

**Cathay Financial Holding Co., Ltd. and  
Subsidiaries**

**Consolidated Financial Statements for the  
Six Months Ended June 30, 2019 and 2018 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Cathay Financial Holding Co., Ltd.

### **Opinion**

We have audited the accompanying consolidated financial statements of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated balance sheet as of June 30, 2019, the consolidated statements of comprehensive income for the three months and six months ended June 30, 2019, the consolidated statements of changes in equity and cash flows for the six months ended June 30, 2019, and the notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of June 30, 2019, its consolidated financial performance for the three months and six months ended June 30, 2019, and its consolidated cash flows for the six months ended June 30, 2019, in accordance with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Public Banks and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the 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 Statements by Certified Public Accountants, Regulations Governing Auditing and Attestation of Financial Statements of Financial Institutions 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 the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 audit of the consolidated financial statements of the Group for the six months ended June 30, 2019. These matters were addressed in the context of our audit 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.

Key audit matters for the Group's consolidated financial statements for the six months ended June 30, 2019 are as follows:

Valuation of Policy Reserve for Life Insurance Liability and Liability Adequacy Test

Cathay Life Insurance Co., Ltd. is a subsidiary of Cathay Financial Holding Co., Ltd. Its management adopts actuarial models and several significant assumptions for estimating the policy reserve for life insurance liability and the reserve for liability adequacy. Measuring the policy reserve for life insurance liability involves significant assumptions, which include the mortality rate, discount rate, lapse rate, morbidity rate, etc. The setup of assumptions is based on legislation and regulations, taking into consideration the Company's actual experience and industry-specific experience. The tests performed in respect of the reserve for liability adequacy on insurance contracts are in accordance with the regulations enacted by the Actuarial Institute of the Republic of China, and the setup of future test discount rates accounts for the Company's best estimate scenario as well as the rate of the portfolio return under current information. Since any changes in the actuarial models and important assumptions may lead to significant impacts on the results of the policy reserves for life insurance liability and for the liability adequacy test estimations, the policy reserves for life insurance liability and for liability adequacy test were identified as a key audit matter. For the accounting policies, accounting estimates, estimation uncertainty and relevant disclosure information, refer to Notes 4, 5 and 21 to the accompanying consolidated financial statements.

The main audit procedures we performed in response to the key audit matter described above are as follows:

1. We understood the internal controls related to management's estimation of the policy reserves for life insurance liability and for the liability adequacy test as well as evaluated the operating effectiveness of these internal controls.
2. We obtained actuarial reports regarding management's estimations of the policy reserves for life insurance liability and for liability adequacy test as well as evaluated the contracted actuary's professional competence and capability.
3. The following procedures were performed by our actuarial specialist, and the results were compared with the actuarial report published by the contracted actuary in order to evaluate the rationality of the actuarial models and significant assumptions regarding the recognition of the policy reserve for life insurance liability applied by management. The actuarial specialist:
  - a. Randomly sampled the insurance products to examine whether the calculations of the policy reserve for life insurance liability were made in accordance with the regulations.
  - b. Focused on the actuarial models and important assumptions of selected insurance policies and verified the recognized amount of the policy reserve for life insurance liability.
  - c. Performed profiling tests focused on long term insurance policies as of June 30, 2019 to identify any abnormal situations with recognized amounts of policy reserve of life insurance liability on single insurance policies.
  - d. Used the previously recognized amounts of the policy reserve for life insurance liability taking into consideration the business development for the six months ended June 30, 2019 and performed an analysis of the reasonableness of the policy reserve for life insurance liability to estimate the overall recognized amount of policy reserve for life insurance liability in the period.

4. The following procedures were performed by our actuarial specialist, and the results were compared with the actuarial report published by the contracted actuary in order to evaluate the rationality of the actuarial models and significant assumptions regarding the recognition of the reserve for liability adequacy test applied by management. The actuarial specialist:
  - a. Sampled newly issued insurance products for the six months ended June 30, 2019 to test the accuracy of the product classifications.
  - b. Sampled the significant assumptions provided for our audit in order to examine whether the assumptions were consistent with regulations and the important built-in assumptions in the information system.
  - c. Focused on the tests of selected insurance policies in order to evaluate the actuarial models and important assumptions applied for the reserve for liability adequacy test, and performed individual recalculations.
  - d. Performed a comparative analysis of the prior period's results taking into consideration the impact of the current business development for the six months ended June 30, 2019 in order to evaluate the rationality of the calculation of the reserve for liability adequacy test.

#### Assessment of the Fair values of Investment Properties

The investment properties of Cathay Life Insurance Co., Ltd. are measured at their fair values. To support the reasonableness of fair value assessment, the Company's management uses the fair values assessed by external independent appraisers. As the determination of appraisal methods and parameters involves significant judgments and estimates; therefore, we determined the assessment of the fair values of investment properties as a key audit matter. For the accounting policies, accounting estimates, assumption uncertainty and relevant disclosure information on the assessment of fair values of investment properties, refer to Notes 4, 5 and 14 to the accompanying consolidated financial statements.

The main audit procedures we performed in response to the key audit matter described above are as follows:

1. We evaluated the professional competence, capability and objectivity of external independent appraisers, and verified the qualification of the appraisers.
2. We appointed an internal valuation specialist to evaluate the reasonableness of the appraisal reports adopted by the Company's management, including the appraisal methods, main parameters and discount rate of the appraisal reports.

#### Impairment assessment on Discounts and Loans

Cathay United Bank Co., Ltd. is a subsidiary of Cathay Financial Holding Co., Ltd. Its management regularly performs impairment assessment on its discounts and loans. Recognition of provision on discounts and loans is based on the expected credit loss model. The amount of impairment loss is recognized using either 12-month or lifetime expected credit losses. Also, the amount of provision set aside for impairment loss should also comply with the relevant regulations issued by the authorities for the classification of credit assets and provision of impairment loss. Impairment assessment on discounts and loans was identified as a key audit matter due to the critical judgments and estimations involved. For the accounting policies and relevant information on loan impairment assessment, refer to Notes 4, 5 and 11 to the consolidated financial statements.

The main audit procedures we performed in response to the key audit matter described above are as follows:

1. We understood and tested the internal controls of impairment assessment on discounts and loans performed by the Company.
2. We understood and tested the reasonableness of the assumptions and critical factors used in the expected credit loss valuation model, including the Probability of Default and the Loss Given Default.
3. We performed a test on the reasonableness of calculation of expected credit losses for selected samples from discounts and loans.
4. We tested the classification of credit assets to evaluate whether the classification of credit assets and provisions of impairment loss are in accordance with the relevant regulations issued by the authorities.

### **Other Matter**

The consolidated financial statements of the Group as of and for the six months ended June 30, 2018 were audited by other auditors, who expressed an unmodified opinion with an emphasis of matter section on those statements on August 16, 2018.

### **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 Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Public Banks and International Accounting Standard 34 “Interim Financial Reporting” endorsed and issued into effect by the 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 Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee/supervisors, are responsible for overseeing the Group’s financial reporting process.

### **Auditors’ 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 auditors’ 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 the 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 the 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 (including the financial reporting process), 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 Group's internal control.
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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group 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 audit.

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 the consolidated financial statements for the six months ended June 30, 2019 and are therefore the key audit matters. We describe these matters in our auditors' 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.

The engagement partners on the audit resulting in this independent auditors' report are Cheng-Hung Kuo and Li-Chi Chen.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

August 15, 2019

Notice to Readers

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

*For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.*

# CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	June 30, 2019		December 31, 2018		June 30, 2018	
	Amount	%	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 28)	\$ 327,504,526	3	\$ 206,576,054	2	\$ 309,655,895	3
DUE FROM THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS	148,924,269	2	104,223,315	1	109,711,078	1
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5, 7, 28 and 29)	1,512,589,693	16	1,428,824,049	16	1,423,426,036	15
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 4, 5, 8 and 29)	1,122,648,310	11	1,127,810,270	12	1,149,474,661	13
FINANCIAL ASSETS MEASURED AT AMORTIZED COST (Notes 4, 5, 9 and 29)	2,917,332,569	30	2,688,221,788	29	2,496,164,317	27
FINANCIAL ASSETS FOR HEDGING (Notes 4 and 5)	258,198	-	216,611	-	217,899	-
SECURITIES PURCHASED UNDER RESALE AGREEMENTS (Note 4)	92,401,508	1	59,212,899	1	109,042,261	1
RECEIVABLES, NET (Notes 4, 5 and 10)	188,568,814	2	161,216,190	2	189,220,327	2
CURRENT TAX ASSETS	4,932,641	-	6,438,062	-	2,536,508	-
DISCOUNT AND LOANS, NET (Notes 4, 5, 11 and 28)	2,103,752,021	22	2,176,775,907	24	2,119,649,909	23
REINSURANCE CONTRACT ASSETS, NET	8,116,282	-	7,623,707	-	7,781,759	-
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET (Notes 4, 13 and 28)	48,812,932	-	44,932,006	-	42,829,463	1
OTHER FINANCIAL ASSETS, NET (Notes 4 and 23)	605,139,145	6	555,740,531	6	583,446,775	6
INVESTMENT PROPERTIES, NET (Notes 3, 4, 5, 14 and 29)	397,886,101	4	319,222,554	3	319,005,665	4
PROPERTY AND EQUIPMENT, NET (Notes 4 and 15)	101,736,445	1	166,458,327	2	165,211,367	2
RIGHT-OF-USE ASSETS, NET (Notes 3, 4, 16 and 28)	4,053,697	-	-	-	-	-
INTANGIBLE ASSETS, NET (Notes 4 and 17)	52,826,197	1	53,826,467	1	54,793,271	1
DEFERRED TAX ASSETS (Note 4)	30,366,411	-	40,806,934	-	39,100,999	-
OTHER ASSETS, NET (Notes 3, 28 and 29)	70,460,877	1	76,357,835	1	87,977,919	1
<b>TOTAL</b>	<b>\$ 9,738,310,636</b>	<b>100</b>	<b>\$ 9,224,483,506</b>	<b>100</b>	<b>\$ 9,209,246,109</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>						
DUE TO THE CENTRAL BANK AND OTHER BANKS	\$ 100,140,913	1	\$ 81,432,233	1	\$ 91,802,507	1
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5 and 7)	140,826,566	1	129,698,896	1	167,696,630	2
FINANCIAL LIABILITIES FOR HEDGING (Notes 4 and 5)	31,843	-	-	-	-	-
NOTES AND BONDS SOLD UNDER REPURCHASE AGREEMENTS (Note 4)	35,343,325	-	59,307,037	-	105,689,690	1
COMMERCIAL PAPER PAYABLES, NET (Note 18)	46,160,506	1	62,989,367	1	53,847,245	1
PAYABLES (Notes 3 and 28)	88,362,798	1	66,727,399	1	92,897,195	1
CURRENT TAX LIABILITIES (Note 4)	861,972	-	2,543,689	-	6,869,180	-
DEPOSITS AND REMITTANCES (Notes 19 and 28)	2,238,002,001	23	2,187,203,086	24	2,121,960,307	23
BONDS PAYABLE (Note 20)	120,400,000	1	90,600,000	1	90,600,000	1
OTHER BORROWINGS	238,942	-	336,381	-	218,389	-
PROVISIONS (Notes 4, 21 and 22)	5,523,637,446	57	5,341,935,726	58	5,177,374,930	56
OTHER FINANCIAL LIABILITIES (Notes 4 and 23)	671,120,046	7	627,815,178	7	654,949,610	7
LEASE LIABILITIES (Notes 3, 4, 16 and 28)	12,874,914	-	-	-	-	-
DEFERRED TAX LIABILITIES (Note 4)	45,105,971	1	27,091,143	-	28,014,899	-
OTHER LIABILITIES (Note 28)	16,456,709	-	17,514,376	-	17,654,575	-
<b>Total liabilities</b>	<b>9,039,563,952</b>	<b>93</b>	<b>8,695,194,511</b>	<b>94</b>	<b>8,609,575,157</b>	<b>93</b>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 24)</b>						
Share capital						
Ordinary shares	125,632,102	1	125,632,102	2	125,632,102	2
Preference shares	15,333,000	-	15,333,000	-	15,333,000	-
Capital surplus	161,689,208	2	165,449,364	2	165,452,143	2
Retained earnings						
Legal reserve	46,122,845	1	40,976,121	-	40,976,121	-
Special reserve	221,977,672	2	149,346,119	2	149,346,119	2
Unappropriated earnings	30,933,430	-	95,553,376	1	86,636,398	1
Other equity	86,883,888	1	(72,558,752)	(1)	7,114,564	-
<b>Total equity attributable to owners of the Company</b>	<b>688,572,145</b>	<b>7</b>	<b>519,731,330</b>	<b>6</b>	<b>590,490,447</b>	<b>7</b>
NON-CONTROLLING INTERESTS (Notes 4 and 24)	10,174,539	-	9,557,665	-	9,180,505	-
<b>Total equity</b>	<b>698,746,684</b>	<b>7</b>	<b>529,288,995</b>	<b>6</b>	<b>599,670,952</b>	<b>7</b>
<b>TOTAL</b>	<b>\$ 9,738,310,636</b>	<b>100</b>	<b>\$ 9,224,483,506</b>	<b>100</b>	<b>\$ 9,209,246,109</b>	<b>100</b>

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

(With Deloitte & Touche audit report dated August 15, 2019)



# CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
INTEREST INCOME (Notes 4 and 28)	\$ 54,947,124	47	\$ 49,554,232	37	\$ 109,415,297	45	\$ 95,804,662	37
INTEREST EXPENSE (Notes 4 and 28)	<u>(6,051,782)</u>	<u>(5)</u>	<u>(5,558,524)</u>	<u>(4)</u>	<u>(12,013,789)</u>	<u>(5)</u>	<u>(10,704,571)</u>	<u>(4)</u>
NET INTEREST INCOME	<u>48,895,342</u>	<u>42</u>	<u>43,995,708</u>	<u>33</u>	<u>97,401,508</u>	<u>40</u>	<u>85,100,091</u>	<u>33</u>
NET INCOME AND GAINS OTHER THAN INTEREST INCOME								
Net gain on service fee and commission fee (Notes 4, 23, 25 and 28)	1,597,953	1	2,112,537	2	1,070,024	-	4,123,933	2
Net income on insurance operations (Notes 4, 25 and 28)	39,259,350	33	64,754,512	48	96,704,342	40	111,372,467	44
Gain (loss) on financial assets and liabilities at fair value through profit or loss (Notes 4 and 7)	13,763,778	12	(72,558,295)	(54)	100,918,201	41	(40,787,307)	(16)
Gain on investment properties (Notes 4, 14 and 28)	3,004,804	3	1,947,920	1	6,243,834	3	4,760,406	2
Realized gain on financial assets at fair value through other comprehensive income (Note 4)	8,514,068	7	1,993,953	1	14,165,519	6	9,434,202	4
Net gain on derecognition of financial assets at amortized cost (Notes 4 and 9)	1,012,951	1	896,408	1	1,484,184	1	2,940,279	1
Foreign exchange gain (Note 4)	16,893,893	14	84,263,348	63	25,713,576	11	45,566,290	18
Reversal of impairment gain (loss) on assets (Note 4)	243,768	-	148,026	-	618,084	-	(247,042)	-
Share of gain of associates accounted for using the equity method (Notes 4 and 13)	476,167	-	470,304	-	760,301	-	537,062	-
(Loss) gain on reclassification using the overlay approach (Notes 4 and 7)	(11,712,476)	(10)	10,200,958	8	(95,407,219)	(39)	36,387,275	14
Net other non-interest loss (Note 28)	<u>(4,220,194)</u>	<u>(3)</u>	<u>(4,212,461)</u>	<u>(3)</u>	<u>(6,856,869)</u>	<u>(3)</u>	<u>(4,165,031)</u>	<u>(2)</u>
PROFIT FROM OPERATIONS	<u>117,729,404</u>	<u>100</u>	<u>134,012,918</u>	<u>100</u>	<u>242,815,485</u>	<u>100</u>	<u>255,022,625</u>	<u>100</u>
NET CHANGES IN INSURANCE LIABILITY RESERVE (Notes 21 and 25)	<u>(72,695,121)</u>	<u>(62)</u>	<u>(98,225,236)</u>	<u>(73)</u>	<u>(160,048,424)</u>	<u>(66)</u>	<u>(178,134,614)</u>	<u>(70)</u>
PROVISION FOR BAD DEBT, COMMITMENTS AND GUARANTEED LIABILITY RESERVE	<u>203,505</u>	<u>-</u>	<u>(1,027,111)</u>	<u>(1)</u>	<u>(233,319)</u>	<u>-</u>	<u>(1,443,618)</u>	<u>-</u>
OPERATING EXPENSES (Notes 25 and 28)								
Employee benefit expenses	(13,304,899)	(11)	(12,390,820)	(9)	(28,348,757)	(12)	(24,978,461)	(10)
Depreciation and amortization expenses	(1,726,262)	(2)	(1,396,662)	(1)	(3,493,441)	(1)	(2,780,677)	(1)
Other general and administrative expenses	<u>(5,996,666)</u>	<u>(5)</u>	<u>(5,219,358)</u>	<u>(4)</u>	<u>(10,954,403)</u>	<u>(5)</u>	<u>(10,132,968)</u>	<u>(4)</u>
Total operating expenses	<u>(21,027,827)</u>	<u>(18)</u>	<u>(19,006,840)</u>	<u>(14)</u>	<u>(42,796,601)</u>	<u>(18)</u>	<u>(37,892,106)</u>	<u>(15)</u>

