83	11.54	3.85		
Net profit margin	9.70	95.54	4.21	10.57	36.45	9.44		

Note: 1. Return on assets = income before (after) tax / average assets

2. Return on equity = income before (after) tax / average equity

3. Net profit margin = income after tax / net income

4. Income before (after) tax refer to the amount of profit or loss accumulated to the season from January of that year.

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

(3) Cathay United Bank's substantial financial and business position.

A. Cathay United Bank Asset quality

Nonperforming loans and overdue receivables

Period		December 31, 2018						December 31, 2017					
		Nonperforming Loans (Note 1)	Loans	Nonperforming Loans Ratio (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	Nonperforming Loans (Note 1)	Loans	Nonperforming Loans Ratio (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)		
Corporate Banking	Secured	\$592,658	\$233,463,729	0.25%	\$3,600,918	607.59%	\$1,125,595	\$227,153,763	0.50%	\$3,597,381	319.60%		
	Unsecured	321,166	372,650,615	0.09%	6,367,224	1982.53%	348,731	324,245,080	0.11%	6,063,661	1738.78%		
	Housing mortgage (Note 4)	594,249	358,859,786	0.17%	5,649,230	950.65%	649,728	359,677,045	0.18%	5,467,051	841.44%		
	Cash card	-	-	-	-	-	-	-	-	-	-		
Consumer Banking	Small-scale credit loans (Note 5)	164,226	71,310,220	0.23%	1,876,794	1142.81%	102,381	59,675,205	0.17%	1,074,123	1049.14%		
	Other (Note 6)	780,457	498,067,264	0.16%	5,946,347	761.91%	663,985	429,320,219	0.15%	5,862,668	882.95%		
	Unsecured	110,551	23,068,954	0.48%	438,172	396.35%	91,108	21,659,346	0.42%	488,350	536.01%		
Loan		\$2,563,307	\$1,557,420,568	0.16%	\$23,878,685	931.56%	\$2,981,528	\$1,421,730,658	0.21%	\$22,553,234	756.43%		
		Overdue Receivables	Receivables Balance	Overdue Receivables Ratio	Allowance for Possible Losses	Coverage Ratio	Overdue Receivables	Receivables Balance	Overdue Receivables Ratio	Allowance for Possible Losses	Coverage Ratio		
Credit card		\$107,314	\$71,887,117	0.15%	\$1,466,464	1366.52%	\$82,245	\$65,235,608	0.13%	\$1,451,276	1764.57%		
Accounts receivable factored without recourse (Note 7)		-	2,607,455	-	47,734	-	-	2,248,622	-	27,946	-		

Note 1: Nonperforming loans are reported to the authorities and disclosed to the public, as required by the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrued Loans. "overdue accounts of credit card are reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Nonperforming loans ratio: Nonperforming loans / Outstanding loans balance.

Overdue accounts ratio of credit card: Overdue receivables / Outstanding receivables balance.

Note 3: Coverage ratio of loan loss provision: Loan loss provision / Nonperforming loans.

Coverage ratio of receivables: Allowance for doubtful accounts receivables / Overdue receivables.

Note 4: The mortgage loan shall refer to a loan that is fully secured by a real property, on which a financial institution creates lien, that is purchased (owned) by the borrower, his/her spouse or the minor children of the borrower, to fund the real property purchase or renovation of property.

Note 5: Pursuant on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans involve small amounts and exclude credit card loans and cash card loans.

Note 6: "Other retail loans" shall refer to secured or unsecured retail loans that exclude mortgages, cash card loans, small-scale credit loans and credit card loans.

Note 7: Pursuant to the Banking Bureau's letter dated July 19, 2005 (Ref. No. 0945000494), factoring without recourse shall be reported as nonperforming loans within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

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Supplemental disclosures	December 31, 2018		December 31, 2017	
	Loans that may be exempted from reporting as a non performing loan	Receivables that may be exempted from reporting as overdue receivable	Loans that may be exempted from reporting as a non performing loan	Receivables that may be exempted from reporting as overdue receivable
Pursuant to a contract under a debt negotiation plan (Note 1)	\$2,721	\$102,330	\$4,346	\$139,395
pursuant to a contract under a debt liquidation plan and a debt relief plan (Note 2)	37,404	1,182,172	27,948	1,196,510
Total	\$40,125	\$1,284,502	\$32,294	\$1,335,905

Note 1: In accordance with Letter Jin-Kuan-Yin (1) Zi No. 09510001270 dated April 25, 2006, a bank is required to make supplemental disclosure of credit information which was approved under the "Consumer Banking Unsecured Loan Negotiation Mechanism by the Bankers Association of the R.O.C."

Note 2: In accordance with Letter Jin-Kuan-Yin (1) Zi No. 09700318940 dated September 15, 2008, and with Letter Jin-Kuan-Yin-Fa No. 10500134790 dated September 20, 2016, a bank is required to make supplemental disclosure of credit information once debtors apply for pre negotiation, pre-mediation relief and liquidation under the "Statute for Consumer Debt Clearance."

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B. Concentration of credit extensions

December 31, 2018

Rank (Note 1)	Industry of Group Enterprise (Note 2)	Total amount of credit, endorsement or other transactions (Note 3)	Percentage of Cathay United Bank's Equity
1	Group A Real estate development	\$25,830,822	12.80%
2	Group B Packaging and Testing of Semi-conductors	13,815,191	6.85%
3	Group C Air transport industry	9,874,541	4.89%
4	Group D Others	9,386,625	4.65%
5	Group E Other Financial Intermediation Not Elsewhere Classified	8,282,950	4.11%
6	Group F Real estate development	6,600,000	3.27%
7	Group G Manufacture of Computers	5,006,283	2.48%
8	Group H Cable telecommunications	4,668,713	2.31%
9	Group I Other Financial Intermediation Not Elsewhere Classified	4,497,900	2.23%
10	Group J Others	3,963,056	1.96%

December 31, 2017

Rank (Note 1)	Industry of Group Enterprise (Note 2)	Total amount of credit, endorsement or other transactions (Note 3)	Percentage of Cathay United Bank's Equity
1	Group A Real estate development	\$30,417,640	17.04%
2	Group B Air transport industry	9,490,419	5.32%
3	Group C Other Financial Intermediation Not Elsewhere Classified	8,314,085	4.66%
4	Group D Real estate development	6,093,000	3.41%
5	Group E Casting of Iron and Steel	5,119,486	2.87%
6	Group F Cable telecommunications	4,979,960	2.79%
7	Group G Cable telecommunications	4,973,390	2.79%
8	Group E Manufacture of Liquid Crystal Panel and Components	3,812,025	2.14%
9	Group I Renting and Leasing of Other Transport Equipment	3,483,670	1.95%
10	Group J Foreign financial institutions	3,478,307	1.95%

Note 1: The list shows top 10 rankings by total amount of credit, endorsement or other transactions but excludes government-owned or state-run enterprises. If the borrower is a member of a group enterprise, the total amount of credit, endorsement or other transactions of the entire group enterprise must be listed and disclosed by code and line of industry. The group enterprise and line of industry. The group enterprise should disclose the highest risk exposure's line of industry. The lines of industry should be described in accordance with the Standard Industrial Classification System of the Republic of China published by the Directorate-General of Budget, Accounting and Statistics under the Executive Yuan.

Note 2: Group enterprise refers to a group of corporate entities as defined by Article 6 of "Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings."

Note 3: Total amount of credit, endorsement or other transactions is the sum of various loans (including import and export negotiations, discounts, overdrafts, unsecured and secured short-term loans, margin loans receivable, unsecured and secured medium-term loans, unsecured and secured long-term loans and overdue loans), exchange bills negotiated, account receivable factoring without recourse, acceptances and guarantees.