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## CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
PROFIT BEFORE INCOME TAX	\$ 24,209,961	20	\$ 15,753,731	12	\$ 39,737,141	16	\$ 37,552,287	15
INCOME TAX EXPENSE (Notes 4 and 26)	<u>(3,626,143)</u>	<u>(3)</u>	<u>(2,996,258)</u>	<u>(2)</u>	<u>(5,603,310)</u>	<u>(2)</u>	<u>(1,537,888)</u>	<u>(1)</u>
NET INCOME	<u>20,583,818</u>	<u>17</u>	<u>12,757,473</u>	<u>10</u>	<u>34,133,831</u>	<u>14</u>	<u>36,014,399</u>	<u>14</u>
OTHER COMPREHENSIVE INCOME (Notes 4 and 24)								
Items that will not be reclassified subsequently to profit or loss:								
Property revaluation surplus	217,619	-	-	-	926,919	1	-	-
Gain (loss) on equity instruments at fair value through other comprehensive income	3,791,382	3	(2,399,291)	(2)	9,452,007	4	(2,497,980)	(1)
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	(562,863)	-	647,951	1	(1,778,640)	(1)	1,355,730	1
Share of other comprehensive income (loss) of associates accounted for using equity the method for items that will not be reclassified subsequently to profit or loss	155,874	-	(9,525)	-	284,180	-	(86,186)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 26)	(182,302)	-	233,656	-	(450,589)	-	464,919	-
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating the financial statements of foreign operations	(547,264)	-	852,604	1	1,098,105	1	733,324	-
Gain (loss) on hedging instruments	6,187	-	(2,838)	-	96,428	-	(27,607)	-
Gain (loss) on debt instruments at fair value through other comprehensive income	31,901,359	27	(22,938,202)	(17)	75,944,858	31	(66,136,530)	(26)
Share of other comprehensive income (loss) of associates accounted for using equity method for items that may be reclassified subsequently to profit or loss	448,029	-	240,124	-	827,165	-	(649,065)	-

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# CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
Other comprehensive income (loss) reclassified using the overlay approach	\$ 11,712,476	10	\$ (10,200,958)	(8)	\$ 95,407,219	39	\$ (36,387,275)	(14)
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4 and 26)	<u>(8,350,269)</u>	<u>(7)</u>	<u>3,203,974</u>	<u>2</u>	<u>(24,518,587)</u>	<u>(10)</u>	<u>14,211,628</u>	<u>5</u>
Total other comprehensive income (loss) for the period, net of income tax	<u>38,590,228</u>	<u>33</u>	<u>(30,372,505)</u>	<u>(23)</u>	<u>157,289,065</u>	<u>65</u>	<u>(89,019,042)</u>	<u>(35)</u>
TOTAL COMPREHENSIVE INCOME (LOSS)	<u>\$ 59,174,046</u>	<u>50</u>	<u>\$ (17,615,032)</u>	<u>(13)</u>	<u>\$ 191,422,896</u>	<u>79</u>	<u>\$ (53,004,643)</u>	<u>(21)</u>
NET INCOME								
ATTRIBUTABLE TO:								
Owners of the Company	\$ 20,226,617	17	\$ 12,915,840	10	\$ 33,439,769	14	\$ 35,983,223	14
Non-controlling interests	<u>357,201</u>	<u>-</u>	<u>(158,367)</u>	<u>-</u>	<u>694,062</u>	<u>-</u>	<u>31,176</u>	<u>-</u>
	<u>\$ 20,583,818</u>	<u>17</u>	<u>\$ 12,757,473</u>	<u>10</u>	<u>\$ 34,133,831</u>	<u>14</u>	<u>\$ 36,014,399</u>	<u>14</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:								
Owner of the Company	\$ 58,875,251	50	\$ (17,509,164)	(13)	\$ 190,344,714	78	\$ (53,111,128)	(21)
Non-controlling interests	<u>298,795</u>	<u>-</u>	<u>(105,868)</u>	<u>-</u>	<u>1,078,182</u>	<u>1</u>	<u>106,485</u>	<u>-</u>
	<u>\$ 59,174,046</u>	<u>50</u>	<u>\$ (17,615,032)</u>	<u>(13)</u>	<u>\$ 191,422,896</u>	<u>79</u>	<u>\$ (53,004,643)</u>	<u>(21)</u>
EARNINGS PER SHARE (Note 27)								
Basic earnings per share	<u>\$ 1.40</u>		<u>\$ 0.87</u>		<u>\$ 2.45</u>		<u>\$ 2.71</u>	

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

(With Deloitte & Touche audit report dated August 15, 2019)

(Concluded)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company											Other Equity			Total	Non-controlling Interests	Total Equity
	Share Capital			Retained Earnings			Exchange Differences on Translating the Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Gain (Loss) on Hedging Instruments	Changes in the Fair Value Attributable to Changes in the Credit Risk of Financial Liabilities Designated as at Fair Value Through Profit or Loss	Remeasurement of Defined Benefit Plans	Property Revaluation Surplus	Other Comprehensive Income (Loss) Reclassified Using the Overlay Approach			
	Ordinary Shares	Preference Shares	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings											
BALANCE, AT JANUARY 1, 2018	\$ 125,632,102	\$ 8,333,000	\$ 130,452,105	\$ 35,339,841	\$ 149,106,971	\$ 99,296,739	\$ (10,823,242)	\$ -	\$ 53,789,800	\$ 203,647	\$ (1,191,027)	\$ (1,449,679)	\$ 10,376,814	\$ -	\$ 599,067,071	\$ 9,403,472	\$ 608,470,543
Effect of retrospective application and restatement	-	-	-	-	-	(3,653,038)	-	37,343,476	(53,789,800)	-	-	-	-	55,941,777	35,842,415	8,904	35,851,319
BALANCE, AT JANUARY 1, 2018 AS RESTATED	125,632,102	8,333,000	130,452,105	35,339,841	149,106,971	95,643,701	(10,823,242)	37,343,476	-	203,647	(1,191,027)	(1,449,679)	10,376,814	55,941,777	634,909,486	9,412,376	644,321,862
Appropriation of earnings for the year 2017	-	-	-	5,636,280	-	(5,636,280)	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	5,636,280	-	(5,636,280)	-	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	234,146	(234,146)	-	-	-	-	-	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	-	(31,408,025)	-	-	-	-	-	-	-	-	(31,408,025)	-	(31,408,025)
Cash dividends on preferred shares	-	-	-	-	-	(1,899,924)	-	-	-	-	-	-	-	-	(1,899,924)	-	(1,899,924)
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	38	-	-	-	-	-	-	-	-	-	-	-	38	-	38
Net income for the six months ended June 30, 2018	-	-	-	-	-	35,983,223	-	-	-	-	-	-	-	-	35,983,223	31,176	36,014,399
Other comprehensive income (loss) for the six months ended June 30, 2018, net of income tax	-	-	-	-	-	-	126,542	(57,180,515)	-	(29,446)	1,127,633	42,180	46,241	(33,226,986)	(89,094,351)	75,309	(89,019,042)
Total comprehensive income (loss) for six months ended June 30, 2018	-	-	-	-	-	35,983,223	126,542	(57,180,515)	-	(29,446)	1,127,633	42,180	46,241	(33,226,986)	(53,111,128)	106,485	(53,004,643)
Issuance of preferred shares	-	7,000,000	35,000,000	-	-	-	-	-	-	-	-	-	-	-	42,000,000	-	42,000,000
Disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	(5,862,293)	-	5,862,293	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	5,002	50,142	-	-	-	-	-	-	(55,144)	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(338,356)	(338,356)
BALANCE, AT JUNE 30, 2018	\$ 125,632,102	\$ 15,333,000	\$ 165,452,143	\$ 40,976,121	\$ 149,346,119	\$ 86,636,398	\$ (10,696,700)	\$ (13,974,746)	\$ -	\$ 174,201	\$ (63,394)	\$ (1,407,499)	\$ 10,367,911	\$ 22,714,791	\$ 590,490,447	\$ 9,180,505	\$ 599,670,952
BALANCE, AT JANUARY 1, 2019	\$ 125,632,102	\$ 15,333,000	\$ 165,449,364	\$ 40,976,121	\$ 149,346,119	\$ 95,553,376	\$ (12,149,871)	\$ (17,586,946)	\$ -	\$ 173,289	\$ 774,084	\$ (1,321,138)	\$ 10,367,911	\$ (52,816,081)	\$ 519,731,330	\$ 9,557,665	\$ 529,288,995
Appropriation of earnings for the year 2018	-	-	-	5,146,724	-	(5,146,724)	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	5,146,724	-	(5,146,724)	-	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	72,631,553	(72,631,553)	-	-	-	-	-	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	-	(15,075,852)	-	-	-	-	-	-	-	-	(15,075,852)	-	(15,075,852)
Cash dividends on preferred shares	-	-	-	-	-	(2,667,891)	-	-	-	-	-	-	-	-	(2,667,891)	-	(2,667,891)
Cash dividends on capital surplus	-	-	(3,768,963)	-	-	-	-	-	-	-	-	-	-	-	(3,768,963)	-	(3,768,963)
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	8,807	-	-	-	-	-	-	-	-	-	-	-	8,807	-	8,807
Net income for the six months ended June 30, 2019	-	-	-	-	-	33,439,769	-	-	-	-	-	-	-	-	33,439,769	694,062	34,133,831
Other comprehensive income for the six months ended June 30, 2019, net of income tax	-	-	-	-	-	-	1,610,240	69,996,794	-	70,798	(1,422,911)	6,804	872,403	85,770,817	156,904,945	384,120	157,289,065
Total comprehensive income for six months ended June 30, 2019	-	-	-	-	-	33,439,769	1,610,240	69,996,794	-	70,798	(1,422,911)	6,804	872,403	85,770,817	190,344,714	1,078,182	191,422,896
Disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	(2,537,695)	-	2,537,695	-	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(461,308)	(461,308)
BALANCE, AT JUNE 30, 2019	\$ 125,632,102	\$ 15,333,000	\$ 161,689,208	\$ 46,122,845	\$ 221,977,672	\$ 30,933,430	\$ (10,539,631)	\$ 54,947,543	\$ -	\$ 244,087	\$ (648,827)	\$ (1,314,334)	\$ 11,240,314	\$ 32,954,736	\$ 688,572,145	\$ 10,174,539	\$ 698,746,684

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

(With Deloitte & Touche audit report dated August 15, 2019)

# CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Six Months Ended	
	June 30	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 39,737,141	\$ 37,552,287
Adjustments for:		
Depreciation expenses	1,924,701	1,272,514
Amortization expenses	1,568,740	1,508,163
Bad debt expense	233,319	1,443,618
(Gain) loss on financial assets and liabilities at fair value through profit or loss	(93,526,936)	50,226,330
Interest expense	12,013,789	10,704,571
Gain on derecognition of financial assets measured at amortized cost	(1,484,184)	(535)
Interest income	(109,415,297)	(95,804,662)
Dividend income	(8,512,309)	(6,760,430)
Net change in insurance liabilities	173,648,258	201,220,942
Net changes in other - provisions	7,806,626	3,760,915
Share of gain of associates accounted for using the equity method	(760,301)	(537,062)
Loss (gain) on reclassification using the overlay approach	95,407,219	(36,387,275)
Loss on disposal and retirement of property and equipment	4,178	2,905
Loss (gain) on disposal of investment properties	21,395	(14,723)
Loss on disposal of investments	-	10,773
Gain on disposal of investments	(27,315)	(1,735)
Impairment loss recognized (reversed) on financial assets	(618,084)	247,042
Unrealized loss on foreign currency exchange	-	42,868
(Gain) loss on changes in fair value of investment properties	(519,055)	656,636
Net changes in operating assets and liabilities		
Increase in due from the Central Bank and other banks	(1,477,603)	(2,175,522)
Decrease in financial assets at fair value through profit or loss	103,268,986	133,213,219
Decrease (increase) in financial assets at fair value through other comprehensive income	89,759,184	(8,760,659)
Increase in investments in debt instruments at amortized cost	(227,059,852)	(251,766,443)
Decrease in financial assets for hedging	86,561	938
Increase in receivables	(17,507,906)	(9,504,649)
Decrease (increase) in loans	72,876,329	(81,534,827)
Increase in reinsurance assets	(271,913)	(540,869)
Decrease (increase) in other financial assets	434,820	(1,518,859)
Decrease (increase) in other assets	570,331	(24,166,138)
Increase in due to the Central Bank and other banks	18,708,680	1,169,151
Decrease in financial liabilities at fair value through profit or loss	(83,762,876)	(7,490,176)
Decrease in securities sold under repurchase agreements	(23,963,712)	(6,953,893)
Increase in payables	4,770,449	124,946
Increase in deposits and remittances	50,798,915	58,094,774
(Decrease) increase in reserve for employee benefits liabilities	(56,579)	70,474
Increase (decrease) in provisions	82,754	(248,007)

(Continued)

# CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Six Months Ended June 30	
	2019	2018
(Decrease) increase in other financial liabilities	\$ (6,529,261)	\$ 11,687,687
Decrease in other liabilities	<u>(949,609)</u>	<u>(8,708,924)</u>
Cash generated from (used in) operations	97,279,583	(29,864,635)
Interest received	100,842,917	86,647,136
Dividends received	8,573,236	7,176,693
Interest paid	(13,194,338)	(11,170,378)
Income tax paid	<u>(6,316,980)</u>	<u>(8,338,162)</u>
Net cash generated from operating activities	<u>187,184,418</u>	<u>44,450,654</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of financial assets at fair value through other comprehensive income	(26,030,538)	(19,792,584)
Proceeds from disposal of financial assets at fair value through other comprehensive income	27,082,538	16,525,595
Acquisition of financial assets at fair value through profit or loss	(438,243)	(300,457)
Proceeds from disposal of financial assets at fair value through profit or loss	139,703	107,997
Acquisition of investments accounted for using equity method	(2,588,210)	(5,748,225)
Proceeds from disposal of investments accounted for using equity method	86,149	119,873
Proceeds from disposal of subsidiaries	9,329	-
Cash returned by capital deduction from investments accounted for using equity method	5,166	3,232
Acquisition of property and equipment	(840,976)	(1,354,687)
Proceeds from disposal of property and equipment	17,699	2,796
Increase in refundable deposits	-	(31,428)
Acquisition of intangible assets	(444,640)	(180,222)
Acquisition of investment properties	(3,094,991)	(1,802,103)
Proceeds from disposal of investment properties	114,250	100,700
Decrease (increase) in other assets	4,470,146	(11,983,925)
Dividends received	<u>3,497</u>	<u>2,541</u>
Net cash used in investing activities	<u>(1,509,121)</u>	<u>(24,330,897)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in short-term borrowings	(102,462)	(226,597)
(Decrease) increase in short-term borrowings	(16,828,126)	2,380,000
Issuance of corporate bonds	30,000,000	-
Repayment of financial debentures	(200,000)	(7,750,000)
Repayment of the principal portion of lease liabilities	(912,802)	-
Decrease in other liabilities	(124,931)	(1,286,349)

(Continued)

# CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Six Months Ended June 30	
	2019	2018
Issuance of common stock for cash	\$ -	\$ 42,000,000
Changes in non-controlling interests	<u>(461,304)</u>	<u>(56,812)</u>
Net cash generated from financing activities	<u>11,370,375</u>	<u>35,060,242</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>291,814</u>	<u>799,738</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	197,337,486	55,979,737
CASH AND CASH EQUIVALENTS, AT BEGINNING OF THE PERIOD	<u>310,798,346</u>	<u>415,218,017</u>
CASH AND CASH EQUIVALENTS, AT END OF THE PERIOD	<u>\$ 508,135,832</u>	<u>\$ 471,197,754</u>
Reconciliation of cash and cash equivalents:		
	2019	2018
Cash and cash equivalents presented in the consolidated balance sheets	\$ 327,504,526	\$ 309,655,895
Due from the Central Bank and call loans to other banks qualified for cash and cash equivalents under the definition of IAS 7	88,229,798	52,499,598
Securities purchased under resale agreements qualified for cash and cash equivalents under the definition of IAS 7	<u>92,401,508</u>	<u>109,042,261</u>
Cash and cash equivalents at the end of the periods	<u>\$ 508,135,832</u>	<u>\$ 471,197,754</u>

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

(With Deloitte & Touche audit report dated August 15, 2019)

(Concluded)

# CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. GENERAL INFORMATION

On December 31, 2001, Cathay Financial Holding Co., Ltd. (the “Company” or “Cathay Financial Holdings”) was incorporated through a share swap with Cathay Life Insurance Co., Ltd. (“Cathay Life”) pursuant to the Financial Holding Company Act, Company Act and related laws and regulations and Cathay Life became a wholly-owned subsidiary of the Company; meanwhile, Cathay Life’s shares were delisted and the Company’s shares have been listed on the Taiwan Stock Exchange since the same day.

On April 22, 2002, Cathay Century Insurance Co., Ltd. (“Cathay Century”) and Cathay Commercial Bank Co., Ltd. (“Cathay Bank”) became wholly-owned subsidiaries of the Company through share swaps. On December 18, 2002, United World Chinese Commercial Bank Co., Ltd. (“UWCCB”) also became a wholly-owned subsidiary of the Company through a share swap. On October 27, 2003, UWCCB was merged with Cathay Bank in accordance with the Financial Institutions Meger Act and related laws and regulations; UWCCB was the surviving company and was re-named to Cathay United Bank Co., Ltd. (“Cathay United Bank”). The Company acquired all issued shares of Lucky Bank Inc. through a share swap on August 25, 2006. To expand business scale and improve competitiveness, Cathay United Bank merged with Lucky Bank on January 1, 2007 and acquired specific assets, liabilities, and business of China United Trust & Investment Corporation (“CUTIC”) on December 29, 2007.

On May 12, 2004, the Company incorporated Cathay Securities Corporation (“Cathay Securities”) as a wholly owned subsidiary. Cathay Venture Inc. (“Cathay Venture”) was incorporated on April 10, 2003; as resolved by the board of directors on August 10, 2009, Cathay Venture was merged with Cathay Venture, Cathay II Venture and Cathay Capital Management and Cathay Venture was the surviving company. On June 13, 2011, the Company was approved to acquire Cathay Securities Investment Trust Co., Ltd. (Cathay Securities Investment Trust) by the Financial Supervisory Commission (“FSC”) and acquired all issued shares of Cathay Securities Investment Trust by cash on June 24, 2011.

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

Since July 29, 2003, the Company has listed a portion of its ordinary shares on the Luxembourg Stock Exchange in the form of Global Depositary Shares (GDSs). The Company’s registered office and the main business location is at No. 296, Jen Ai Road, Section 4, Taipei, R.O.C. The Company is mainly engaged in the financial holding business.

The consolidated financial statements are presented in the Company’s functional currency, the New Taiwan dollars.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors and authorized for issue on August 15, 2019.



### 3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Public Banks and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by FSC.

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Public Banks and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the accounting policies of the Company and its subsidiaries (“the Group”):

- IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

#### Definition of a lease

The Group elects to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

#### The Group as lessee

The Group recognizes right-of-use assets or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, The Group present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts, including property interest qualified as investment properties, were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows.

The Group elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information is not restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17 and were measured at the present value of the remaining lease payments. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments, except for those that met the definition of investment properties and measured at fair value on that date. The Group applies IAS 36 to all right-of-use assets, except for those that met the definition of investment property.

The Group also applies the following practical expedients:

- a) The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Group accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

The difference between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 24,039,821
Less: Recognition exemption for short-term leases	(506,897)
Less: Recognition exemption for leases of low-value assets	<u>(632,755)</u>
Undiscounted amount on January 1, 2019	<u>\$ 22,900,169</u>
Discounted lease liabilities recognized on January 1, 2019	<u>\$ 12,865,946</u>

The Group as lessor

The Group does not make any adjustments for leases in which it is a lessor, and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	<b>As Originally Stated on January 1, 2019</b>	<b>Adjustments Arising from Initial Application</b>	<b>Restated on January 1, 2019</b>
Right-of-use assets	\$ -	\$ 4,143,676	\$ 4,143,676
Investment properties	319,222,554	9,014,035	328,236,589
Other assets	<u>76,357,835</u>	<u>(362,993)</u>	<u>75,994,842</u>
Total effect on assets	<u>\$ 395,580,389</u>	<u>\$ 12,794,718</u>	<u>\$ 408,375,107</u>
Payables	\$ 66,727,399	\$ (71,228)	\$ 66,656,171
Lease liabilities	<u>-</u>	<u>12,865,946</u>	<u>12,865,946</u>
Total effect on liabilities	<u>\$ 66,727,399</u>	<u>\$ 12,794,718</u>	<u>\$ 79,522,117</u>

- b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2020

<b>New IFRSs</b>	<b>Effective Date Announced by IASB</b>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 2)

Note 1: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 2: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

- c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note)</b>
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021

Note: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

- IFRS 17 “Insurance Contracts”

IFRS 17 sets out the accounting standards for insurance contracts that will supersede IFRS 4. The main standards of IFRS 17 are as follows:

Level of aggregation

IFRS 17 requires the Group to identify portfolios of insurance contracts, which comprises contracts that are subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together. Each portfolio of insurance contracts issued shall be divided into a minimum of:

- 1) A group of contracts that are onerous at initial recognition;
- 2) A group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently;
- 3) A group of the remaining contracts in the portfolio.

The Group is not permitted to include contracts issued more than one year apart in the same group.

### Recognition

The Group shall recognize a group of insurance contracts it issues from the earliest of the following:

- 1) The beginning of the coverage period of the Group of contracts;
- 2) The date when the first payment from a policyholder in the Group becomes due; and
- 3) For a group of onerous contracts, when the Group becomes onerous.

### Measurement at initial recognition

The Group shall include all the future cash flows within the boundary of each contract in the Group. The fulfilment cash flows comprises estimates of future cash flows, an adjustment to reflect the time value of money, and a risk adjustment for non-financial risk. The contractual service margin represents the unearned profit of the Group of insurance contracts that the Group will recognize as it provides services in the future. This is measured on initial recognition of a group of insurance contracts at an amount that, unless the Group of contracts is onerous, results in no income or expenses arising from:

- 1) The initial recognition of an amount for the fulfilment cash flows;
- 2) The derecognition at that date of any asset or liability recognized for insurance acquisition cash flows; and
- 3) Any cash flows arising from the contracts in the Group at that date.

### Subsequent measurement

On subsequent measurement, 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. The liability for remaining coverage comprises the fulfilment cash flows related to future services and the contractual service margin of the Group at that date. On subsequent measurement, if a group of insurance contracts becomes onerous or more onerous, that excess shall be recognized in profit or loss.

### Onerous contracts

An insurance contract is onerous at initial recognition if the total of the fulfilment cash flows, any previously recognized acquisition cash flows and any cash flows arising from the contract at that date is a net outflow. The Group shall recognize a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the Group being equal to the fulfilment cash flows and the contractual service margin of the Group being zero. The contractual service margin cannot increase and no revenue can be recognized, until the onerous amount previously recognized has been reversed in profit or loss as part of a service expense.

### Premium Allocation Approach (PAA)

The Group may simplify the measurement of the liability for remaining coverage of a group of insurance contracts using the Premium Allocation Approach (PAA) on the condition that, at the inception of the Group:

- 1) The Group reasonably expects that this will be a reasonable approximation of the general model, or
- 2) The coverage period of each contract in the Group is one year or less.

At the inception of the Group, if the Group expects significant variances in the fulfilment cash flows during the period before a claim is incurred, such contracts are not eligible to apply the PAA.

When using the PAA, the liability for remaining coverage shall be initially recognized as the premiums, if any, received at initial recognition, minus any insurance acquisition cash flows. Subsequently the carrying amount of the liability is the carrying amount at the start of the reporting period plus the premiums received in the period, minus insurance acquisition cash flows, plus amortization of acquisition cash flows, minus the amount recognized as insurance revenue for coverage provided in that period, and minus any investment component paid or transferred to the liability for incurred claims.

#### Investment contracts with discretionary participation features

An investment contract with discretionary participation features is a financial instrument and it does not include a transfer of significant insurance risk. It is in the scope of the standard only if the issuer also issues insurance contracts. The requirements of the Standard are modified for such investment contracts.

#### Modification and derecognition

If the terms of an insurance contract are modified, the Group shall derecognize the original contract and recognize the modified contract as a new contract if there is a substantive modification, based on meeting any of the specified criteria.

The Group shall derecognize an insurance contract when it is extinguished, or if any of the conditions of a substantive modification of an insurance contract are met.

#### Transition

The Group shall apply the standard retrospectively unless impracticable, in which case entities have the option of using either the modified retrospective approach or the fair value approach.

Under the modified retrospective approach, an entity shall utilize reasonable and supportable information and maximize the use of information that would have been used to apply a full retrospective approach, but need only use information available without undue cost or effort. The Group shall utilize the fair value approach if reasonable and supportable information is unavailable.

Under the fair value approach, the Group determines the contractual service margin at the transition date as the difference between the fair value of a group of insurance contracts at that date and the fulfilment cash flows measured at that date.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Statement of Compliance**

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Statements by Insurance Companies, Guidelines Governing the Preparation of Financial Reports by Public Banks, Guidelines Governing the Preparation of Financial Statements by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants and IAS 34 “Interim Financial Reporting” as endorsed and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

##### **Basis of Preparation**

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments and investment properties which are measured at fair values, and net defined benefit assets which are measured at the fair value of plan assets less the present value of the defined benefit obligation.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- c. Level 3 inputs are unobservable inputs for the asset or liability.

##### **Basis of Consolidation**

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate.

Adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

See Note 12 for the detailed information of subsidiaries, including the percentage of ownership and main business.

##### **Foreign Currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity’s functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income; in which cases, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purpose of presenting the consolidated financial statements, the functional currencies of the Company and the group entities (including subsidiaries and associates in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to the non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

### **Investments in Associates**

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture. The Group uses the equity method to account for its investments in associates.

Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group's share of the equity of associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates accounted for using the equity method. If the Group's ownership interest is reduced due to its additional subscription of the new shares of the associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required had the investee directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required had that associate directly disposed of the related assets or liabilities. 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 Group continues to apply the equity method and does not remeasure the retained interest.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate and are recognized in the Group's consolidated financial statements only to the extent that interests in the associate are not related to the Group.

### **Property and Equipment**

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss.

Property and equipment in the course of construction are measured at cost less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property and equipment when completed and ready for their intended use.

Depreciation of property and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If the lease terms of an item of property and equipment is shorter than its useful life, such asset is depreciated over its lease term. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.



On derecognition of an item of property and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

### **Investment Properties**

Investment properties are properties held to earn rentals and or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Freehold investment properties are measured initially at cost, including transaction costs. Beginning January 1, 2019, investment properties acquired through leases are initially measured at cost. All investment properties are subsequently measured using the fair value model. Changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Investment properties under construction, of which their fair values are not reliably measurable, are measured at cost less accumulated impairment loss until such time as either the fair value becomes reliably measureable or the construction is completed (whichever comes earlier).

For a transfer of classification from investment properties to property and equipment, the deemed cost of the property for subsequent accounting is its fair value at the commencement of owner-occupation. For a transfer of classification from property and equipment to investment properties at the end of owner-occupation, any difference between the fair value of the property at the transfer date and its previous carrying amount is recognized in other comprehensive income.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

### **Goodwill**

Goodwill arising from the acquisition of a business is measured at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as "cash-generating units") that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation which is disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

## **Intangible Assets**

### a. Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

### b. Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

### c. Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

## **Impairment of Tangible and Intangible Assets Other Than Goodwill**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives are tested for impairment at least annually and whenever there is an indication that the assets may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

## **Financial Instruments**

Financial assets and financial liabilities are recognized when an entity in the Group becomes a party to the contractual provisions of the instruments.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (“FVTPL”)) are added to the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

a. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

1) Measurement category

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and investments in debt instruments and equity instruments at fair value through other comprehensive income (“FVTOCI”).

a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are mandatorily classified or designated as at FVTPL, including investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss. Fair value is determined in the manner described in Note 36.

In addition, to reduce the fluctuations in profit or loss due to that IFRS 9 is applied earlier than IFRS 17, the Group elects to remove profit or loss arising from changes in fair value in subsequent measurement and presented it in other comprehensive income based on overlay approach under IFRS 4. Overlay approach is applied to financial assets if all of the following conditions are met:

- i. The financial assets are held in respect of activities related to IFRS 4;
- ii. The financial assets are measured at FVTPL under IFRS 9, but would not have been measured at FVTPL under IAS 39; and
- iii. The financial assets are designated to apply overlay approach at the first application of IFRS 9, in the initial recognition of a new financial asset or when a financial asset starts to meet the criteria.

b) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii. 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.

Subsequent to initial recognition, financial assets at amortized cost are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

- i. Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- ii. Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

Cash and cash equivalents include cash on hand, cash in banks and time deposits or investment which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Time deposits with maturities within 12 months, which are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value are classified as cash equivalents.

c) Investments in debt instruments at FVTOCI

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- i. The debt instrument is held within a business model which is achieved by both the collecting of contractual cash flows and the selling of such financial assets; and
- ii. The contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Investments in debt instruments at FVTOCI are subsequently measured at fair value. Changes in the carrying amounts of these debt instruments relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and impairment losses or reversals are recognized in profit or loss. Other changes in the carrying amount of these debt instruments are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of.

d) Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2) Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including receivables and loans) and investments in debt instruments that are measured at FVTOCI.

The Group always recognizes lifetime expected credit losses (ECLs) for receivables. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measure the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group uses the total carrying amount of financial assets measured at amortized cost (including receivables and loans), investments in debt instruments at FVTOCI, and off balance sheet commitments to measure the amount of exposure at default (EAD).

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of such a financial asset.

In addition, in accordance with the Regulations for Handling Assessment of Assets, Non-performing Loans, Non-accrual Receivable and Bad Debts by Insurance Enterprises, credit assets are classified as normal assets (“First Category”), assets that require special mention (“Second Category”), assets that are substandard (“Third Category”), assets that are doubtful (“Fourth Category”) and assets for which there is loss (“Fifth Category”) based on the borrower’s financial conditions and the delay for payment of principal and interests as well as the status of the loan collaterals and the length of time overdue. Cathay Life and Cathay Century are required to record the minimum amounts based upon each of the following category for allowance of uncollectible accounts:

- a) The sum of 0.5% of the ending balance for the first category of loan assets excluding life insurance loans, premium loans and local government bonds, 2% of the ending balance for the second category of loan assets, 10% of the ending balance for the third category of loan assets, as well as 50% and 100% of the ending balance for the fourth and fifth category of loan assets.
- b) 1% of the sum of the ending balance for all five categories of loan assets excluding life insurance policy loans, premium loans and local government bonds.
- c) Total unsecured portion of non-performing loans and non-accrual receivables.

Besides, pursuant to Jin Guan Bao Tsai No.10402506096, Cathay Life and Cathay Century shall keep the ratio of the allowance for bad debt over the loans at least 1.5% to strengthen their ability against loss exposure to specific loan assets.

Under the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans, the Bank should classify credit assets as normal credit assets (excluding assets that represent claims against an ROC government agency) or unsound credit assets, with the unsound assets further categorized as special mention, substandard, doubtful and losses, on the basis of the customers’ financial position, valuation of collaterals and the length of time the principal repayments or interest payments have become overdue. Cathay United Bank makes minimum provisions of 100%, 50%, 10%, 2% and 1% of the outstanding balance of credit assets categorized as losses, doubtful, substandard, special mention and normal, respectively. Furthermore, the FSC stipulates that banks should make at least 1.5% provision each for normal

credit assets in mainland China (including short-term advances for trade finance) and loans for house purchases, renovations and construction.

Cathay United Bank and its subsidiaries write off credits deemed uncollectable after the write-off is proposed and approved by the board of directors. Recoveries of credits written off are recognized as a reversal of loss provision in current period.

### 3) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of financial assets at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of investment in debt instruments at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of investment in equity instruments at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

### 4) Offsetting of financial instruments

Financial assets and financial liabilities are offset and presented in net in the consolidated balance sheet 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.

## b. Equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

## c. Financial liabilities

### 1) Subsequent measurement

Except financial liabilities at FVTPL, all financial liabilities are measured at amortized cost using the effective interest method:

#### Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when such financial liabilities are either held for trading or designated as at FVTPL.

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss.

Financial liabilities may be designated as at fair value through profit or loss upon initial recognition when doing so results in more relevant information and if:

- a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- b) The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and has performance evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- c) The contract contains one or more embedded derivatives so that the entire combined contract (asset or liability) can be designated as at fair value through profit or loss.

For a financial liability designated as at fair value through profit or loss, the amount of changes in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income and will not be subsequently reclassified to profit or loss. The remaining amount of changes in the fair value of that liability which does not incorporate any interest or dividends paid on the financial liability is presented in profit or loss. The gain or loss accumulated in other comprehensive income will be transferred to retained earnings when the financial liability is derecognized. If this accounting treatment related to credit risk would create or enlarge an accounting mismatch, all changes in fair value of the liability are presented in profit or loss.

Fair value is determined in the manner described in Note 36.

#### Financial guarantee contracts

Financial guarantee contracts issued by the Group, if not designated as at FVTPL, are subsequently measured at the higher of the amount of the loss allowance reflecting expected credit losses and the amount after amortization.

#### 2) Derecognition of financial liabilities

The difference between the carrying amount of a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

#### d. Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps, cross currency swaps and options.

Derivatives are initially recognized at fair value at the date on which the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument; in which event, the timing of the recognition in profit or loss depends on the nature of the hedging relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Derivatives embedded in hybrid contracts that contain financial asset hosts that is within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets that is within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative; their risks and characteristics are not closely related to those of the host contracts; and the host contracts are not measured at FVTPL.

## **Hedge Accounting**

The Group designates certain hedging instruments, which include derivatives, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations.

### **a. Fair value hedges**

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The changes in the fair value of the hedging instrument and the changes in the hedged item attributable to the hedged risk are recognized in profit or loss in the line item relating to the hedged item.

The Group discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised.

### **b. Cash flow hedges**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gains or losses relating to the ineffective portion are recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as reclassification adjustments in the line items relating to the related hedged item in the same period in which the hedged item affects profit or loss. If a hedge of a forecasted transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and included in the initial cost of the non-financial asset or non-financial liability.

The Group discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised. The cumulative gain or loss on the hedging instrument that was previously recognized in other comprehensive income (from the period in which the hedge was effective) remains separately in equity until the forecasted transaction occurs. When a forecasted transaction is no longer expected to occur, the gains or losses accumulated in equity are recognized immediately in profit or loss.

### **c. Hedges of net investments in foreign operations**

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income and accumulated under the heading of foreign currency translation reserve. The gains or losses relating to the ineffective portion are recognized immediately in profit or loss.

The gains and losses on the hedging instrument relating to the effective portion of the hedge, which were accumulated in the foreign currency translation reserve, are reclassified to profit or loss on the disposal or partial disposal of a foreign operation.



## **Securities Purchased/Sold Under Resale/Repurchase Agreements**

Securities purchased under resale agreements and securities sold under repurchase agreements are generally treated as collateralized financing transactions. Interest earned on resale agreements or interest incurred on repurchase agreements is recognized as interest revenue or interest expense over the life of each agreement.

## **Separate Accounts**

The Group sells separate account insurance products. The insurance premiums according to agreed terms paid by proposers, net of the expenses incurred by the insurer, are invested in separate accounts at allocation agreed with or directed by the proposers. The value of the separate account assets on the valuation date is measured at fair value and in accordance with the relevant regulations and Template of Accounting Rules by Life Insurance Enterprises.

In accordance with the Regulation Governing the Preparation of Financial Reports by Insurance Enterprises, the assets and liabilities of separate accounts, which are generated either from insurance contracts or from insurance contracts with features of financial instrument, are recorded in separate account insurance product assets and separate account insurance product liabilities. The revenue and expenses of separate accounts, pursuant to IFRS 4, are recorded in separate account insurance product revenue and separate account insurance product expenses.

## **Insurance Liability Reserves**

### **a. Cathay Life**

Funds reserved for insurance contracts and financial instruments with or without discretionary participation feature are determined in accordance with the Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises and validated by the certified actuarial professionals approved by the FSC. The provision of reserve for short-term group insurance is based upon the greater of the actual premium received or the premium calculated according to Tai-Tsai-Bao No. 852367814. Provision of reserve for the other insurance liabilities is as follows:

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

#### **1) Unearned premium reserve**

For an unexpired in-force contract with a policy period shorter than one year or an injury insurance policy with a policy period longer than one year, the calculation of unearned premium reserve is based on the unexpired risk of each insurance.

#### **2) Loss reserve**

Loss reserve is provided for claims filed but not yet paid and claims not yet filed. The reserve for claims filed but not yet paid is assessed based on the actual relevant information of each case and provided by insurance type. The reserve for claims not yet filed is provided based on the past experiences of actual claims and expenses in line with the actuarial principles for injury insurance and health or life insurance policies with a policy period shorter than one year.

#### **3) Policy reserve**

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

Starting from 2003 policy year, for in-force contracts whose bonus calculation is stipulated by Tai-Tsai-Bao No. 800484251, 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 issued by the authorities.

In accordance with Jin Guan Bao Tsai No. 10102500530 issued on January 19, 2012, from 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. Besides, life insurance enterprises shall reclassify the recoverable special reserve for major incidents defined in Article 19 of the Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises to life insurance reserve - recover from major incident reserve.

When an insurance enterprise elects to measure investment properties at fair value, it should also measure its insurance liabilities at fair value. If the results of the measurements indicate that the fair value of the insurance liabilities exceeds their book value, the insurance enterprise must set aside the difference to policy reserve and decrease retained earnings. Cathay life changed its accounting policy for subsequent measurement of investment properties from the cost method to the fair value method starting from 2014. In accordance with Jin Guan Bao Tsai No. 10302501161 issued on March 21, 2014, the fair value of insurance liabilities measured did not exceed their book value and no additional insurance liabilities should be provided accordingly.

#### 4) Special reserve

When selling participating life insurance policies, according to the Rule Governing application of revenue and expenses related to participating/nonparticipating policy reported to the authority, Cathay life is required to set aside a special reserve for dividend participation based on income before tax and dividend. On the date of declaration, dividends should be withdrawn from the special reserve - participating policies dividends reserve. The excess dividends should be accounted for as special reserve - provisions for risk of dividends.

According to Article 32 of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, the increments due to measuring the property at fair value, except for the portion in offsetting adverse effects of the first-time adoption of IFRSs on other accounts, the excess should be set aside as special reserve for revaluation increments of property under insurance liabilities.

#### 5) Premium deficiency reserve

For life insurance, health insurance and annuity insurance policies with policy periods longer than one year commencing from 2001, when the gross premium is less than the net premium used in the calculation of policy reserve, a deficiency reserve is required to set aside such deficiencies for remaining payment periods as a premium deficiency reserve. The premium deficiency reserve of each life insurance category should be calculated and recorded according to the specific method reported to the authorities.

In addition, for unexpired in-force contracts with policy periods shorter than one year and injury insurance policies with policy periods longer than one year, if the probable claims and expenses are greater than the aggregate of unearned premium reserves and estimated future premiums, the premium deficiency reserve is set aside based on the deficiencies by insurance type.

#### 6) Other reserves

Pursuant to IFRS 3 “Business Combinations”, Cathay Life recognizes other reserves to reflect the fair value of the life insurance contracts assumed at the time when the identifiable assets and assumed liabilities acquired from the business combination are recognized at fair value.

7) Liability adequacy reserve

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

b. Cathay Lujiazui Life Insurance Co., Ltd.

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

c. Cathay Life Insurance (Vietnam) Co., Ltd.

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

d. Cathay Century

Insurance liability reserves provided for insurance contracts should be audited by the actuaries certified by the FSC and should also conform to the Regulations Governing the Setting Aside of 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 the Regulations for the Reserves for Nuclear Energy Insurance.

The descriptions of these reserves are as follows:

1) Unearned premium reserve

For an in-force contract with a remaining policy period or an unexpired insured risk, the calculation of unearned premium reserve is based on the unexpired risk of each insurance.

Unearned premium reserve for compulsory automobile liability insurance contracts is provided in conformity with the Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance.

Unearned premium reserve for the policy-related residential earthquake insurance contracts is provided in conformity with the Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance.

Unearned premium reserve for nuclear energy insurance contracts is provided in conformity with the Regulations for the Reserves of Nuclear Energy Insurance.

Except as otherwise provided by regulations, the manners of provisions for unearned premium reserve are decided by actuaries according to the characteristics of each insurance, which can not be changed without permission by the authorities, and the year-end balance of unearned premium reserve should be audited by actuaries at the end of the year.

2) Loss reserve

Loss reserve is provided for claims filed but not yet paid and claims not yet filed by insurance type based on the past experiences of actual claims and expenses in line with the actuarial principles. The reserve for claims filed but not yet paid is assessed based on the actual relevant information of each case and provided by insurance type.

Loss reserve for the compulsory insurance contracts is provided in conformity with the Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance.

Loss reserve for policy-related residential earthquake insurance contracts is provided in conformity with the Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance.

Loss reserve for nuclear energy insurance contracts is provided in conformity with the Regulations for the Reserves for Nuclear Energy Insurance.

### 3) Special reserve

Special reserves are comprised of special reserves for catastrophic event and special reserves for fluctuation of risk. In accordance with the Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprise, the provision of special reserves should be recognized in special reserve under equity, net of tax by IAS 12. According to the Notice for the improvement of the reserves of natural disaster insurances (commercial-business earthquake, typhoon and flood insurances enterprises) for the special reserves under liabilities provided before December 31, 2012, the special reserves for catastrophic event and fluctuation of risk insurance types other than compulsory automobile insurance, nuclear energy insurance, residential earthquake insurance, commercial-business earthquake insurance and typhoon and flood insurance should be used to compensate the deficiencies of commercial-business earthquake insurance and typhoon and flood insurance to the required level and recognized as liabilities; the remaining should be reclassified to special reserve under equity, net of tax by IAS 12 starting from January 1, 2013. The write off and recovery of special reserve could be debited to special reserves recognized under liabilities first; if such reserves are not enough for the debit purpose, those insufficient amount would be debited to special reserves recognized under equity.

#### a) Special reserves for catastrophic event

Special reserves for catastrophic event is provided at the rates for each insurance type required by the authorities.

As a single event which meets the government's definition of major accident occurs, special reserves for catastrophic event can be reversed if the total retained claims for each insurance type of an individual company reaches \$30 millions and the total claims for each insurance type of all non-life insurance companies reaches \$2,000 millions.

Special reserves for catastrophic event that have been provided for more than 15 years may be reversed in the recovery manner prescribed by the appointed actuary, which should be filed with the authorities. In addition, such reserve for commercial-businesses earthquake insurance and typhoon and flood insurance may be reversed only if they have been provided for more than 30 years.

#### b) Special reserves for fluctuation of risk

For retained business of each insurance, when actual claims net of the debit amounts to special reserves for catastrophic events are lower than the expected claims, special reserves for fluctuation of risk should be provided as 15% of the differences and, especially for commercial-business earthquake insurance and typhoon and flood insurance, as 75% of the differences.

For retained business of each insurance, when actual claims net of the debit amounts to special reserves for catastrophic event is higher than the expected claims, the differences may be debited to the existing special reserves for fluctuation of risk. If the special reserves for fluctuation of risk for an insurance type are insufficient to cover the difference, the shortfall may be debited to the special reserves for fluctuation of risk of other insurance type. The insurance type and debit amounts for covering the shortfall should be filed with the authorities.

For each type of insurance, when the accumulated provisions of the special reserves for fluctuation of risk exceeds 60% (30% for accident insurance and health insurance) of the retained earned premiums for the current year, the excess should be recovered. For commercial-business earthquake insurance and typhoon and flood insurance, if the accumulated provisions of special reserves for fluctuation of risk exceed 8 times and 18 times, respectively, of the retained earned premiums for the current year, the recoveries should be treated as income.