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C. Liquidity

Maturity Analysis of Assets and Liabilities for New Taiwan Dollars
December 31, 2018

	Total	Remaining Period to Maturity					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	\$2,718,291,477	\$539,138,622	\$289,490,379	\$304,254,308	\$240,773,167	\$326,519,393	\$1,018,115,608
Main capital outflow on maturity	3,200,692,054	175,442,094	257,319,919	516,766,947	538,442,232	536,045,170	1,176,675,692
Gap	(482,400,577)	363,696,528	32,170,460	(212,512,639)	(297,669,065)	(209,525,777)	(158,560,084)

Maturity Analysis of Assets and Liabilities for New Taiwan Dollars
December 31, 2017

	Total	Remaining Period to Maturity					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	\$2,589,231,757	\$571,345,781	\$342,462,709	\$244,197,744	\$194,500,034	\$308,077,739	\$928,647,750
Main capital outflow on maturity	3,074,600,518	158,003,446	239,980,667	565,373,056	502,884,364	534,136,417	1,074,222,568
Gap	(485,368,761)	413,342,335	102,482,042	(321,175,312)	(308,384,330)	(226,058,678)	(145,574,818)

Note: The above amounts included the New Taiwan dollar amounts held by Cathay United Bank.

Maturity Analysis of Assets and Liabilities for U.S. Dollars
December 31, 2018

	Total	Remaining Period to Maturity				
		0-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	\$63,719,960	\$19,395,558	\$12,804,626	\$10,573,356	\$11,043,349	\$9,903,071
Main capital outflow on maturity	70,142,653	18,987,216	15,884,692	12,103,998	14,955,130	8,211,617
Gap	(6,422,693)	408,342	(3,080,066)	(1,530,642)	(3,911,781)	1,691,454

Maturity Analysis of Assets and Liabilities for U.S. Dollars
December 31, 2017

	Total	Remaining Period to Maturity				
		0-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	\$59,388,634	\$19,073,242	\$14,258,839	\$7,370,772	\$5,721,818	\$12,963,963
Main capital outflow on maturity	62,557,833	23,545,604	14,926,875	7,646,530	8,449,489	7,989,335
Gap	(3,169,199)	(4,472,362)	(668,036)	(275,758)	(2,727,671)	4,974,628

Note 1: The above amounts included the U.S. dollar amounts held by Cathay United Bank.

Note 2: If overseas assets account for more than 10% of Cathay United Bank's total assets, supplemental disclosure information shall be provided.

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D. Market risk sensitivity

Interest Rate Sensitivity for New Taiwan Dollars
December 31, 2018

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$1,870,199,137	\$13,593,852	\$54,020,269	\$107,243,806	\$2,045,057,064
Interest rate-sensitive liabilities	201,956,305	1,214,221,810	254,655,405	94,382,693	1,765,216,213
Interest rate sensitivity gap	1,668,242,832	(1,200,627,958)	(200,635,136)	12,861,113	279,840,851
Net worth					201,765,546
Ratio of interest rate-sensitive assets to liabilities					115.85%
Ratio of interest rate sensitivity gap to net worth					138.70%

Interest Rate Sensitivity for New Taiwan Dollars
December 31, 2017

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$1,782,138,508	\$1,928,765	\$60,179,232	\$75,146,792	\$1,919,393,297
Interest rate-sensitive liabilities	211,762,896	1,140,355,166	250,884,447	95,334,341	1,698,336,850
Interest rate sensitivity gap	1,570,375,612	(1,138,426,401)	(190,705,215)	(20,187,549)	221,056,447
Net worth					178,463,478
Ratio of interest rate-sensitive assets to liabilities					113.02%
Ratio of interest rate sensitivity gap to net worth					123.87%

- Note: 1. The above amounts included the New Taiwan dollar amounts held by the head office and branches of Cathay United Bank, not including contingent assets or liabilities.
2. Interest rate-sensitive assets and liabilities refer to the revenues or costs of interest-earning assets and interest-bearing liabilities that were affected by changes in interest rates.
3. Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.
4. Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets / Interest rate-sensitive liabilities (in NTD).

Interest Rate Sensitivity for U.S. Dollars
December 31, 2018

Unit: In Thousands of U.S. Dollars

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$7,132,274	\$877,879	\$591,620	\$6,360,102	\$14,961,875
Interest rate-sensitive liabilities	10,756,895	2,777,985	2,711,257	3,756,461	20,002,598
Interest rate sensitivity gap	(3,624,621)	(1,900,106)	(2,119,637)	2,603,641	(5,040,723)
Net worth					6,565,111
Ratio of interest rate-sensitive assets to liabilities					74.80%
Ratio of interest rate sensitivity gap to net worth					(76.78)%

Interest Rate Sensitivity for U.S. Dollars
December 31, 2017

Unit: In Thousands of U.S. Dollars

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$6,375,401	\$709,181	\$862,448	\$8,768,606	\$16,715,636
Interest rate-sensitive liabilities	12,679,205	2,269,385	2,774,675	4,321,207	22,044,472
Interest rate sensitivity gap	(6,303,804)	(1,560,204)	(1,912,227)	4,447,399	(5,328,836)
Net worth					5,979,077
Ratio of interest rate-sensitive assets to liabilities					75.83%
Ratio of interest rate sensitivity gap to net worth					(89.12)%

- Note: 1. The above amounts included the U.S. dollar amounts held by the head office and branches of Cathay United Bank.
2. Interest rate-sensitive assets and liabilities refer to the revenues or costs of interest-earning assets and interest-bearing liabilities that were affected by changes in interest rates.
3. Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.
4. Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets / Interest rate-sensitive liabilities (in USD).

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E. Sell-off of non-performing loans.

Cathay United Bank

December 31, 2018

None.

December 31, 2017

Date	Counter-party	component of claims	Carrying value (Note)	Price	Gains or losses on disposal of loans	supplemental term	Relationships
2017.3.29	Southern Debt Trading Joint Stock Company(SDTC)	Corporate financial loans	\$-	\$138,865	\$138,865	None	None
2017.4.14	Southern Debt Trading Joint Stock Company(SDTC)	Corporate financial loans	-	135,124	135,124	None	None
2017.5.2	Arkkan Opportunities Fund Ltd.	Corporate financial loans	208,645	191,812	(16,833)	None	None

Note: The carrying value is the balance of initial price less allowance of bad debt.

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(4) Material intercompany transactions that shall be disclosed in accordance with Regulations Governing the Preparation of Financial Reports by Financial Holding Companies

A. Related parties' names and relationships please refer to Note 7.(1).

B. Loans

Cathay United Bank

December 31, 2018

Categories	Number/name of related parties	Maximum balance	Ending Balance	Settlement status		Collateral	Loans conditions	Bad debt expense in the period	Allowance for bad debt
				Normal loans	Overdue loans				
Consumer loan	11	\$18,875	\$3,107	V	None	None	\$157	\$31	
Home loan mortgage	208	1,762,016	1,455,805	V	Properties	None	(1,046)	18,481	
	Cathay Real Estate Development Co., Ltd.	400,000	210,000	V	Properties	None	4,000	4,000	
	Taiwan Real-estate Management Corp	32,000	30,000	V	Properties	None	79	399	
Other	Cathay Securities Co., Ltd.	423,000	-	V	Stocks	None	-	-	
	PSS Co.,Ltd	5,000	-	V	Properties	None	-	-	

December 31, 2017

Categories	Number/name of related parties	Maximum balance	Ending Balance	Settlement status		Collateral	Loans conditions	Bad debt expense in the period	Allowance for bad debt
				Normal loans	Overdue loans				
Consumer loan	9	\$27,045	\$2,258	V	None	None	\$-	\$23	
Home loan mortgage	195	1,558,235	1,419,803	V	Properties	None	4,105	18,505	
	Cathay Real Estate Development Co., Ltd.	130,000	-	V	Properties	None	-	-	
	Taiwan Real-estate Management Corp	35,000	32,000	V	Properties	None	(30)	320	
Other	Cathay Securities Co., Ltd.	125,000	-	V	Stocks	None	-	-	
	Liang Ting Industrial Company	28,225	-	V	None	None	(423)	-	

Cathay Life

December 31, 2018

Categories	Number/name of related parties	Maximum balance	Ending Balance	Settlement status		Collateral	Loans conditions	Bad debt expense in the period	Allowance for bad debt
				Normal loans	Overdue loans				
Other	Cathay Walbrook Holding 1 Limited	\$13,553,180	\$12,748,059	V	Properties	None	\$-	\$-	
	Cathay Walbrook Holding 2 Limited	713,325	670,950	V	Properties	None	-	-	

December 31, 2017

Categories	Number/name of related parties	Maximum balance	Ending Balance	Settlement status		Collateral	Loans conditions	Bad debt expense in the period	Allowance for bad debt
				Normal loans	Overdue loans				
Other	Cathay Walbrook Holding 1 Limited	\$13,311,991	\$13,176,782	V	Properties	None	\$-	\$-	
	Cathay Walbrook Holding 2 Limited	700,626	693,515	V	Properties	None	-	-	

Note 1: It could be a summary disclosure for the balance of consumer loan or self-use mortgage loan, and the rest of loans should be disclosed by related parties' names individually.