#### 4) Premium deficiency reserve

For unexpired in-force contracts or unterminated incurred risks of each insurance, if the estimated amounts of the future claims and expenses exceed the sum of the unearned premium reserves and the expected future premium income, the deficiencies should be set aside as premium deficiency reserve.

#### 5) Policy reserve

The minimum provision for policy reserve for health insurance with policy periods longer than one year is determined by Full Preliminary Term method. However, the method of provision for health insurance with a special nature is regulated by the authorities.

#### 6) Liability adequacy reserve

For liability adequacy test of recognized insurance liabilities, the future cash flows should be estimated according to the current information for the insurance contracts at each reporting date, requested by IFRS 4. If the test result was inadequate, the shortfall should be recognized as a liability adequacy reserve.

### **Liability Adequacy Test**

Liability adequacy test is based on all insurance contracts and related requirements of ASP of IFRS 4 - contract classification and liability adequacy test announced by the Society of Actuaries. In this test, the amount of insurance liabilities net of deferred acquisition costs and related intangible assets is compared with the estimated present values of insurance contract cash flow at each reporting date. If the net book values are lower than the estimated present values, all insufficient amounts should be recognized in profit or loss.

### **Reserve for Insurance Contracts with the Nature of Financial Products**

For non-separate account insurance products classified as financial instruments without discretionary participation features, the reserve should be recognized in accordance with the Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises and depository accounting.

### **Reserve for Foreign Exchange Valuation**

Cathay Life calculates foreign exchange volatility reserve of all its foreign investments in accordance with the Regulations Governing the Setting Aside of various Reserve by Insurance Enterprises and Direction for Foreign Exchange Volatility Reserve by Life Insurance Enterprises.

## Revenue Recognition

### a. Cathay Life and its subsidiaries

- 1) For Cathay Life's insurance contracts and financial instruments with discretionary participation features, the initial and renewal premium are only recognized as revenue collection and underwriting procedures finished, and subsequent collection on the appointed dates, respectively. The relevant acquisition costs, such as commission expenses and underwriting expenses, are recognized as current expenses when the insurance contracts become effective.

For non-separate account insurance products classified as financial instruments without discretionary participation features, the insurance premium collected is recognized as reserves for insurance contract with the nature of financial products on the balance sheet.

For separate account insurance products classified as financial instruments without discretionary participation features, the insurance premium collected net of preprocessing expense or investment management fees is entirely recognized as separate account insurance product liabilities on the balance sheet. The acquisition costs incurred due to investment management services for such insurance products, such as commissions and incremental costs directly attributable to the issue of new contracts, are deferred and recorded under deferred acquisition costs and amortized on a straight-line basis over the service period. The amortization is recognized under other operating costs.

- 2) Cathay Lujiazui Life

In accordance with the related accounting laws and regulations issued by the local government, Cathay Lujiazui Life records direct premiums as revenue at premium received and invoices issued. Related expenses, such as commissions and underwriting fees, are recognized on an accrual basis.

- 3) Cathay Life (Vietnam)

In accordance with the related accounting laws and regulations issued by the local government, Cathay Life (Vietnam) records direct premiums as revenue at premium received and invoices issued. Related expenses, such as commissions and underwriting fees, are recognized on an accrual basis.

### b. Cathay United Bank and its subsidiaries

- 1) Recognition of interest revenue and expense

Except for the financial assets and liabilities at fair value through profit or loss, the interest revenue and interest expense arising from all interest-bearing financial instruments are calculated using the effective interest method in accordance with the relevant provisions and recognized in the consolidated statement of profit or loss under "interest revenue" and "interest expense" items.

- 2) Recognition of service fee revenue and expense

The service fee revenue and expense are recognized once after the completion of the provision of the loan or other services; if the service fee earned by the execution of the major project is recognized at the completion of the major project, service fee revenue and expense related to subsequent lending services are either amortized over the service period or included in the calculation of the effective interest rate on loans and receivables.

### 3) Customer loyalty program

The points earned by customers under loyalty programs are treated as multiple-element revenue arrangements, in which consideration is allocated to the goods or services and the award credits based on fair value through the eyes of the customer. The consideration is not recognized as earnings at the time of the original sales transaction but at the time when the points are redeemed and the obligation is fulfilled.

#### c. Cathay Century and its subsidiaries

Direct premiums are recognized for all insurance policies underwritten and issued in current periods. Ceded reinsurance premiums are usually recognized as the billing statements delivered, and, on the balance sheet date, reinsurance premiums not yet received are accrued in a reasonable and systematic manner. Related acquisition costs are recognized in the same periods, including commission expenses, agency fees, service fees and reinsurance commission expenses.

Claims and payments (including claim expenses) pertaining to the direct insurance business are recognized for paid claims which are reported and filed in current periods. For reported claims with determined amounts and payment procedures not yet finished and those without determined amounts, net changes in loss reserve for claims filed but not yet paid are assessed based on the actual relevant information of each case and provided by insurance type.

For direct insurance and for the ceding reinsurance, net changes in loss reserve for claim not yet filed are provided on the past experiences of claims and expenses in line with the actuarial principles.

For claims to be recovered from the reinsurer under the reinsurance contract, claims and payments recoverable from reinsurers are recognized for paid claims (including claim expenses), and net changes in loss reserve are recognized for claims (including claim expenses) filed but not yet paid and claims (including claim expenses) not yet filed.

Provision for loss reserve is undiscounted.

#### d. Cathay Securities and its subsidiaries

Revenues are mainly generated from brokerage, underwriting and advisory services. The services are based on stand-alone or negotiated pricing and provided based on the number of times services are provided. These services belong to the category where performance obligations are fulfilled at a point in time; thus, revenue is recognized when performance obligations are fulfilled.

### **Classification of Insurance Products**

An insurance contract refers to a contract where the insurer accepts the insurance policyholder's transfer of a significant insurance risk and agrees to compensate the policyholder for any damages caused by a particular uncertain future event (insured event). The Group's identification of a significant insurance risk refers to any insured event that occurs and causes the Group to incur additional significant payments.

Insurance contracts with features of financial instruments are contracts that transfer significant financial risks. Financial risks refer to the risks that the changes in one or more specific indicators may cause, including interest rates, financial commodity prices, product prices, exchange rates, price index, rate index, credit ratings and other indicators. If the above indicators are not financial, these indicators exist in both sides under the contracts.

For a policy that meets the definition of an insurance contract in the initial phase, it is treated as an insurance contract before the right of ownership and obligations expired or extinguished, even if the exposure to insurance risk during the policy period has significantly decreased. However, if an insurance contract with features of financial instruments transfers a significant insurance risk to the Group subsequently, the Group should reclassify the contract as an insurance contract.

Insurance contracts and those with features of financial instruments are further classified into separate categories depending on whether or not the contracts have discretionary participation features. Discretionary participation features refers to a contractual right to receive additional payments in addition to guaranteed payments from the contract. The contractual rights have the following characteristics:

- a. Additional payments as a percentage of total contractual payments may be significant.
- b. In accordance with the contract, the amount and date of payment for additional payments are at The Group's discretion.
- c. In accordance with the contract, additional payments are handed out based on one of the following matters:
  - 1) The performance of specific contracts or specific combination of contracts.
  - 2) Return on investment from a portfolio of specific assets held by The Group.
  - 3) Profit and loss from the Group, funds, or other entities.

When the embedded derivative instrument has economic characteristics and risks not closely related to those of the primary contracts, it should be recorded separately from the primary contracts and measured at fair value with changes in fair values recognized in profit or loss when incurred. However, if the embedded derivative instrument meets the definition of an insurance contract or the whole contract is measured at fair value with changes in fair values recognized in profit or loss when incurred, the Group does not separately recognize the embedded derivative instrument and the insurance contract.

## **Reinsurance**

In order to limit the possible losses caused by certain events, the Group arranges reinsurance business based on its business needs and related insurance regulations. For reinsurance of ceded businesses, the Group cannot refuse to fulfill its obligations to the insured because the reinsurer fails to fulfill its obligations.

The Group holds the rights over the reinsurer including reinsurance assets, claims and payments recoverable from reinsurers and net due from reinsurers and ceding companies, and regularly assesses if the rights are impaired or unrecoverable. If objective evidence, which occurred after initial recognition of reinsures assets, shows that the Group may not receive all amounts of receivables from the reinsurer and the unrecoverable amount can be reasonably estimated, the Group recognizes the difference between the recoverable amount of reinsurance assets and carrying value as an impairment loss.

For the classification of reinsurance contracts, the Group assesses whether or not such contracts transfer significant insurance risk to the reinsurer. If the reinsurance contract does not transfer a significant insurance risk to the reinsurer, the contract is recognized and measured in accordance with deposit accounting.

For a reinsurance contract that transfers a significant insurance risk, if the Group can measure its saving element separately, the insurance element and the saving element of the reinsurance contract are recognized separately. That is, the Group recognizes the contract premium received (or paid) less the amount of insurance as financial liabilities (or assets) rather than income (or expenses). The financial liabilities (or assets) are recognized at the fair values based on the present values of future cash flows.



## Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of each balance sheet date, taking into account the risks and uncertainty of the obligation.

## Leases

### 2019

At inception of a contract, the Group assesses whether the contract is, or contains, a lease.

#### a. The Group as lessor

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lease payments (less any lease incentives payable) from operating leases are recognized on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in obtaining operating leases are added to the carrying amounts of the underlying assets and amortized on a straight-line basis over the lease terms.

#### b. The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, and subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets, except for those that meet the definition of investment properties. With respect to the recognition and measurement of right-of-use assets that meet the definition of investment properties, refer to the accounting policies for investment properties.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

### 2018

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

a. The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and amortized on a straight-line basis over the lease term.

b. The Group as lessee

Operating lease payments are recognized as expenses on a straight-line basis over the lease terms.

### **Employee Benefits**

a. Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

b. Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets, is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plan or reductions in future contributions to the plans.

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

c. Termination benefits

A liability for a termination benefit is recognized at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognizes any related restructuring costs.

d. Employee preferential interest rate deposits

Cathay United Bank offers its employees preferential deposits, 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 deposits 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 exceeds the interest generated from the market rate, it should be considered the actuarial amount according to the defined benefit plan regulations under IAS 19 Employee Benefits since the employee's retirement date.

## **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

### **a. Current tax**

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

In accordance with Article 49 of the Financial Holding Company Act, the Company and its subsidiaries jointly filed income tax returns and surtax on unappropriated retained earnings since 2002 under the integrated income tax system with the Company as the tax payer. Such effects on current tax and deferred tax are accounted for as receivables or payables.

### **b. Deferred tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. If a temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, the resulting deferred tax asset or liability is not recognized. In addition, a deferred tax liability is not recognized on taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all temporary differences and loss carryforwards which are probably deductible.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. If investment properties measured using the fair value model are non-depreciable assets, or are held under a business model whose objective is not to consume substantially all of the economic benefits embodied in the assets over time, the carrying amounts of such assets are presumed to be recovered entirely through sale.

c. Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity; in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for the acquisition of a subsidiary, the tax effect is included in the accounting for the investments in the subsidiary.

## **5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

a. Estimated impairment of financial assets

The provisions for impairment of receivables, loans and investments in debt instruments are based on assumptions about probability of default and expected credit loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. Where the actual future cash inflows are less than expected, a material impairment loss may arise. For details of the key assumptions and inputs used, refer to Note 36.

b. Fair value measurements and valuation processes

Where some of the Group's assets and liabilities measured at fair value have no quoted prices in active markets, the Group, in accordance with relevant regulations or based on own judgment, determines the appropriate valuation techniques for the fair value measurements and whether to engage third party qualified valuers.

Where Level 1 inputs are not available, the Group or engaged valuers determine the appropriate inputs by referring to the analyses of the financial position and the operating results of the investees, recent transaction prices, prices of the same equity instruments not quoted in active markets, quoted prices of similar instruments in active markets, and valuation multiples of comparable entities/market prices or rates and specific features of derivatives, the existing lease contracts and rentals of similar properties in the vicinity of the Group's investment properties. If the actual changes of inputs in the future differ from expectation, the fair value might vary accordingly. The Group updates inputs every quarter to confirm the appropriateness of the fair value measurement.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities is disclosed in Notes 14 and 36.

c. Valuation of insurance contract liabilities

1) Cathay Life and its subsidiaries

Policy reserves for insurance contracts and investment contracts with discretionary participation features are based on actuarial models and assumptions made as the insurance contracts were established, which include the mortality rate, interest rate, lapse rate, morbidity rate, etc. The assumptions are made based on the related laws and regulations.

All insurance contracts are subject to a liability adequacy test, which reflects the best current estimate of future cash flows. 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 expenses are based on current expense levels, adjusted using the expected expense inflation, if appropriate. Surrender rates are based on the Company's historical experience.

The management examines these estimates regularly and makes adjustments when necessary, but actual results may differ from these estimates.

2) Cathay Century and its subsidiaries

Loss reserves are assessed according to claims filed but not paid and claims not yet filed for all insurance contracts; such estimates are made on historical data, actuarial analysis, financial modeling and other analytical techniques and are adjusted when necessary; however, the actual results may differ from these estimates.

**6. CASH AND CASH EQUIVALENTS**

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Cash on hand	\$ 17,249,280	\$ 17,257,240	\$ 18,586,361
Cash in banks	123,032,908	80,146,106	95,403,158
Time deposits	119,380,036	52,709,964	77,494,302
Checks for clearing	6,074,975	7,060,146	8,188,053
Cash equivalents	15,039,560	5,608,762	22,656,795
Due from banks	46,745,792	43,812,218	87,335,745
Less: Loss allowance	<u>(18,025)</u>	<u>(18,382)</u>	<u>(8,519)</u>
	<u>\$ 327,504,526</u>	<u>\$ 206,576,054</u>	<u>\$ 309,655,895</u>

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2019	December 31, 2018	June 30, 2018
<u>Financial assets mandatorily classified as at FVTPL</u>			
Non-derivative financial assets			
Stocks	\$ 602,909,992	\$ 673,969,471	\$ 687,367,571
Funds and beneficiary certificates	422,082,743	293,491,136	290,583,450
Government bonds	39,467,355	25,763,954	24,518,051
Corporate bonds	5,871,314	7,429,409	16,309,283
Financial debentures	27,176,975	25,818,154	58,039,283
Overseas bonds	220,844,501	188,524,736	141,723,037
Short-term notes	127,927,935	162,478,515	135,237,364
Futures trading margin	1,005,852	433,813	838,062
Derivative instruments	<u>65,303,026</u>	<u>50,914,861</u>	<u>68,809,935</u>
	<u>\$ 1,512,589,693</u>	<u>\$ 1,428,824,049</u>	<u>\$ 1,423,426,036</u>
<u>Financial liabilities at FVTPL</u>			
Designated as at FVTPL			
Bonds	\$ 58,349,871	\$ 51,441,482	\$ 52,116,988
Held for trading			
Derivative instruments	80,746,580	75,735,636	113,870,627
Security lending payable (non-hedging)	1,579,569	2,141,592	1,622,147
Security lending payable (hedging)	<u>150,546</u>	<u>380,186</u>	<u>86,868</u>
	<u>\$ 140,826,566</u>	<u>\$ 129,698,896</u>	<u>\$ 167,696,630</u>

- a. The Group elected to present the profit or loss of the designated financial assets using the overlay approach under IFRS 4 “Insurance Contracts”. Financial assets designated for the overlay approach by the Group for investing activities relating to insurance contracts issued by the Group are as follows:

	June 30, 2019	December 31, 2018	June 30, 2018
<u>Financial assets mandatorily classified as at FVTPL</u>			
Stocks	\$ 589,936,724	\$ 660,063,193	\$ 675,011,556
Funds and beneficiary certificates	383,019,456	277,643,018	254,807,025
Financial debentures	16,805,682	17,859,589	17,806,280
Overseas bonds	<u>219,967,392</u>	<u>187,795,448</u>	<u>138,619,826</u>
	<u>\$ 1,209,729,254</u>	<u>\$ 1,143,361,248</u>	<u>\$ 1,086,244,687</u>

Reclassification from profit or loss to other comprehensive income of the financial assets designated to apply overlay approach for the three months and six months ended June 30, 2019 and 2018 are as below:

	For the Three Months Ended		For the Six Months Ended	
	June 30		June 30	
	2019	2018	2019	2018
Gain due to application of IFRS 9 to profit or loss	\$ 34,317,508	\$ 11,867,903	\$ 137,252,081	\$ 14,922,503
Gain if applying IAS 39 to profit or loss	<u>(22,605,032)</u>	<u>(22,068,861)</u>	<u>(41,844,862)</u>	<u>(51,309,778)</u>
Loss (gain) reclassified due to application of overlay approach	<u>\$ 11,712,476</u>	<u>\$ (10,200,958)</u>	<u>\$ 95,407,219</u>	<u>\$ (36,387,275)</u>

Due to application of overlay approach, the amount of gain and loss on financial assets and liabilities at the FVTPL for the three months and the six months ended June 30, 2019 and 2018 decreased from gain of \$13,763,778 thousand to gain of \$2,051,302 thousand, and decreased from loss of \$72,558,295 thousand to loss of \$62,357,337 thousand, and decreased from gain of \$100,918,201 thousand to gain of \$5,510,982 thousand, and decreased from loss of \$40,787,307 thousand to loss of \$4,400,032 thousand, respectively.