Note 2: The type of collateral should be classified and filled as real estate, short-term bills, government bonds, secured corporate bonds, unsecured corporate bonds, listed securities and over-the-counter (OTC) securities, nonlisted securities and non-OTC securities and other chattels, etc. Please provide the detail of the content if there were other chattels.

Note 3: The allowance for bad debt of loans extended by a related party and bad debt expense in the period should be disclose.

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C. Guarantees

Cathay United Bank

There is no guarantees for the years ended 2018 and 2017.

Note 1: The related parties' names should be disclosed individually.

Note 2: The type of collateral should be classified and filled as real estate, short-term bills, government bonds, secured corporate bonds, unsecured corporate bonds, listed securities and over-the-counter (OTC) securities, nonlisted securities and non-OTC securities and other chattels, etc. Please provide the detail of the content if there were other chattels.

D. Derivatives Financial instruments

Cathay United Bank

December 31, 2018

Related party	Derivative name	Duration of contract	Nominal amount	Gains (losses) on valuation in the period	Financial statement balance	
					Items	Ending balance
Cathay Life	SWAP(USD)	2018.01.18~2019.12.09	\$115,310,216	\$3,885,814	Valuation adjustment for financial assets at fair value through profit or loss	\$1,852,498
					Valuation adjustment for financial liabilities at fair value through profit or loss	(64,937)
Cathay Century	SWAP(USD)	2018.05.07~2019.05.28	2,726,017	85,529	Valuation adjustment for financial assets at fair value through profit or loss	21,757
					Valuation adjustment for financial liabilities at fair value through profit or loss	(3,143)
	SWAP(EUR)	2018.10.18~2019.01.22	26,402	(1,011)	Valuation adjustment for financial assets at fair value through profit or loss	-
					Valuation adjustment for financial liabilities at fair value through profit or loss	(302)

December 31, 2017

Related party	Derivative name	Duration of contract	Nominal amount	Gains (losses) on valuation in the period	Financial statement balance	
					Items	Ending balance
Cathay Life	SWAP(USD)	2017.02.08~2018.09.10	\$99,155,056	\$366,491	Valuation adjustment for financial assets at fair value through profit or loss	\$25,290
					Valuation adjustment for financial liabilities at fair value through profit or loss	(687,337)
Cathay Century	SWAP(USD)	2016.04.07~2018.08.24	2,647,518	(6,759)	Valuation adjustment for financial assets at fair value through profit or loss	71
					Valuation adjustment for financial liabilities at fair value through profit or loss	(37,071)
	SWAP(EUR)	2017.01.24~2018.05.21	173,020	1,774	Valuation adjustment for financial assets at fair value through profit or loss	3,167
					Valuation adjustment for financial liabilities at fair value through profit or loss	(154)

Note 1: The related parties' names should be disclosed individually.

Note 2: Gains (losses) on valuation is the profit or loss on valuation of derivatives financial instruments according to fair value in the end of the period.

Note 3: The financial statement balance should be filled with the ending balance of financial assets or liabilities at fair value through profit or loss and derivatives financial assets or liabilities.

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Schedule 1: Holding of securities at the end of the period
December 31, 2018

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

Held Company Name Cathay Venture	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2018			Note
				Shares/Units (in thousands)	Carrying Value	Percentage of Ownership (%)	
	Cathay Taiwan Money Market Fund	No	Financial assets at fair value through profit or loss - current	4,013	\$49,876	-	\$49,876
	Mega Diamond Money Market Fund	No	Financial assets at fair value through profit or loss - current	2,755	34,494	-	34,494
	Taishin 1699 Money Market Fund	No	Financial assets at fair value through profit or loss - current	814	10,995	-	10,995
	Tien-Tai Management Consulting Co., Ltd./ Stock	Investee under the equity method	Investments accounted for using the equity method	141	3,420	28.20	3,420
	Dun-Yang Energy Corp./ Stock	Investee under the equity method	Investments accounted for using the equity method	4,026	45,551	32.20	45,551
	Yong-Chang Energy Corp./ Stock	Investee under the equity method	Investments accounted for using the equity method	4,363	47,248	32.32	47,248
	RL-Zhao Energy Corp./ Stock	Investee under the equity method	Investments accounted for using the equity method	4,040	46,051	32.32	46,051
	Tien-Tai Optronics Corporation / Stock	Investee under the equity method	Investments accounted for using the equity method	10,646	136,778	33.64	136,778
	Kwan's International Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	759	35,687	0.95	35,687
	Good Friend International Holdings Inc.	No	Financial assets at fair value through profit or loss - non current	498	3,337	26.12	3,337
	AVer Information Inc.	No	Financial assets at fair value through profit or loss - non current	310	5,084	0.32	5,084
	F - Rotam Global AgroSciences Limited (Cayman)	No	Financial assets at fair value through profit or loss - non current	1,404	26,824	0.92	26,824
	F- Yeong Guan Energy Technology Group Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	271	13,561	0.23	13,561
	F- Fulgent Sun International (Holding) Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	745	35,425	0.52	35,425
	F- Hiroca Holdings Ltd.	No	Financial assets at fair value through profit or loss - non current	439	32,976	0.52	32,976
	TW: Pharmaceuticals, Inc.	No	Financial assets at fair value through profit or loss - non current	338	19,942	0.28	19,942
	PLI International Multimedia Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	116	5,290	0.24	5,290
	Min Aik Precision Industrial Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	338	8,366	0.44	8,366
	Mian Zai Industrial Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	349	6,439	0.61	6,439
	Power Wind Health Industry Incorporated	No	Financial assets at fair value through profit or loss - non current	0	6	0.00	6
	Taisun Int'l (Holding) Corp_KY	No	Financial assets at fair value through profit or loss - non current	139	17,520	0.39	17,520
	Senhwa Biosciences, Inc.	No	Financial assets at fair value through profit or loss - non current	1,200	86,400	1.61	86,400
	Tanvex BioPharma, Inc. (F-Tanvex)	No	Financial assets at fair value through profit or loss - non current	1,250	78,125	0.83	78,125
	Kaysee International Group Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	420	43,680	0.91	43,680
	Global Tek Fabrication Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	1,350	58,860	2.25	58,860
	Cryomax Cooling System Corp./ Stock	No	Financial assets at fair value through profit or loss - non current	1,299	23,904	1.92	23,904
	Shane Global Holdings	No	Financial assets at fair value through profit or loss - non current	4,672	565,182	4.65	565,182
	Ta Chen Stainless Pipe Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	6,201	208,354	1.01	208,354
	REMOTEK Corp.	No	Financial assets at fair value through profit or loss - non current	480	7,395	2.21	7,395
	Ching Chan Optical Technology Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	880	31,768	2.73	31,768
	glac Biotech Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	662	17,047	1.06	17,047
	TW: Biotechnology, Inc.	No	Financial assets at fair value through profit or loss - non current	491	10,291	0.87	10,291
	Nan Pao Resins Chemical Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	323	36,372	0.30	36,372
	Fusheng Precision Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	800	127,600	0.68	127,600
	Compal Broadband Networks, Inc.	No	Financial assets at fair value through profit or loss - non current	78	3,580	-	3,580
	Mars Semiconductor Limited / Stock	No	Financial assets at fair value through profit or loss - non current	528	6,411	2.57	6,411
	Senhwa Biosciences, Inc./ Stock	No	Financial assets at fair value through profit or loss - non current	19	622	1.88	622
	Proconn Technology Co., Ltd./ Stock	No	Financial assets at fair value through profit or loss - non current	2,055	801	3.30	801

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Schedule 1: Holding of securities at the end of the period
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(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

Held Company Name Cathay Venture	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2018			Note
				Shares/Units (in thousands)	Carrying Value	Percentage of Ownership (%)	
	EasyCard Investment Holdings Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	1,430	\$17,377	1.37	\$17,377
	Lian-an Service Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	125	1,215	5.00	1,215
	Koatech Technology Corp.	No	Financial assets at fair value through profit or loss - non current	201	1,142	0.40	1,142
	Ates Green Technology Corporation / Stock	No	Financial assets at fair value through profit or loss - non current	425	12,323	1.25	12,323
	Mega Union Technology Incorporated. / Stock	No	Financial assets at fair value through profit or loss - non current	2,369	57,533	9.37	57,533
	Cathay Healthcare Management Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	8,250	180,180	15.00	180,180
	Winking Entertainment (preferred stock)	No	Financial assets at fair value through profit or loss - non current	1,418	25,729	15.25	25,729
	FashionGuide Digital Technology Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	714	14,531	4.26	14,531
	F - Shiang-yang International Holdings Limited (Cayman)	No	Financial assets at fair value through profit or loss - non current	528	9,540	1.85	9,540
	NARUKO Beauty Essentials Limited.	No	Financial assets at fair value through profit or loss - non current	43,252	97,748	4.39	97,748
	SMS Holdings One I	No	Financial assets at fair value through profit or loss - non current	1	1,291	5.00	1,291
	Shengzhuang Holdings	No	Financial assets at fair value through profit or loss - non current	122	2,508	1.09	2,508
	Bioengine Capital Inc.	No	Financial assets at fair value through profit or loss - non current	4,500	83,070	1.58	83,070
	WinWay Technology Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	1,008	73,534	3.54	73,534
	Bravo Ideas Digital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	1,600	8,382	3.58	8,382
	Episonica Holding	No	Financial assets at fair value through profit or loss - non current	2,255	40,855	11.12	40,855
	Andros Pharmaceuticals Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	1,050	38,126	4.24	38,126
	F - Transound Electronics (Cayman) Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	1,200	9,852	3.40	9,252
	Hyper Crystal Inc. (unlisted)	No	Financial assets at fair value through profit or loss - non current	2,000	25,360	13.80	25,360
	F - Amaryllo International B. V. (unlisted)	No	Financial assets at fair value through profit or loss - non current	1,000	5,110	5.68	5,110
	Noratch Pharmaceuticals, Inc. (unlisted)	No	Financial assets at fair value through profit or loss - non current	1,000	35,760	0.95	35,760
	KuangMing Shipping Corp.	No	Financial assets at fair value through profit or loss - non current	157	493	0.05	493
	Dongyuan (unlisted)	No	Financial assets at fair value through profit or loss - non current	1,500	26,775	1.79	26,775
	Grandsys (unlisted)	No	Financial assets at fair value through profit or loss - non current	1,860	24,106	8.96	24,106
	SinoGreenery	No	Financial assets at fair value through profit or loss - non current	-	1	10.00	1
	DTCO (Samoa)	No	Financial assets at fair value through profit or loss - non current	325	1,756	2.87	1,756
	Tennrich International Corp. / Stock	No	Financial assets at fair value through profit or loss - non current	1,938	2,926	3.19	2,926
	Allianz Pharmascience Limited	No	Financial assets at fair value through profit or loss - non current	2,000	32,700	6.85	32,700
	KKDAY	No	Financial assets at fair value through profit or loss - non current	5,668	17,118	2.90	17,118
	SmartGames	No	Financial assets at fair value through profit or loss - non current	164	1,980	2.13	1,980
	SSC Holdco Limited	No	Financial assets at fair value through profit or loss - non current	100	68,870	0.72	68,870
	PSS Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	330	15,032	1.25	15,032
	Aitek Semiconductor	No	Financial assets at fair value through profit or loss - non current	800	60,288	1.80	60,288
	World Known MFG (Cayman)	No	Financial assets at fair value through profit or loss - non current	1,500	61,170	5.00	61,170
	Anywhere2Go	No	Financial assets at fair value through profit or loss - non current	2	10,688	4.88	10,688
	Rani Therapeutics, LLC	No	Financial assets at fair value through profit or loss - non current	119	28,238	-	28,238
	Yikon Genomics	No	Financial assets at fair value through profit or loss - non current	1,340	44,702	-	44,702
	Pacific 8 Venture	No	Financial assets at fair value through profit or loss - non current	-	48,956	-	48,956

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Schedule 1: Holding of securities at the end of the period
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Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2018			Note
				Shares/Units (in thousands)	Carrying Value	Percentage of Ownership (%)	
Cathay Venture	ThinkPower Information Corporation	No	Financial assets at fair value through profit or loss - non current	960	\$33,639	-	\$33,639
	Mimetas B.V.	No	Financial assets at fair value through profit or loss - non current	8	6,694	-	6,694
	Yonggu Group Inc.(Cayman)	No	Financial assets at fair value through profit or loss - non current	1,130	65,445	-	65,445
	Smardisplayer Technology Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	1,000	34,410	0.41	34,410
	Dongyuan CB I	No	Financial assets at fair value through profit or loss - non current	-	4,832	-	4,832
	Dongyuan CB II	No	Financial assets at fair value through profit or loss - non current	-	10,053	-	10,053
	Dongyuan CB III	No	Financial assets at fair value through profit or loss - non current	-	8,685	-	8,685
	SmartGames CB	No	Financial assets at fair value through profit or loss - non current	-	1,066	-	1,066
	Guanghe CB I	No	Financial assets at fair value through profit or loss - non current	-	58,640	-	58,640
	A2G CB	No	Financial assets at fair value through profit or loss - non current	-	7,291	-	7,291
	PT Cemerlang Multimedia CB	No	Financial assets at fair value through profit or loss - non current	-	61,560	-	61,560
	Xiongchuang (Samoa)	No	Financial assets at fair value through profit or loss - non current	19	25,362	2.24	25,362
	Fitech Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	255	18,000	-	18,000
	91APP	No	Financial assets at fair value through profit or loss - non current	8,333	30,518	-	30,518
	Acepodia Inc.	No	Financial assets at fair value through profit or loss - non current	1,848	30,640	-	30,640
	BioGend Therapeutics Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	2,000	60,000	-	60,000
	Green Van International Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	4,375	68,469	-	68,469
	Taiwan Aerospace Corp.	No	Financial assets at fair value through profit or loss - non current	1	13	-	13
	Hua Zhi Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	3	-	3
	HWA VI Venture Capital Corp.	No	Financial assets at fair value through profit or loss - non current	-	2	-	2
	CDIB BioScience Ventures I, Inc.	No	Financial assets at fair value through profit or loss - non current	-	1	-	1
	WK Technology Fund	No	Financial assets at fair value through profit or loss - non current	-	2	-	2
	WK Technology Fund IV	No	Financial assets at fair value through profit or loss - non current	-	2	-	2
	WK 5 Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	1	-	1
	WK 8 Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	1	-	1
	WK 6 Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	1	-	1
	WK 7 Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	1	-	1
	Maxima Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	-	-	-
	Harbinger Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	1	-	1
	Harbinger 3 Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	-	-	-
	IBT Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	-	-	-
	Huawei Century Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	-	-	-
	Mega 1 Venture Capital Co., Ltd.	No	Financial assets at fair value through profit or loss - non current	-	1	-	1
Cathay Futures Co., Ltd.	Taiwan Futures Exchange / Stock	No	Financial assets at fair value through profit or loss - non current	5,095	326,429	1.52	326,429

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Schedule 2: Accounts receivable from related parties reaching NT\$300 million or 10 percent of paid-in capital or more

December 31, 2018

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

Company Name	Related Party	Nature of Relationships	Ending Balance	Turnover	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts	Note
					Amount	Action Taken			
Cathay Life	Cathay Holding	Parent-subsiidiary	\$8,998,563	Note 1	\$-	-	\$-	-	None
Cathay United Bank	Cathay Holding	Parent-subsiidiary	485,773	Note 1	-	-	-	-	None

Note 1: No turnover ratio is available as the receivables were caused by consolidated income tax.