- b. As of June 30, 2019, December 31, 2018 and June 30, 2018, Cathay United Bank's financial assets at FVTPL were sold under repurchase agreements with notional amounts of \$1,180,736 thousand, \$583,927 thousand and \$39,684,172 thousand, respectively. Such repurchase agreements amounting to \$1,142,058 thousand, \$523,342 thousand and \$37,144,456 thousand were recognized under securities sold under repurchase agreements on the consolidated balance sheets. Repurchase agreements entered prior to December 31, 2018 were settled at \$1,144,121 thousand, \$523,725 thousand and \$37,275,325 thousand prior to July 31, 2019, January 31, 2019 and September 30, 2018, respectively.
- c. Financial liabilities designated as at FVTPL

Cathay United Bank was authorized to issue subordinated financial debentures amounting to US\$990 million in September 2014, which issued subordinated financial debentures amounting to US\$660 million (perpetual) and US\$330 million (fifteen-years) with a fixed interest rate of 5.10% and 4.00% on October 8, 2014, respectively, and the interest is payable annually. Cathay United Bank was authorized by the authorities to redeem the US\$660 million of bonds at its book value after 12 years by fulfilling the said conditions.

In December 2014, Cathay United Bank was authorized to issue unsubordinated financial debentures amounting to US\$180 million (thirty-years), which were subsequently issued on March 30, 2015. In addition to the redemption of bonds by the exercise of call options, the bonds are redeemable on maturity, issued in the form of zero-coupon bonds, and the internal rate of return is 4.20%.

In March 2017, Cathay United Bank was authorized to issue unsubordinated financial debentures amounting to US\$195 million (thirty-years), which were subsequently issued on April 11, 2017. In addition to the redemption of bonds by the exercise of call options, the bonds are redeemable on maturity, issued in the form of zero-coupon bonds, and the internal rate of return is 4.30%.

In March 2017, Cathay United Bank was authorized to issue unsubordinated financial debentures amounting to US\$300 million (thirty-years), which were subsequently issued on November 24, 2017. In addition to the redemption of bonds by the exercise of call options, the bonds are redeemable on maturity, issued in the form of zero-coupon bonds, and the internal rate of return is 4.10%.

Cathay United Bank converted fixed interest rates into floating interest rates with interest rate swap contracts to hedge against the fair value risk resulting from interest rate fluctuations. For the six month ended June 30, 2019 and 2018, such interest rate swaps were valued to have a net gain \$4,544,039 thousand and net loss \$2,022,231 thousand, respectively.

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	June 30, 2019	December 31, 2018	June 30, 2018
Equity instrument investments at FVTOCI			
Stocks	<u>\$ 63,126,533</u>	<u>\$ 43,192,054</u>	<u>\$ 58,780,887</u>
Debt instrument investments at FVTOCI			
Government bonds	127,319,975	160,794,200	183,174,734
Corporate bonds	55,743,844	45,668,682	37,916,619
Financial debentures	75,607,970	76,406,003	73,722,227
Asset-backed securities	19,484,368	3,191,683	2,714,099
Overseas bonds	782,476,615	800,838,518	797,406,582
Less: Litigation deposits	(44,995)	(1,720)	(83,628)
Less: Deposits to the Central Bank	(1,061,217)	(2,111,016)	(2,102,711)
Less: Derivative instrument collaterals	<u>(4,783)</u>	<u>(168,134)</u>	<u>(2,054,148)</u>
	<u>1,059,521,777</u>	<u>1,084,618,216</u>	<u>1,090,693,774</u>
	<u>\$ 1,122,648,310</u>	<u>\$ 1,127,810,270</u>	<u>\$ 1,149,474,661</u>

- a. These investments in equity instruments are not held for trading, and thus were designated as financial assets at FVTOCI.
- b. Dividend income recognized relating to investments in equity instruments at FVTOCI for the three months and six months ended June 30, 2019 and 2018 were \$761,631 thousand, \$545,738 thousand, \$765,233 thousand and \$590,536 thousand, respectively. Those related to investment during the three months and six months ended June 30, 2019 and 2018 were \$110,538 thousand, \$136,070 thousand, \$110,538 thousand and \$162,898 thousand, respectively.
- c. In consideration of the investment strategy, the Group sold equity instrument investments at FVTOCI at fair value of \$21,171,522 thousand and \$36,183,005 thousand at the time of sale, and transferred unrealized loss of \$2,537,695 thousand and \$5,862,293 thousand from other equity to retained earnings for the six months ended June 30, 2019 and 2018, respectively.
- d. As of June 30, 2019, December 31, 2018 and June 30, 2018, Cathay United Bank and its subsidiaries' certain financial assets at FVTOCI were sold under repurchase agreement with notional amounts of \$31,176,219 thousand, \$46,355,590 thousand and \$51,789,440 thousand. Such repurchase agreement amounting to \$30,230,138 thousand, \$42,613,744 thousand and \$45,367,142 thousand was recorded as Securities sold under agreements to repurchase, and were repurchased by \$30,443,127 thousand, \$42,764,361 thousand and \$45,519,701 thousand prior to the end of December 2019, March 2019 and September 2018, respectively.
- e. As of June 30, 2019, December 31, 2018 and June 30, 2018, Cathay Securities and its subsidiaries sold certain financial assets at FVTOCI under repurchase agreements with notional amounts of \$2,325,000 thousand, \$3,325,000 thousand and \$3,200,000 thousand, respectively.
- f. Refer to Note 29 for the financial assets at FVTOCI that were pledged as collateral.
- g. Refer to Note 36 for information relating to the credit risk management and impairment of investments in debt instruments at FVTOCI.



## 9. FINANCIAL ASSETS MEASURED AT AMORTIZED COST

	June 30, 2019	December 31, 2018	June 30, 2018
Time deposits	\$ 1,344,498	\$ 611,285	\$ 365,488
Financial debentures	70,543,186	70,227,496	72,916,510
Corporate bonds	30,391,414	32,239,336	36,457,581
Government bonds	40,022,012	41,021,039	53,459,427
Overseas bonds	2,407,220,801	2,161,607,143	2,034,482,622
Asset-backed securities	1,143,253	1,143,199	1,579,802
Structured bonds	3,107,200	3,073,300	3,050,000
Asset-backed securities	49,130,077	47,973,170	42,035,793
Short-term notes	330,723,614	348,485,689	272,032,299
Less: Litigation deposits	(1,344,792)	(1,345,625)	(1,346,470)
Less: Deposits in the Central Bank	(8,377,524)	(8,383,555)	(7,033,263)
Less: Derivative instrument collateral	(4,838,997)	(6,075,419)	(10,168,313)
Less: Loss allowance (Note)	<u>(1,732,173)</u>	<u>(2,355,270)</u>	<u>(1,667,159)</u>
	<u>\$ 2,917,332,569</u>	<u>\$ 2,688,221,788</u>	<u>\$ 2,496,164,317</u>

Note: Loss allowance for guarantee deposits paid in bonds is not included. As of June 30, 2019, December 31, 2018 and June 30, 2018, the amounts were \$1,068 thousand, \$910 thousand and \$1,383 thousand, respectively.

- a. For the three months and six months ended June 30, 2019 and 2018, the Group disposed of bonds before maturity due to increase in credit risk, and the losses on disposal were \$802,150 thousand, \$58,690 thousand, \$1,901,861 thousand and \$68,136 thousand, respectively; bond disposal before maturity because of infrequent sales or sales insignificant in value (either individually or in aggregate) resulted in gains on disposal of \$1,822,263 thousand, \$1,007,948 thousand, \$3,100,830 thousand and \$3,021,690 thousand, respectively; bond disposal due to other situations such as repayments at maturities resulted in loss on disposal of \$7,162 thousand, loss on disposal of \$52,850, gain on disposal of \$285,215 and loss on disposal of \$13,275 thousand, respectively.
- b. As of June 30, 2019, December 31, 2018 and June 30, 2018, Cathay United Bank and its subsidiaries' certain financial assets measured at amortized cost were sold under repurchase agreements with notional amounts of \$2,105,554 thousand, \$19,718,692 thousand and \$28,943,681 thousand. Such repurchase agreements amounting to \$1,644,192 thousand, \$11,447,258 thousand and \$19,282,820 thousand were recognized under securities sold under repurchase agreements and were repurchased by \$1,660,804 thousand, \$11,477,549 thousand and \$19,389,074 thousand prior to August 31, 2019, March 31, 2019 and October 31, 2018, respectively.
- c. Refer to Note 29 for information relating to financial assets at amortized cost pledged as collateral.
- d. Refer to Note 36 for information relating to the credit risk management and impairment of investments in debt instruments at amortized cost.

## 10. RECEIVABLES, NET

	June 30, 2019	December 31, 2018	June 30, 2018
Notes receivable	\$ 504,694	\$ 527,630	\$ 665,879
Accounts receivable	88,508,645	78,899,338	81,476,434
Interest receivable	63,971,038	54,509,930	46,560,254
Acceptances	981,209	1,591,399	1,231,842
Factoring receivable	2,634,690	2,607,455	4,317,351
Others	<u>34,221,450</u>	<u>25,424,903</u>	<u>57,211,616</u>
	190,821,726	163,560,655	191,463,376
Less: Loss allowance	<u>(2,252,912)</u>	<u>(2,344,465)</u>	<u>(2,243,049)</u>
	<u>\$ 188,568,814</u>	<u>\$ 161,216,190</u>	<u>\$ 189,220,327</u>

The changes in allowance for doubtful accounts of receivables were as follows:

For the six months ended June 30, 2019

	12-month Expected- credit Losses	Lifetime Expected- credit Losses (Collectively Assessed)	Lifetime Expected- credit Losses (Neither Purchased nor Originated Credit- impaired Financial Assets)	Impairment Loss under IFRS 9	Difference of Impairment Loss under Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-accrual Loans	Total
<u>Receivables</u>						
Balance, beginning of the period	\$ 126,022	\$ 116,965	\$ 1,768,492	\$ 2,011,479	\$ 50,470	\$ 2,061,949
Changes of financial instruments recognized at the beginning of the current reporting period						
Transferred to Lifetime ECLs	(3,098)	100,580	(5,006)	92,476	-	92,476
Transferred to credit-impaired financial assets	(574)	(2,741)	92,420	89,105	-	89,105
Transferred to 12-month ECLs	2,600	(42,897)	(2,313)	(42,610)	-	(42,610)
Derecognition of financial assets in the current reporting period	(80,356)	(43,757)	(80,927)	(205,040)	-	(205,040)
New financial assets purchased or originated	81,918	41,641	149,283	272,842	-	272,842
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	(9,014)	(9,014)
Recovery of written-off receivables	-	-	(225,819)	(225,819)	-	(225,819)
Effects of exchange rate changes and others	<u>13,522</u>	<u>(22,247)</u>	<u>12,295</u>	<u>3,570</u>	<u>(55)</u>	<u>3,515</u>
Balance, end of the period	<u>\$ 140,034</u>	<u>\$ 147,544</u>	<u>\$ 1,708,425</u>	<u>\$ 1,996,003</u>	<u>\$ 41,401</u>	<u>\$ 2,037,404</u>

For the six months ended June 30, 2018

	12-month Expected- credit Losses	Lifetime Expected- credit Losses (Collectively Assessed)	Lifetime Expected- credit Losses (Neither Purchased nor Originated Credit- impaired Financial Assets)	Impairment Loss under IFRS 9	Difference of Impairment Loss under Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-accrual Loans	Total
<u>Receivables</u>						
Balance, beginning of the period	\$ 78,157	\$ 63,923	\$ 2,106,749	\$ 2,248,829	\$ 14,830	\$ 2,263,659
Changes of financial instruments recognized at the beginning of the current reporting period						
Transferred to Lifetime ECLs	(2,127)	76,037	(2,867)	71,043	-	71,043
Transferred to credit-impaired financial assets	(434)	(1,038)	62,720	61,248	-	61,248
Transferred to 12-month ECLs	1,534	(19,961)	(3,163)	(21,590)	-	(21,590)
Derecognition of financial assets in the current reporting period	(45,585)	(31,059)	(405,744)	(482,388)	-	(482,388)
New financial assets purchased or originated	75,007	28,012	128,844	231,863	-	231,863
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	22,474	22,474
Recovery of written-off receivables	-	-	(215,081)	(215,081)	-	(215,081)
Effects of exchange rate changes and others	22,124	(17,058)	56,029	61,095	(491)	60,604
Balance, end of the period	<u>\$ 128,676</u>	<u>\$ 98,856</u>	<u>\$ 1,727,487</u>	<u>\$ 1,955,019</u>	<u>\$ 36,813</u>	<u>\$ 1,991,832</u>

Loss allowance for other receivable are provided by simplified approach, and the movements were are as follows:

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 282,516	\$ 200,522
(Reversal) provision for the period	(26,767)	56,324
Amounts written off	<u>(40,241)</u>	<u>(5,629)</u>
Ending balance	<u>\$ 215,508</u>	<u>\$ 251,217</u>

**11. DISCOUNTS AND LOANS, NET**

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Export negotiations	\$ 1,814,650	\$ 1,722,435	\$ 1,843,311
Loans	2,128,864,168	2,200,985,299	2,141,724,672
Overdrafts	1,840,238	2,031,672	2,763,854
Overdue loans	<u>3,665,096</u>	<u>3,275,233</u>	<u>3,975,959</u>
	2,136,184,152	2,208,014,639	2,150,307,796
Less: Loss allowance	<u>(32,432,131)</u>	<u>(31,238,732)</u>	<u>(30,657,887)</u>
	<u>\$ 2,103,752,021</u>	<u>\$ 2,176,775,907</u>	<u>\$ 2,119,649,909</u>

As of June 30, 2019, the gross amount of discounts and loans and the related loss allowance belonging to Cathay United Bank amounted to \$1,525,823,456 thousand and \$25,550,033 thousand, respectively.