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Schedule 3: Related information of investees such as names and locations:
For the year ended December 31, 2018

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

Investee Company	Location	Main Businesses and Products	Ownership interest	Book value of investment	profits or losses on investment recognized for the period	Cooperation on joint shareholding (Note 3)			Note	
						Existing shares	Phantom shares (Note 4)	Total Number of shares		Ownership interest
Cathay Life	R.O.C	Life insurance	100.00%	\$322,145,990	\$28,828,678	5,726,527	-	5,726,527	100.00%	Note 1
Cathay United Bank	R.O.C	Commercial banking operations	100.00%	200,361,949	21,037,314	9,119,762	-	9,119,762	100.00%	Note 1
Cathay Century	R.O.C	Property and casualty insurance	100.00%	10,034,326	1,509,637	305,705	-	305,705	100.00%	Note 1
Cathay Securities	R.O.C	Securities	100.00%	7,725,989	461,351	570,009	-	570,009	100.00%	Note 1
Cathay Venture	R.O.C	Venture capital investment	100.00%	3,658,242	187,307	335,909	-	335,909	100.00%	Note 1
Cathay Securities Investment Trust	R.O.C	Securities investment trust	100.00%	4,149,966	641,777	150,000	-	150,000	100.00%	Note 1
Coming Asia Pacific Ltd.	Hong Kong	Wealth Management	17.15%	20,647	(14,047)	272,950	-	272,950	100.00%	Note 2

Note 1: The company recognized the profit or loss on investment based on the financial statement audited and certified by accountant.

Note 2: The company recognized the profit or loss on investment based on self-closing financial statement not audited and certified by accountant.

Note 3: The existing shares and phantom shares of the investees held by the Company, directors, supervisors, president, vice president and related parties meeting the requirement in Company Act shall be included.

Note 4: (1) "Phantom share" refers to converted share under the assumption that the company converts securities with equity characteristics or derivative contracts (have not been converted to owner) according to transaction terms and the company's intention to link investments with other companies' equity and meeting the reinvestment purposes as provided in Paragraph 2, Article 36 and Article 37 of Securities and Exchange Act.

(2) The above-mentioned "equity-type securities" shall refer to the securities stated in Paragraph 1, Article 11 of the Securities and Exchange Act Enforcement Rules, such as convertible corporate bonds and call warrants.

(3) The above-mentioned "derivative contracts" shall refer to those meeting the definition in IFRS No. 39, such as stock option.

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Schedule 4: Acquisition of real estate reaching NT\$300 million or 10 percent of paid-in capital or more

For the year ended December 31, 2018

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

Company Name	Property Name	Transaction Date	Transaction Amount (Note)	Payment Term	Counter-party	Nature of Relationships	Prior Transaction of Related Counter-party			Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationships	Transfer Date			
Cathay Life	Premises in Ren-ai District, Keelung City	107.06.05	\$480,000	The price was paid each period according to contracts	Xinqiao Real Estate Development Enterprise Co., Ltd.	Non-related party	-	-	-	Evaluation report of appraisers	For self-use requirement	None
Cathay Life	Land in Xitun District, Taichung City	107.12.04	7,663,596	The price was paid each period according to contracts	Huede Industries Co., Ltd. and two nature persons surnamed Ho.	Non-related party	-	-	-	Evaluation report of appraisers	Real estate investment in accordance with The Insurance Company Act.	None

Note: The transaction amount is the total contract price, not including the land registration fee, transcript expense, scrivener expense and stamp duty.

Disposal of real estate reaching NT\$300 million or 10 percent of paid-in capital or more

For the year ended December 31, 2018

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Property Name	Transaction Date	Acquisition date	Carrying Value	Transaction Amount (Note)	Price Term	Gain (loss) on disposal of real estate	Counter-party	Nature of Relationships	Purpose of Acquisition	Price Reference	Other Terms
Cathay Life	Zhongxiao building, Minsheng Commercial Building, Ynhsing building and Tainan Cathay Landmark partial decoration equipment	107.08.08	104.06.10	\$439,000	\$475,167	The price was collected each period according to contracts	\$13,540	Cathay Hospitality Management Co., Ltd.	Related party	To offer the tenant to operate and increase utilization of company's capital	Evaluation of report of appraisers and opinion of accountants	None

Note: The transaction amount is the total price (including tax) on contracts.

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Schedule 5: Information on investments in the Mainland China
For the year ended December 31, 2018

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

Investee company	Main Businesses and Product	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Percentage of Ownership	Share of Profits / Losses (Note 2)	Carrying Amount as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018
					Outflow	Inflow					
Cathay Lujiazui Life Insurance Company Limited.	Life insurance	\$13,497,155	Note 1.(1)	\$6,748,578	\$-	\$-	\$6,748,578	50%	\$9,842 Note 2.(2).2	\$4,891,349	\$-
Cathay Century (China)	Property and casualty insurance	7,714,226	Note 1.(1)	3,707,999	2,200,394 Note 6	-	5,908,393	49%	(94,520) Note 2.(2).3	2,346,424	-
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Office equipment leasing company	7,223,435	Note 1.(1)	7,223,435	-	-	7,223,435	100%	217,794 Note 2.(2).2	7,479,225	-
Cathay United Bank (Shanghai)	Wholesale banking	-	Note 1.(1)	9,523,542 Note 4	-	9,523,542	-	100%	(118,601) Note 2.(2).1	-	-
Cathay United Bank (Qingdao)	Wholesale banking	-	Note 1.(1)	2,967,515 Note 4	-	2,967,515	-	100%	72,752 Note 2.(2).1	-	-
Cathay United Bank (Shenzhen)	Wholesale banking	-	Note 1.(1)	1,886,505 Note 4	-	1,886,505	-	100%	30,109 Note 2.(2).1	-	-
Cathay United Bank (China) Corporation Limited	Wholesale banking	14,377,562 Note 4	Note 1.(1)	14,377,562	-	-	14,377,562	100%	160,546 Note 2.(2).1	15,995,169	-
CDBS Cathay Asset Management Co., Ltd.	Fund management services	1,701,823	Note 1.(1)	566,707	-	-	566,707	33.3%	(44,213) Note 2.(2).2	458,070	-
CDBS Cathay Asset Management Co., Ltd. (Beijing)	Wealth Management	468,290	Note 1.(3)	-	-	-	-	33.3% Note 5	7,044 Note 5	191,610 Note 5	-
Cathy Investment Consulting (Shanghai) Co., Ltd.	Investment Consulting	38,965	Note 1.(1)	38,965	-	-	38,965	100%	(1,498) Note 2.(2).3	9,293	-
Accumulated Investment in Mainland China as of December 31, 2018			Investment Amounts Authorized by Investment Commission, MOEA								
			\$34,863,640								
										Upper Limit on Investment	
										\$349,626,347	

Note 1: The methods of investment are listed below, please mark the category on schedule:

- (1) Investment in Mainland China companies directly.
- (2) Investment in Mainland China companies through an existing company established in a third region.
- (3) Other methods of investing in Mainland China.

Note 2: The column of investment profit or loss for the period:

- (1) It should be noted if the entity was in preparation stage without profit or loss on investment.
- (2) It should be noted that the basis of recognizing the profit or loss on investment includes the following:
 1. The financial statement is audited and certified by international accounting firms which have partnership with R.O.C. accounting firms.
 2. The financial statement is audited and certified by the parent company's auditors in Taiwan.
 3. Other basis.

Note 3: The related figure in the schedule should be expressed in New Taiwan dollars.

Note 4: Cathay United Bank (China) Corporation Limited's registered capital was CNY\$3 billion, whose working capital was transferred from Cathay United Bank (Shanghai), Cathay United Bank (Qingdao), Cathay United Bank (Shenzhen) upon obtaining approval from the competent authority.

Note 5: CDBS Cathay Asset Management Co., Ltd. invested in CDDB Cathay Asset Management Co., Ltd. (Beijing) in the amount of CNY\$100 million in Mainland China.

Note 6: The capital increase has been remitted and the capital increase is expected to be approved by the Bank of China Banking and Insurance Regulatory Commission in 2019. The amount was still recognized as other assets at the end of the period.