Refer to Note 36 for information relating to the credit risk management and impairment of loans.

## 12. SUBSIDIARIES

### a. Subsidiaries included in the consolidated financial statements

Investors	Subsidiary	Nature of Business	Percentage of Ownership Interest (%)		
			December 31,		
			June 30, 2019	2018	June 30, 2018
The Company	Cathay Life	Life Insurance	100.00	100.00	100.00
The Company	Cathay United Bank	Banking	100.00	100.00	100.00
The Company	Cathay Century	Property insurance	100.00	100.00	100.00
The Company	Cathay Securities	Security	100.00	100.00	100.00
The Company and Cathay Life	Cathay Venture	Venture capital	100.00	100.00	100.00
The Company	Cathay Securities Investment Trust	Entrusted investments	100.00	100.00	100.00
Cathay Life	Cathay Lujiazui Life Insurance Co., Ltd. ("Cathay Lujiazui Life")	Life insurance	50.00	50.00	50.00
Cathay Life	Cathay Life Insurance (Vietnam) Co., Ltd. ("Cathay Life (Vietnam)")	Life insurance	100.00	100.00	100.00
Cathay Life	Lin Yuan (Shanghai) Real Estate Co., Ltd. ("Lin Yuan")	Office leasing	100.00	100.00	100.00
Cathay Life	Cathay Woolgate Exchange Holding 1 Limited	Real estate investment and management	100.00	100.00	100.00
Cathay Life	Cathay Woolgate Exchange Holding 2 Limited	Real estate investment and management	100.00	100.00	100.00
Cathay Life	Cathay Walbrook Holding 1 Limited	Real estate investment and management	100.00	100.00	100.00
Cathay Life	Cathay Walbrook Holding 2 Limited	Real estate investment and management	100.00	100.00	100.00
Cathay Life	Conning Holdings Limited ("CHL")	Holding company	100.00	100.00	100.00
CHL	Conning U.S. Holdings, Inc.	Holding company	100.00	100.00	100.00
CHL	Conning Asset Management Ltd.	Asset management services	100.00	100.00	100.00
CHL	Conning (Germany) GmbH	Risk management software services	100.00	100.00	100.00
The Company and CHL	Conning Asia Pacific Ltd.	Asset management services	100.00	100.00	100.00
CHL	Conning Japan Ltd.	Asset management services	100.00	100.00	100.00
Conning U.S. Holdings, Inc.	Conning Holdings Corp.	Holding company	100.00	100.00	100.00
Conning Holdings Corp.	Conning & Company ("C&C")	Holding company	100.00	100.00	100.00
C&C	Conning Inc.	Asset management services	100.00	100.00	100.00
C&C	Goodwin Capital Advisers, Inc.	Asset management services	100.00	100.00	100.00
C&C	Conning Investment Products, Inc.	Securities services	100.00	100.00	100.00
C&C	Octagon Credit Investors, LLC ("Octagon")	Fund management services	81.89	81.89	81.89
Octagon	Octagon Multi-Strategy Corporate Credit GP, LLC	Fund management services	100.00	100.00	100.00
Octagon	Octagon Funds GP LLC	Fund management services	100.00	100.00	100.00
Octagon	Octagon Funds GP II LLC	Fund management services	100.00	100.00	100.00
Octagon	Octagon Funding I, LLC	Fund management services	100.00	100.00	100.00
Octagon	Octagon Funding II, LLC	Fund management services	100.00	100.00	100.00
Octagon	Octagon Funding III, LLC	Fund management services	100.00	100.00	100.00
Cathay Century	Cathay Insurance (Vietnam) Co., Ltd. ("Cathay Insurance (Vietnam)")	Property insurance services	100.00	100.00	100.00
Cathay United Bank	Indovina Bank Limited ("Indovina Bank")	Banking	50.00	50.00	50.00
Cathay United Bank	Cathay United Bank (Cambodia) Corporation Limited ("CUBC Bank")	Banking	100.00	100.00	100.00

(Continued)

Investors	Subsidiary	Nature of Business	Percentage of Ownership Interest (%)		
			December 31,		
			June 30, 2019	2018	June 30, 2018
Cathay United Bank	Cathay United Bank (China) Co., Ltd. ("CUBCN Bank")	Banking	100.00	100.00	-
Cathay Securities	Cathay Futures Co., Ltd. ("Cathay Futures")	Futures services	99.99	99.99	99.99
Cathay Securities	Cathay Securities (Hong Kong) Co., Ltd. ("Cathay Securities (Hong Kong)")	Securities services	100.00	100.00	100.00
Cathay Securities Investment Trust	Cathay Private Equity Co., Ltd. ("Cathay Private Equity")	Venture capital services	100.00	100.00	100.00

(Concluded)

b. Subsidiaries excluded from the consolidated financial statements

Investors	Subsidiary	Nature of Business	Percentage of Ownership Interest (%)			
			December 31,			
			June 30, 2019	2018	June 30, 2018	Notes
Cathay Life	Cathay Securities Investment Consulting	Security investment consulting services	100.00	100.00	100.00	
Cathay Securities	Cathay Investment Consulting (Shanghai) Co., Ltd.	Investment advisory services	-	100.00	100.00	*

\* On November 7, 2017, it was dissolved by the board of directors, and the liquidation was completed on February 26, 2019.

The consolidated financial statements did not include the above-mentioned subsidiaries because their total assets and operating revenue were insignificant to the total assets and operating revenue of the Group.

### 13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	June 30, 2019	December 31, 2018	June 30, 2018
Investments in unconsolidated subsidiaries	\$ 242,610	\$ 288,073	\$ 230,830
Investments in associates	<u>48,570,322</u>	<u>44,643,933</u>	<u>42,598,633</u>
	<u>\$ 48,812,932</u>	<u>\$ 44,932,006</u>	<u>\$ 42,829,463</u>

a. Investments in unconsolidated subsidiaries

	June 30, 2019	December 31, 2018	June 30, 2018
Cathay Securities Investment Consulting	\$ 242,610	\$ 278,780	\$ 220,598
Cathay Investment Consulting (Shanghai) Co., Ltd.	<u>-</u>	<u>9,293</u>	<u>10,232</u>
	<u>\$ 242,610</u>	<u>\$ 288,073</u>	<u>\$ 230,830</u>

b. Investments in associates

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Rizal Commercial Banking Corporation	\$ 16,197,264	\$ 15,743,568	\$ 15,403,967
PT Bank Mayapada Internasional Tbk	14,472,621	13,733,069	12,964,197
Cathay Insurance (China)	4,550,669	2,346,424	2,418,138
Global Evolution Holding ApS	2,784,084	2,711,173	2,679,234
Da sheng Venture Inc.	1,847,642	1,763,971	1,598,886
Taiwan Finance Corp.	1,684,988	1,665,689	1,612,006
PSS Co., Ltd.	817,930	782,943	-
KHL IV Venture Capital Co., Ltd.	787,989	791,667	783,889
Ding Teng Co., Ltd.	784,324	765,935	759,127
Cathay Sunrise Corporation	685,529	696,378	686,270
Hsin Jih Tai Corporation	683,729	697,801	683,264
Nan-Gang International 1 Corp.	675,940	676,108	675,798
Nan-Gang International 2 Corp.	674,657	675,088	675,042
CDBS Cathay Asset Management Co., Ltd.	435,301	458,070	504,842
Syphon Information Co., Ltd.	408,726	429,450	410,298
Greenhealth Water Resources Co., Ltd.	387,816	-	-
CM Energy Co., Ltd.	277,304	274,352	274,828
Tien-Tai Optronics Corporation	130,232	136,778	139,028
Taiwan Real-estate Management Corp.	100,376	103,185	101,372
WK Technology Fund VI Co., Ltd.	52,257	50,014	81,062
RI-Zhao Energy Corp.	43,996	46,051	51,305
Dun-Yang Energy Corp.	42,082	45,551	46,440
Yong-Chang Energy Corp.	41,531	47,248	48,038
Tien-Tai Management Consulting Co., Ltd.	<u>3,335</u>	<u>3,420</u>	<u>1,602</u>
	<u>\$ 48,570,322</u>	<u>\$ 44,643,933</u>	<u>\$ 42,598,633</u>

Aggregate information of associates that are not individually material

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
The Group's share of:				
Net income	\$ 440,368	\$ 438,953	\$ 693,190	\$ 476,893
Other comprehensive income (loss)	<u>458,142</u>	<u>218,147</u>	<u>941,175</u>	<u>(744,531)</u>
Total comprehensive income (loss) for the period	<u>\$ 898,510</u>	<u>\$ 657,100</u>	<u>\$ 1,634,365</u>	<u>\$ (267,638)</u>

As the individual associates are not significant, the related financial information is disclosed aggregately. The amount of the share of profit or loss and other comprehensive income of associates were based on non-reviewed financial statements.

The investments in associates are not pledged.

## 14. INVESTMENT PROPERTY

	Investment Property		Investment Property Under Construction	Prepayments for Buildings and Land - Investments	Total
	Land	Buildings			
January 1, 2018	\$ 226,503,504	\$ 87,366,614	\$ 3,546,004	\$ 690,203	\$ 318,106,325
Additions	38,074	6,926	1,756,785	318	1,802,103
Disposals	(85,977)	-	-	-	(85,977)
Transfers to property and equipment	-	(16,222)	-	-	(16,222)
Other reclassification	342,906	82,216	(18,417)	(406,746)	(41)
Gain (loss) on changes in fair value of investment property	55,169	(711,805)	-	-	(656,636)
Exchange differences	(65,209)	(78,678)	-	-	(143,887)
June 30, 2018	<u>\$ 226,788,467</u>	<u>\$ 86,649,051</u>	<u>\$ 5,284,372</u>	<u>\$ 283,775</u>	<u>\$ 319,005,665</u>
January 1, 2019	\$ 226,135,064	\$ 89,574,661	\$ 2,790,143	\$ 722,686	\$ 319,222,554
Adjustment on initial application of IFRS 16	9,014,035	-	-	-	9,014,035
Additions	-	-	1,833,490	1,261,501	3,094,991
Disposals	(88,965)	(46,680)	-	-	(135,645)
Transfers from property and equipment	53,045,893	11,730,339	-	-	64,776,232
Other reclassification	278,602	1,942,581	(1,942,320)	(278,863)	-
Gain (loss) on changes in fair value of investment property	885,323	(366,268)	-	-	519,055
Changes in revaluation surplus	(1,096,163)	2,023,082	-	-	926,919
Exchange differences	158,549	309,411	-	-	467,960
June 30, 2019	<u>\$ 288,332,338</u>	<u>\$ 105,167,126</u>	<u>\$ 2,681,313</u>	<u>\$ 1,705,324</u>	<u>\$ 397,886,101</u>

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Rental income from investment property	\$ 2,517,867	\$ 2,583,296	\$ 5,761,716	\$ 5,405,899
Less: Direct operating expense from investment properties that generate rental income	(227,263)	(217,168)	(340,466)	(324,268)
Less: Direct operating expense from investment properties that do not generate rental income	<u>(50,901)</u>	<u>(43,724)</u>	<u>(79,760)</u>	<u>(65,513)</u>
	<u>\$ 2,239,703</u>	<u>\$ 2,322,404</u>	<u>\$ 5,341,490</u>	<u>\$ 5,016,118</u>

- Certain parts of properties are held to earn rental or for capital appreciation, and the other parts are held for owner-occupation. If each part of property could be sold separately, it is classified as investment property or property and equipment separately. If each part couldn't be sold separately, it would be classified as investment property only when owner-occupation is lower than 5% of the property.
- As of June 30, 2019, the investment properties (excluding investment property under construction and prepayment for buildings and land - investments) belonging to Cathay Life amounted to \$353,422,286 thousand. Investment properties are held mainly for lease purposes. All the lease agreements are operating leases and the primary terms of the lease agreements are the same as general lease agreements. Rents from investment property are received annually, semi-annually, quarterly, monthly or in one lump sum. Investment properties held by the Group were not pledged.
- The ownership of the Group's investment properties are not subject to restrictions other than the restriction associated with being furnished as security for other's debt; the ownership of its trust property are not subject to restrictions. Besides, the Group are not involved in any situations that violate Subparagraph 2, Paragraph 3 of Article 11-2 of the Regulations Governing Foreign Investments by Insurance Companies.

- d. Valuation on the investment property of Cathay Life and its subsidiaries has been performed by the following appraisers of joint appraisers offices meeting ROC's qualification requirements for real estate appraiser, with valuation dates at June 30, 2019, December 31, 2018 and June 30, 2018:

Name of Appraisers Offices	June 30, 2019	December 31, 2018	June 30, 2018
DTZ Real Estate Appraiser Firm	Chang-d, Yang; Gen-yuan, Li; Chun-chun, Hu	Chang-d, Yang; Gen-yuan, Li; Chun-chun, Hu	Chang-d, Yang; Gen-yuan, Li; Chun-chun, Hu
Savills plc Real Estate Appraiser Firm	Gunag-ping, Dai; Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang	Gunag-ping, Dai; Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang	Gunag-ping, Dai; Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang
REPro Knight Frank Real Estate Appraiser Firm	Hong-xu, Wu; Yu-hsiang, Tsai	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; You-qi, Liang	Xi-zhong, Wang; Yu-zhi, Gao; You-qi, Liang
Shang-shang Real Estate Appraiser Firm	Hong-yuan, Wang	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	Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang
Elite Real Estate Appraiser Firm	Yu-lin, Chen	Yu-lin, Chen	Yu-lin, Chen
CBRE Real Estate Appraiser Firm	Fu-xue, Shi	-	-

The fair value is supported by observable evidence in the market. The main appraisal approaches applied include the 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 mainly valued by the sales comparison approach and income approach because of the market liquidity and comparable sales and rental cases in the neighboring areas. Hotels, department stores and marketplaces are mainly valued by the income approach - direct capitalization method and income approach - discounted cash flow method because of the stable rental income in the long term. Industrial plants for lease are valued by the sales comparison approach and cost approach. Wholesale stores located in industrial districts are valued by the cost approach since the buildings are constructed for specific purposes because fewer 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 the cost approach. Urban renewal land with permit of construction is valued based on the value of real estate rights arising from the urban renewal program. The real estate rights may include but are not limited to the rights for buildings and hotels held for the long term.

The main inputs used are as follows:

	June 30, 2019	December 31, 2018	June 30, 2018
Direct capitalization rates (net)	0.62%-6.42%	0.62%-4.39%	0.46%-4.39%
Discount rates	3.14%-4.23%	3.14%-4.23%	3.14%-4.23%

External appraisers use the 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, to decide the direct capitalization rate and discount rate.



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

Refer to Table 4 for the acquisition of individual real estate at costs at least NT\$100 million or 20% of the paid-in capital.

- e. Cathay United Bank's investment properties were appraised by qualified real estate appraisers in Taiwan, according to the "Technical Rules for Real Estate Valuation." The valuation dates were June 30, 2019, December 31, 2018 and June 30, 2018, respectively:

<b>Name of Appraiser Firm</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
REPro Knight Frank Real Estate Appraiser Firm	Hong-xu, Wu; Yu-hsiang, Tsai	Hong-xu, Wu; Zhi-hao, Wu; Fu-xue, Shi	Hong-xu, Wu; Zhi-hao, Wu; Fu-xue, Shi

To estimate fair values, the appraisal approaches used are mainly the income approach (such as discounted cash flow model and direct capitalization approach), comparison approach and cost approach, categorized as level 3 of fair value hierarchy.