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Schedule 6: Intercompany relationships and significant intercompany transactions

For the year ended December 31, 2018

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

No. (Note 1)	Company Name	Counter Party	Nature of Relationships (Note 2)	Financial Statement Item	Amount	Intercompany Transactions (Note 4)	
						Terms (Note 2)	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
0	Cathay Financial Holding	Cathay Life	1	Financial assets at fair value through profit or loss	\$35,000,000	There is no significantly different to third parties	0.38%
0	Cathay Financial Holding	Cathay Life	1	Payables from related parties	8,998,563	There is no significantly different to third parties	0.10%
0	Cathay Financial Holding	Cathay Life	1	Interest revenues	1,310,704	There is no significantly different to third parties	0.28%
0	Cathay Financial Holding	Cathay United Bank	1	Cash and cash equivalents	139,920	There is no significantly different to third parties	-
0	Cathay Financial Holding	Cathay United Bank	1	Payables from related parties	485,773	There is no significantly different to third parties	-
1	Cathay Life	Cathay Financial Holding	2	Receivables from related parties	8,998,563	There is no significantly different to third parties	0.10%
1	Cathay Life	Cathay Financial Holding	2	Bonds payables	35,000,000	There is no significantly different to third parties	0.38%
1	Cathay Life	Cathay Financial Holding	2	Other interest expenses	1,310,704	There is no significantly different to third parties	0.28%
1	Cathay Life	Cathay United Bank	3	Guarantee deposit received	189,738	There is no significantly different to third parties	-
1	Cathay Life	Cathay United Bank	3	Cash and cash equivalents	30,741,095	There is no significantly different to third parties	0.33%
1	Cathay Life	Cathay United Bank	3	Refundable deposit and operation bond	3,000	There is no significantly different to third parties	-
1	Cathay Life	Cathay United Bank	3	Rental income	681,206	There is no significantly different to third parties	0.14%
1	Cathay Life	Cathay United Bank	3	Operating expenses	5,840,889	There is no significantly different to third parties	1.23%
1	Cathay Life	Cathay United Bank	3	Insurance handling charge	1,247,785	There is no significantly different to third parties	0.26%
1	Cathay Life	Cathay United Bank	3	Financial liabilities at fair value through profit or loss	3,885,814	There is no significantly different to third parties	0.04%
1	Cathay Life	Cathay United Bank	3	Other revenues	188,212	There is no significantly different to third parties	0.04%
1	Cathay Life	Cathay United Bank	3	Losses on financial liabilities at fair value through profit or loss	1,787,561	There is no significantly different to third parties	0.38%
1	Cathay Life	Cathay Century	3	Other revenues	629,342	There is no significantly different to third parties	0.13%
1	Cathay Life	Cathay Century	3	Insurance expenses	107,023	There is no significantly different to third parties	0.02%
1	Cathay Life	Cathay Century	3	Rental income	108,092	There is no significantly different to third parties	0.02%
1	Cathay Life	Cathay Futures	3	Margin for futures trading-own funds	1,511,584	There is no significantly different to third parties	0.02%
1	Cathay Life	Cathay Securities Investment Trust	3	Handling charge	402,183	There is no significantly different to third parties	0.08%
1	Cathay Life	Cathay Walbrook Holding 1 Limited	3	Other loans	12,748,059	There is no significantly different to third parties	0.14%
1	Cathay Life	Cathay Walbrook Holding 1 Limited	3	Interest revenues	472,536	There is no significantly different to third parties	0.10%
1	Cathay Life	Cathay Walbrook Holding 2 Limited	3	Other loans	670,950	There is no significantly different to third parties	-
1	Cathay Life	Coming Holdings Limited	3	Handling charge	606,177	There is no significantly different to third parties	0.13%
1	Cathay Life	Coming Holdings Limited	3	Other payables	149,374	There is no significantly different to third parties	-
2	Cathay United Bank	Cathay Financial Holding	2	Deposits	\$139,920	There is no significantly different to third parties	-
2	Cathay United Bank	Cathay Financial Holding	2	Receivables from related parties	485,773	There is no significantly different to third parties	-
2	Cathay United Bank	Cathay Life	3	Rental expenses	681,206	There is no significantly different to third parties	0.14%
2	Cathay United Bank	Cathay Life	3	Refundable deposit	189,738	There is no significantly different to third parties	-
2	Cathay United Bank	Cathay Life	3	Deposits	30,744,095	There is no significantly different to third parties	0.33%
2	Cathay United Bank	Cathay Life	3	Commission revenue	7,088,674	There is no significantly different to third parties	1.50%
2	Cathay United Bank	Cathay Life	3	Financial assets at fair value through profit or loss	3,885,814	There is no significantly different to third parties	0.04%

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Schedule 6: Intercompany relationships and significant intercompany transactions

For the year ended December 31, 2018

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

No. (Note 1)	Company Name	Counter Party	Nature of Relationships (Note 2)	Intercompany Transactions (Note 4)			Percentage of Consolidated Net Revenue or Total Assets (Note 3)
				Financial Statement Item	Amount	Terms (Note 2)	
2	Cathay United Bank	Cathay Life	3	Gains on financial assets at fair value through profit or loss	3,338,332	There is no significantly different to third parties	0.70%
2	Cathay United Bank	Cathay Life	3	Operating expenses	188,212	There is no significantly different to third parties	0.04%
2	Cathay United Bank	Cathay Century	3	Deposits	2,724,193	There is no significantly different to third parties	0.03%
2	Cathay United Bank	Cathay Century	3	Commission revenue	133,544	There is no significantly different to third parties	0.03%
2	Cathay United Bank	Cathay Century	3	Insurance expenses	178,718	There is no significantly different to third parties	0.04%
2	Cathay United Bank	Cathay Securities	3	Deposits	2,550,156	There is no significantly different to third parties	0.03%
2	Cathay United Bank	Cathay Venture	3	Deposits	113,380	There is no significantly different to third parties	-
2	Cathay United Bank	Cathay Securities Investment Trust	3	Deposits	149,076	There is no significantly different to third parties	-
2	Cathay United Bank	Cathay Futures	3	Deposits	1,345,519	There is no significantly different to third parties	0.01%
2	Cathay United Bank	Lin Yuan	3	Deposits	623,035	There is no significantly different to third parties	-
2	Cathay United Bank	CUBCN Bank	3	Call loans to banks	9,850,339	There is no significantly different to third parties	0.11%
2	Cathay United Bank	CUBCN Bank	3	Call loans to banks	9,209,337	There is no significantly different to third parties	0.10%
2	Cathay United Bank	CUBCN Bank	3	Call loans to banks interest revenue	127,477	There is no significantly different to third parties	0.03%
2	Cathay United Bank	CUBCN Bank	3	Interest receivable	100,114	There is no significantly different to third parties	-
2	Cathay United Bank	Indovina Bank	3	Call loans to banks	3,964,557	There is no significantly different to third parties	0.04%
2	Cathay United Bank	Indovina Bank	3	Call loans to banks	314,359	There is no significantly different to third parties	-
2	Cathay United Bank	CUBC Bank	3	Due to commercial banks	245,864	There is no significantly different to third parties	-
3	Cathay Century	Cathay Life	3	Other commission expenses	629,342	There is no significantly different to third parties	0.13%
3	Cathay Century	Cathay Life	3	Rental expenses	108,092	There is no significantly different to third parties	0.02%
3	Cathay Century	Cathay Life	3	Insurance income	107,023	There is no significantly different to third parties	0.02%
3	Cathay Century	Cathay United Bank	3	Cash and cash equivalents	2,709,193	There is no significantly different to third parties	0.03%
3	Cathay Century	Cathay United Bank	3	Refundable deposit and operation bond	15,000	There is no significantly different to third parties	-
3	Cathay Century	Cathay United Bank	3	Operating expenses	133,544	There is no significantly different to third parties	0.03%
3	Cathay Century	Cathay United Bank	3	Insurance income	178,718	There is no significantly different to third parties	0.04%
4	Cathay Securities	Cathay United Bank	3	Cash and cash equivalents	1,159,792	There is no significantly different to third parties	0.01%
4	Cathay Securities	Cathay United Bank	3	Settlement money	163,158	There is no significantly different to third parties	-
4	Cathay Securities	Cathay United Bank	3	collected payment of shares underwritten	12,206	There is no significantly different to third parties	-
4	Cathay Securities	Cathay United Bank	3	Refundable deposit	1,215,000	There is no significantly different to third parties	0.01%
4	Cathay Securities	Cathay Futures	3	Financial assets at fair value through profit or loss - current	1,277,030	There is no significantly different to third parties	0.01%
5	Cathay Venture	Cathay United Bank	3	Cash and cash equivalents	113,380	There is no significantly different to third parties	-
6	Cathay Securities Investment Trust	Cathay Life	3	Other commission revenues	402,183	There is no significantly different to third parties	0.08%
6	Cathay Securities Investment Trust	Cathay United Bank	3	Cash and cash equivalents	68,776	There is no significantly different to third parties	-
6	Cathay Securities Investment Trust	Cathay United Bank	3	Refundable deposit and operation bond	80,300	There is no significantly different to third parties	-
6	Cathay Securities Investment Trust	Conning Holdings Limited	3	Sales expenses	\$130,908	There is no significantly different to third parties	0.03%

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Schedule 6: Intercompany relationships and significant intercompany transactions

For the year ended December 31, 2018

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

No. (Note 1)	Company Name	Counter Party	Nature of Relationships (Note 2)	Intercompany Transactions (Note 4)			Percentage of Consolidated Net Revenue or Total Assets (Note 3)
				Financial Statement Item	Amount	Terms (Note 2)	
7	Cathay Futures	Cathay Life	3	Futures trader's equity	1,511,584	There is no significantly different to third parties	0.02%
7	Cathay Futures	Cathay United Bank	3	Cash and cash equivalents	360,164	There is no significantly different to third parties	-
7	Cathay Futures	Cathay United Bank	3	Customer's margin accounts	910,355	There is no significantly different to third parties	-
7	Cathay Futures	Cathay United Bank	3	Refundable deposit and operation bond	75,000	There is no significantly different to third parties	-
7	Cathay Futures	Cathay Securities	3	Futures trader's equity	1,277,030	There is no significantly different to third parties	0.01%
8	Indovina Bank	Cathay United Bank	3	Due to commercial banks	3,964,557	There is no significantly different to third parties	0.04%
8	Indovina Bank	Cathay United Bank	3	Due to commercial banks	314,359	There is no significantly different to third parties	-
8	Indovina Bank	Cathay Century (Vietnam)	3	Deposits	147,705	There is no significantly different to third parties	-
8	Indovina Bank	Cathay Life (Vietnam)	3	Deposits	1,809,689	There is no significantly different to third parties	0.02%
9	Cathay Century (Vietnam)	Indovina Bank	3	Cash and cash equivalents	139,596	There is no significantly different to third parties	-
9	Cathay Century (Vietnam)	Indovina Bank	3	Refundable deposit	8,108	There is no significantly different to third parties	-
10	Cathay Life (Vietnam)	Indovina Bank	3	Cash and cash equivalents	1,809,689	There is no significantly different to third parties	0.02%
11	CUBCN Bank	Cathay United Bank	3	Due to commercial banks	9,850,339	There is no significantly different to third parties	0.11%
11	CUBCN Bank	Cathay United Bank	3	Due to commercial banks	9,209,337	There is no significantly different to third parties	0.10%
11	CUBCN Bank	Cathay United Bank	3	Due to commercial banks; interest expenses	127,477	There is no significantly different to third parties	0.03%
11	CUBCN Bank	Cathay United Bank	3	Interest payable	100,114	There is no significantly different to third parties	-
12	Cathay Walbrook Holding 1 Limited	Cathay Life	3	Other liabilities	13,108,748	There is no significantly different to third parties	0.14%
12	Cathay Walbrook Holding 1 Limited	Cathay Life	3	Interest expenses	231,897	There is no significantly different to third parties	0.05%
13	Cathay Walbrook Holding 2 Limited	Cathay Life	3	Other liabilities	689,934	There is no significantly different to third parties	-
14	Conning Holdings Limited	Cathay Life	3	Other operating revenues	296,131	There is no significantly different to third parties	0.06%
14	Conning Holdings Limited	Cathay Life	3	Other receivable	147,391	There is no significantly different to third parties	-
14	Conning Holdings Limited	Cathay Securities Investment Trust	3	Consultant fee income	130,908	There is no significantly different to third parties	0.03%
15	CUBC Bank	Cathay United Bank	3	Call loans to banks	245,864	There is no significantly different to third parties	-
16	Lin Yuan	Cathay United Bank	3	Cash and cash equivalents	623,035	There is no significantly different to third parties	-

Note 1: Intercompany transactions should be indicated in the numbered columns individually. The number is filled in as follows:

(1) Parent company is numbered 0.

(2) Subsidiaries are numbered sequentially according to company name from Arabic numeral 1.

Note 2: There are three types of relationships with counterparties:

(1) Parent company to subsidiary

(2) Subsidiary to parent company

(3) Subsidiary to subsidiary

Note 3: The calculation of transaction amount as a percentage of consolidated net revenue or total assets:

in the case of financial statement accounts, ending balance is divided by consolidated total assets;

in the case of income statement accounts, cumulative amount in the period is divided by consolidated net revenue.

Note 4: Transactions of more than \$100 million.

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Schedule 6-1: Intercompany relationships and significant intercompany transactions

For the year ended December 31, 2017

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

No. (Note 1)	Company Name	Counter Party	Nature of Relationships (Note 2)	Financial Statement Item	Amount	Intercompany Transactions (Note 4)	
						Terms (Note 2)	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
0	Cathay Financial Holding	Cathay Life	1	Held-to-maturity financial assets	\$40,000,000	There is no significantly different to third parties	0.45%
0	Cathay Financial Holding	Cathay Life	1	Interest receivable	158,589	There is no significantly different to third parties	-
0	Cathay Financial Holding	Cathay Life	1	Payables from related parties	706,336	There is no significantly different to third parties	-
0	Cathay Financial Holding	Cathay Life	1	Interest revenues	1,353,179	There is no significantly different to third parties	0.02%
0	Cathay Financial Holding	Cathay United Bank	1	Cash and cash equivalents	137,400	There is no significantly different to third parties	-
0	Cathay Financial Holding	Cathay United Bank	1	Payables from related parties	145,836	There is no significantly different to third parties	-
0	Cathay Financial Holding	Cathay Century	1	Receivables from related parties	231,138	There is no significantly different to third parties	-
0	Cathay Financial Holding	Cathay Century	1	Held-to-maturity financial assets	1,000,000	There is no significantly different to third parties	0.01%
1	Cathay Life	Cathay Financial Holding	2	Preferred stock liabilities	5,000,000	There is no significantly different to third parties	0.06%
1	Cathay Life	Cathay Financial Holding	2	Interest payable	158,589	There is no significantly different to third parties	-
1	Cathay Life	Cathay Financial Holding	2	Receivables from related parties	706,336	There is no significantly different to third parties	-
1	Cathay Life	Cathay Financial Holding	2	Bonds payable	35,000,000	There is no significantly different to third parties	0.40%
1	Cathay Life	Cathay Financial Holding	2	Other interest expenses	1,353,179	There is no significantly different to third parties	0.02%
1	Cathay Life	Cathay United Bank	3	Guarantee deposit received	164,798	There is no significantly different to third parties	-
1	Cathay Life	Cathay United Bank	3	Cash and cash equivalents	28,469,961	There is no significantly different to third parties	0.32%
1	Cathay Life	Cathay United Bank	3	Refundable deposit and operation bond	3,000	There is no significantly different to third parties	-
1	Cathay Life	Cathay United Bank	3	Rental income	580,440	There is no significantly different to third parties	0.10%
1	Cathay Life	Cathay United Bank	3	Operating expenses	6,743,403	There is no significantly different to third parties	1.15%
1	Cathay Life	Cathay United Bank	3	Payables due to commission of insurance agency	163,342	There is no significantly different to third parties	-
1	Cathay Life	Cathay United Bank	3	Financial assets at fair value through profit or loss	662,047	There is no significantly different to third parties	-
1	Cathay Life	Cathay United Bank	3	Other revenues	174,073	There is no significantly different to third parties	0.03%
1	Cathay Life	Cathay United Bank	3	Losses on financial liabilities at fair value through profit or loss	366,491	There is no significantly different to third parties	0.06%
1	Cathay Life	Cathay Century	3	Other revenues	580,053	There is no significantly different to third parties	0.10%
1	Cathay Life	Cathay Century	3	Insurance expenses	115,158	There is no significantly different to third parties	0.02%
1	Cathay Life	Cathay Century	3	Rental income	105,435	There is no significantly different to third parties	0.02%
1	Cathay Life	Cathay Futures	3	Margin for futures trading; own funds	1,628,717	There is no significantly different to third parties	0.02%
1	Cathay Life	Cathay Securities Investment Trust	3	Handling charge	152,394	There is no significantly different to third parties	0.03%
1	Cathay Life	Cathay Walbrook Holding 1 Limited	3	Other loans	13,176,782	There is no significantly different to third parties	0.15%
1	Cathay Life	Cathay Walbrook Holding 1 Limited	3	Interest revenues	421,486	There is no significantly different to third parties	0.07%
1	Cathay Life	Cathay Walbrook Holding 2 Limited	3	Other loans	693,515	There is no significantly different to third parties	-
1	Cathay Life	Conning Holdings Limited	3	Handling charge	554,670	There is no significantly different to third parties	0.09%
1	Cathay Life	Conning Holdings Limited	3	Other payables	130,915	There is no significantly different to third parties	-

English Translation of Financial Statements Originally Issued in Chinese

Schedule 6-1: Intercompany relationships and significant intercompany transactions

For the year ended December 31, 2017

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

No. (Note 1)	Company Name	Counter Party	Nature of Relationships (Note 2)	Intercompany Transactions (Note 4)			Percentage of Consolidated Net Revenue or Total Assets (Note 3)
				Financial Statement Item	Amount	Terms (Note 2)	
2	Cathay United Bank	Conning Holdings Limited	2	Deposits	\$137,400	There is no significantly different to third parties	-
2	Cathay United Bank	Conning Holdings Limited	2	Receivables from related parties	145,836	There is no significantly different to third parties	-
2	Cathay United Bank	Cathay Life	3	Rental expenses	580,440	There is no significantly different to third parties	0.10%
2	Cathay United Bank	Cathay Life	3	Refundable deposit	164,798	There is no significantly different to third parties	-
2	Cathay United Bank	Cathay Life	3	Deposits	28,472,961	There is no significantly different to third parties	0.32%
2	Cathay United Bank	Cathay Life	3	Commission revenue	6,743,403	There is no significantly different to third parties	1.15%
2	Cathay United Bank	Cathay Life	3	Receivables due to commission of insurance agency	163,342	There is no significantly different to third parties	-
2	Cathay United Bank	Cathay Life	3	Financial liabilities at fair value through profit or loss	662,047	There is no significantly different to third parties	-
2	Cathay United Bank	Cathay Life	3	Gains on financial assets at fair value through profit or loss	366,491	There is no significantly different to third parties	0.06%
2	Cathay United Bank	Cathay Life	3	Operating expenses	174,073	There is no significantly different to third parties	0.03%
2	Cathay United Bank	Cathay Century	3	Deposits	1,827,176	There is no significantly different to third parties	0.02%
2	Cathay United Bank	Cathay Century	3	Insurance expenses	172,376	There is no significantly different to third parties	0.03%
2	Cathay United Bank	Cathay Century	3	Commission revenue	154,446	There is no significantly different to third parties	0.03%
2	Cathay United Bank	Cathay Securities	3	Deposits	3,414,826	There is no significantly different to third parties	0.04%
2	Cathay United Bank	Cathay Securities Investment Trust	3	Deposits	179,814	There is no significantly different to third parties	-
2	Cathay United Bank	Cathay Venture	3	Deposits	1,041,691	There is no significantly different to third parties	0.01%
2	Cathay United Bank	Indovina Bank	3	Call loans to banks	143,259	There is no significantly different to third parties	-
2	Cathay United Bank	Indovina Bank	3	Call loans to banks	3,223,584	There is no significantly different to third parties	0.04%
2	Cathay United Bank	CUBC Bank	3	Due to commercial banks	656,656	There is no significantly different to third parties	-
3	Cathay Century	Conning Holdings Limited	2	Preferred stock liabilities	1,000,000	There is no significantly different to third parties	0.01%
3	Cathay Century	Conning Holdings Limited	2	Payables from related parties	231,138	There is no significantly different to third parties	-
3	Cathay Century	Cathay Life	3	Insurance income	115,158	There is no significantly different to third parties	-
3	Cathay Century	Cathay Life	3	Operating expenses	580,053	There is no significantly different to third parties	-
3	Cathay Century	Cathay Life	3	Rental expenses	105,435	There is no significantly different to third parties	0.02%
3	Cathay Century	Cathay United Bank	3	Insurance income	172,376	There is no significantly different to third parties	-
3	Cathay Century	Cathay United Bank	3	Cash and cash equivalents	1,812,176	There is no significantly different to third parties	0.02%
3	Cathay Century	Cathay United Bank	3	Refundable deposit and operation bond	15,000	There is no significantly different to third parties	-
3	Cathay Century	Cathay United Bank	3	Operating expenses	154,446	There is no significantly different to third parties	0.03%
4	Cathay Securities	Cathay United Bank	3	Cash and cash equivalents	1,777,143	There is no significantly different to third parties	0.02%
4	Cathay Securities	Cathay United Bank	3	Settlement money	359,587	There is no significantly different to third parties	-
4	Cathay Securities	Cathay United Bank	3	collected payment of shares underwritten	68,096	There is no significantly different to third parties	-
4	Cathay Securities	Cathay United Bank	3	Refundable deposit	1,210,000	There is no significantly different to third parties	0.01%

English Translation of Financial Statements Originally Issued in Chinese

Schedule 6-1: Intercompany relationships and significant intercompany transactions

For the year ended December 31, 2017

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

No. (Note 1)	Company Name	Counter Party	Nature of Relationships (Note 2)	Intercompany Transactions (Note 4)			Percentage of Consolidated Net Revenue or Total Assets (Note 3)
				Financial Statement Item	Amount	Terms (Note 2)	
5	Cathay Securities Investment Trust	Cathay Life	3	Other commission revenues	152,394	There is no significantly different to third parties	0.03%
5	Cathay Securities Investment Trust	Cathay United Bank	3	Cash and cash equivalents	93,514	There is no significantly different to third parties	-
5	Cathay Securities Investment Trust	Cathay United Bank	3	Refundable deposit and operation bond	86,300	There is no significantly different to third parties	-
6	Cathay Futures	Cathay Life	3	Futures trader's equity	1,628,717	There is no significantly different to third parties	0.28%
6	Cathay Futures	Cathay United Bank	3	Cash and cash equivalents	250,407	There is no significantly different to third parties	-
6	Cathay Futures	Cathay United Bank	3	Customer's margin accounts	716,284	There is no significantly different to third parties	-
6	Cathay Futures	Cathay United Bank	3	Refundable deposit and operation bond	75,000	There is no significantly different to third parties	-
7	Indovina Bank	Cathay United Bank	3	Due to commercial banks	\$143,259	There is no significantly different to third parties	-
7	Indovina Bank	Cathay United Bank	3	Due to commercial banks	3,223,584	There is no significantly different to third parties	0.04%
7	Indovina Bank	Cathay Century (Vietnam)	3	Deposits	145,661	There is no significantly different to third parties	-
8	Cathay Century (Vietnam)	Indovina Bank	3	Cash and cash equivalents	137,620	There is no significantly different to third parties	-
8	Cathay Century (Vietnam)	Indovina Bank	3	Refundable deposit	8,041	There is no significantly different to third parties	-
9	Cathay Walbrook Holding 1 Limited	Cathay Life	3	Other liabilities	13,176,782	There is no significantly different to third parties	0.15%
9	Cathay Walbrook Holding 1 Limited	Cathay Life	3	Interest expenses	421,486	There is no significantly different to third parties	0.07%
10	Cathay Walbrook Holding 2 Limited	Cathay Life	3	Other liabilities	693,515	There is no significantly different to third parties	-
11	Conning Holdings Limited	Cathay Life	3	Other operating revenues	554,670	There is no significantly different to third parties	0.09%
11	Conning Holdings Limited	Cathay Life	3	Other receivable	130,915	There is no significantly different to third parties	-
12	CUBC Bank	Cathay United Bank	3	Call loans to banks	656,656	There is no significantly different to third parties	-

Note 1: Intercompany transactions should be indicated in the numbered columns individually. The number is filled in as follows:

(1) Parent company is numbered 0.

(2) Subsidiaries are numbered sequentially according to company name from Arabic numeral 1.

Note 2: There are three types of relationships with counterparties:

(1) Parent company to subsidiary

(2) Subsidiary to parent company

(3) Subsidiary to subsidiary

Note 3: The calculation of transaction amount as a percentage of consolidated net revenue or total assets:

in the case of financial statement accounts, ending balance is divided by consolidated total assets;

in the case of income statement accounts, cumulative amount in the period is divided by consolidated net revenue.

Note 4: Transactions of more than \$100 million.