- 1) As office buildings have market liquidity and their rent levels are similar to comparable properties in neighboring areas, their fair values have been mainly determined using comparison approach and income approach.

Net rental income is based on 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 ROC 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 in the House Tax Act and the actual payment data.

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

Replacement allowance for significant renovation costs is provided on 15% of construction costs, and amortized over 20 years as assumed useful lives; according to the ROC Real Estate Appraisers Association Gazette No.5, the replacement allowance should be 0.5% to 1.5% of construction costs in principle.

The main inputs used are as follows:

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Direct capitalization rates	1.96%-5.74%	1.98%-5.73%	2.05%-5.85%
Overall capital interest rate	0.76%-2.89%	0.76%-2.89%	0.76%-2.89%

- 2) For reserved areas in hillside land, scenic land site and areas for agriculture, animal husbandry and forestry, there are few market transactions due to laws and regulations limit their purpose and related development effectiveness is low as well as there is no significant change that would affect related property market recently, their fair values are determined by the method of land development analysis and comparison approach.

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Rate of return	15%	15%	15%
Overall capital interest rate	2.10%	2.11%	2.11%

- f. Cathay Securities and its subsidiaries appointed an appraiser from Elite Appraisers Firm (Yu-Lin Chen) to evaluate the fair value of the investment property on June 30, 2019, December 31, 2018 and June 30, 2018, respectively and valuation dates are June 30, 2019, December 31, 2018 and June 30, 2018.

The fair value of investment property is determined by income approach with significant assumptions as follows. If estimated future cash inflows increase or discount rate decreases, the fair value will increase.

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Estimated future cash inflows	\$ 436,480	\$ 436,792	\$ 437,150
Estimated future cash outflows	<u>(17,212)</u>	<u>(18,314)</u>	<u>(18,322)</u>
Estimated net cash inflows	<u>\$ 419,268</u>	<u>\$ 418,478</u>	<u>\$ 418,828</u>
Discount rate	2.045%	2.045%	2.045%
Direct capitalization rate	2.56%	2.56%	2.55%

The market rentals ranged from \$4,000 to \$6,000 per pyeong in the areas where the investment property is located.

All of the investment property are leased by operating leases, generating rental income of \$3,581 thousand and \$3,580 thousand, respectively, for the six months ended June 30, 2019 and 2018.

The estimated future cash inflows consist of rental income, interest of deposit and value of disposal at the end of the period. Rental income is estimated for the current rent and the annual growth rate of the rent. The period of benefit analysis is estimated for 10 years. Interest of deposit is estimated based on the interest rate on a 1-year time deposit of the 5 largest banks for the past five years. The value of disposal at the end of the period is estimated using the direct capitalization method. The estimated future cash outflows consist of land tax, property tax, and replacement allowance, which are estimated on the basis of current expenditures, adjustments to the future announced land value, and tax rates in accordance with the House Tax Act.

The discount rate is determined based on the interest rate on a 2-year time deposit of petty cash plus 3 quarters percentage points as posted by Chunghwa Post Co., Ltd., plus the risk premium.

d. Reconciliation for movements in Level 3 fair value measurements:

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 310,083,727	\$ 307,190,424
Adjustment on initial application of IFRS 16	9,014,035	-
Amount recognized in profit or loss		
Gain (loss) from investment property	519,055	(656,636)
Amount recognized in other comprehensive income		
Property revaluation surplus	926,919	-
Exchange differences resulting from translating the financial statements of foreign operations	467,960	(143,887)
Acquisition	-	45,000
Disposals	(107,191)	(85,900)
Transfers to property and equipment	-	(16,222)
Transfers from property and equipment	64,776,232	-
Transfers from investment property under construction	1,941,592	425,123
Transfers from prepayment for buildings and land	989	-
Transfers from investment property measured by costs	<u>-</u>	<u>1,053,619</u>
Ending balance	<u>\$ 387,623,318</u>	<u>\$ 307,811,521</u>

The above amount excludes the part measured by costs.

## 15. PROPERTY AND EQUIPMENT

	Land	Buildings and Construction	Computer Equipment	Leased Assets	Leasehold improvements	Transportation Equipment	Other Equipment	Construction in Progress and Prepayment for Real Estate Equipment	Total
<b>Cost</b>									
Balance at January 1, 2018	\$ 123,888,389	\$ 57,812,084	\$ 6,885,863	\$ 276,131	\$ 712,137	\$ 120,132	\$ 12,439,403	\$ 708,564	\$ 202,842,703
Additions	84	-	537,681	-	145,558	3	180,292	492,353	1,355,971
Disposals	(84)	-	(128,594)	-	-	(1,120)	(260,935)	-	(390,733)
Reclassification	40	54,615	127,920	-	576	-	118,411	(300,597)	965
Others	(1,200)	-	-	-	-	-	-	-	(1,200)
Exchange differences	2,827	13,220	19,174	5	13,225	2,276	5,044	2,508	58,279
Balance at June 30, 2018	<u>123,890,056</u>	<u>57,879,919</u>	<u>7,442,044</u>	<u>276,136</u>	<u>871,496</u>	<u>121,291</u>	<u>12,482,215</u>	<u>902,828</u>	<u>203,865,985</u>
<b>Depreciation and impairment</b>									
Balance at January 1, 2018	103,134	21,459,719	5,252,487	275,877	418,285	83,011	10,154,500	-	37,747,013
Depreciation	-	589,107	304,371	38	49,421	4,532	325,045	-	1,272,514
Disposals	-	-	(126,214)	-	-	(1,120)	(257,614)	-	(384,948)
Reclassification	-	-	1	-	-	-	(1)	-	-
Exchange differences	-	2,780	9,560	3	2,457	1,669	3,570	-	20,039
Balance at June 30, 2018	<u>103,134</u>	<u>22,051,606</u>	<u>5,440,205</u>	<u>275,918</u>	<u>470,163</u>	<u>88,092</u>	<u>10,225,500</u>	<u>-</u>	<u>38,654,618</u>
Carrying amount at June 30, 2018	<u>\$ 123,786,922</u>	<u>\$ 35,828,313</u>	<u>\$ 2,001,839</u>	<u>\$ 218</u>	<u>\$ 401,333</u>	<u>\$ 33,199</u>	<u>\$ 2,256,715</u>	<u>\$ 902,828</u>	<u>\$ 165,211,367</u>
<b>Cost</b>									
Balance at January 1, 2019	\$ 124,316,326	\$ 58,621,063	\$ 7,769,595	\$ 276,135	\$ 869,324	\$ 121,529	\$ 12,623,173	\$ 950,474	\$ 205,547,619
Additions	-	-	272,811	-	16,505	2,789	171,676	377,195	840,976
Disposals	(5,451)	(7,684)	(417,000)	-	(1,443)	(5,119)	(133,996)	(30,407)	(601,100)
Reclassification	450,256	1,010	460,261	(276,135)	113,700	-	(324,098)	(213,200)	211,794
Transfers to investment property	(53,045,893)	(12,389,524)	-	-	-	-	-	-	(65,435,417)
Exchange differences	3,224	25,317	15,519	-	5,325	1,232	(11,963)	1,390	40,044
Balance at June 30, 2019	<u>71,718,462</u>	<u>46,250,182</u>	<u>8,101,186</u>	<u>-</u>	<u>1,003,411</u>	<u>120,431</u>	<u>12,324,792</u>	<u>1,085,452</u>	<u>140,603,916</u>
<b>Depreciation and impairment</b>									
Balance at January 1, 2019	103,134	22,636,248	5,343,495	275,960	494,551	90,622	10,145,282	-	39,089,292
Depreciation	-	529,664	357,924	-	52,636	2,037	331,605	-	1,273,866
Disposals	-	(6,822)	(416,079)	-	(1,357)	(2,912)	(152,053)	-	(579,223)
Reclassification	-	(35)	330,773	(275,960)	88,550	-	(419,321)	-	(275,993)
Transfers to investment property	-	(659,185)	-	-	-	-	-	-	(659,185)
Exchange differences	-	3,057	13	-	11,315	896	3,433	-	18,714
Balance at June 30, 2019	<u>103,134</u>	<u>22,502,927</u>	<u>5,616,126</u>	<u>-</u>	<u>645,695</u>	<u>90,643</u>	<u>9,908,946</u>	<u>-</u>	<u>38,867,471</u>
Carrying amount at December 31, 2018 and January 1, 2019	<u>\$ 124,213,192</u>	<u>\$ 35,984,815</u>	<u>\$ 2,426,100</u>	<u>\$ 175</u>	<u>\$ 374,773</u>	<u>\$ 30,907</u>	<u>\$ 2,477,891</u>	<u>\$ 950,474</u>	<u>\$ 166,458,327</u>
Carrying amount at June 30, 2019	<u>\$ 71,615,328</u>	<u>\$ 23,747,255</u>	<u>\$ 2,485,060</u>	<u>\$ -</u>	<u>\$ 357,716</u>	<u>\$ 29,788</u>	<u>\$ 2,415,846</u>	<u>\$ 1,085,452</u>	<u>\$ 101,736,445</u>

The above items of property and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings and construction	5-70 years
Computer equipment	3-10 years
Leased assets	3 years
Leasehold improvements	3-6 years or lease term
Transportation equipment	3-7 years
Other equipment	1-15 years

Property and equipment were not pledged as collateral for bank borrowings.

## 16. LEASE AGREEMENTS

### a. Right-of-use assets - 2019

	<b>June 30, 2019</b>	
<u>Carrying amounts</u>		
Buildings	\$ 3,965,566	
Office equipment	17,209	
Machine equipment	3,373	
Transportation equipment	<u>67,549</u>	
		<u>\$ 4,053,697</u>
The right-of-use assets presented as investment properties		<u>\$ 8,897,732</u>
	<b>For the Three Months Ended June 30, 2019</b>	<b>For the Six Months Ended June 30, 2019</b>
Additions to right-of-use assets	<u>\$ 455,440</u>	<u>\$ 547,159</u>
Depreciation expense for right-of-use assets		
Buildings	\$ 324,075	\$ 627,375
Office equipment	1,270	2,501
Machine equipment	292	501
Transportation equipment	<u>10,547</u>	<u>20,458</u>
	<u>\$ 336,184</u>	<u>\$ 650,835</u>

### b. Lease liabilities - 2019

	<b>June 30, 2019</b>
Carrying amounts	<u>\$ 12,874,914</u>

Range of discount rates for lease liabilities was as follows:

	<b>June 30, 2019</b>
Buildings	0.35%-8.57%
Office equipment	0.71%-4.76%
Transportation equipment	0.70%-2.99%
Machine equipment	0.70%-5.38%
Investment property-superficies right	2.82%-3.71%

## 17. INTANGIBLE ASSETS

	Computer Software	Franchises	Trademarks	Customer Relationships	Goodwill	Other Intangible Assets	Total
<b>Cost</b>							
Balance at January 1, 2018	\$ 4,562,898	\$ 37,659,600	\$ 391,576	\$ 3,518,004	\$ 18,867,219	\$ 230,114	\$ 65,229,411
Addition - acquired separately	169,578	-	-	-	-	10,644	180,222
Disposal	(40,430)	-	-	-	-	-	(40,430)
Reclassification	79,248	-	-	-	-	-	79,248
Others	5,691	-	-	-	-	-	5,691
Exchange differences	(1,384)	-	8,554	76,847	167,695	4,993	256,705
Balance at June 30, 2018	<u>\$ 4,775,601</u>	<u>\$ 37,659,600</u>	<u>\$ 400,130</u>	<u>\$ 3,594,851</u>	<u>\$ 19,034,914</u>	<u>\$ 245,751</u>	<u>\$ 65,710,847</u>
<b>Amortization and impairment</b>							
Balance at January 1, 2018	\$ 3,317,139	\$ 5,198,458	\$ -	\$ 795,546	\$ -	\$ 115,292	\$ 9,426,435
Amortization	251,174	1,039,692	-	192,233	-	25,064	1,508,163
Disposal	(40,430)	-	-	-	-	-	(40,430)
Exchange differences	(2,846)	-	-	23,002	-	3,252	23,408
Balance at June 30, 2018	<u>\$ 3,525,037</u>	<u>\$ 6,238,150</u>	<u>\$ -</u>	<u>\$ 1,010,781</u>	<u>\$ -</u>	<u>\$ 143,608</u>	<u>\$ 10,917,576</u>
Carrying amount at June 30, 2018	<u>\$ 1,250,564</u>	<u>\$ 31,421,450</u>	<u>\$ 400,130</u>	<u>\$ 2,584,070</u>	<u>\$ 19,034,914</u>	<u>\$ 102,143</u>	<u>\$ 54,793,271</u>
<b>Cost</b>							
Balance at January 1, 2019	\$ 5,195,579	\$ 37,659,600	\$ 403,186	\$ 3,622,314	\$ 19,094,842	\$ 238,414	\$ 66,213,935
Addition - acquired separately	444,640	-	-	-	-	-	444,640
Disposal	(120,060)	-	-	-	-	-	(120,060)
Reclassification	(4,870)	-	-	-	-	-	(4,870)
Exchange differences	(63,218)	-	4,448	39,955	87,191	2,448	70,824
Balance at June 30, 2019	<u>\$ 5,452,071</u>	<u>\$ 37,659,600</u>	<u>\$ 407,634</u>	<u>\$ 3,662,269</u>	<u>\$ 19,182,033</u>	<u>\$ 240,862</u>	<u>\$ 66,604,469</u>
<b>Amortization and impairment</b>							
Balance at January 1, 2019	\$ 3,730,271	\$ 7,277,841	\$ -	\$ 1,217,871	\$ -	\$ 161,485	\$ 12,387,468
Amortization	318,458	1,039,692	-	200,789	-	9,801	1,568,740
Disposal	(120,060)	-	-	-	-	-	(120,060)
Exchange differences	(73,907)	-	-	14,211	-	1,820	(57,876)
Balance at June 30, 2019	<u>\$ 3,854,762</u>	<u>\$ 8,317,533</u>	<u>\$ -</u>	<u>\$ 1,432,871</u>	<u>\$ -</u>	<u>\$ 173,106</u>	<u>\$ 13,778,272</u>
Carrying amount at December 31, 2018 and January 1, 2019	<u>\$ 1,465,308</u>	<u>\$ 30,381,759</u>	<u>\$ 403,186</u>	<u>\$ 2,404,443</u>	<u>\$ 19,094,842</u>	<u>\$ 76,929</u>	<u>\$ 53,826,467</u>
Carrying amount at June 30, 2019	<u>\$ 1,597,309</u>	<u>\$ 29,342,067</u>	<u>\$ 407,634</u>	<u>\$ 2,229,398</u>	<u>\$ 19,182,033</u>	<u>\$ 67,756</u>	<u>\$ 52,826,197</u>

a. Intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

Computer software	1-10 years
Franchises	6.5 or 20 years
Customer relationships	5-15 years
Other	3-6 years

b. The acquisition and movements in goodwill were as follows:

1) Cathay Life

As of June 30, 2019, December 31, 2018 and June 30, 2018, the book values of goodwill were \$10,581,690 thousand, \$10,498,082 thousand and \$10,440,617 thousand, respectively. The goodwill arose from the acquisition of which 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 July 1, 2015, the acquisition of 100% of Conning Holdings Limited on September 18, 2015 and 81.89% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of Cathay life on February 1, 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 testing. The recoverable amount is calculated by applying a proper discount rate. Since the recoverable amount is higher than the book value of the cash-generating unit that the goodwill was allocated to, no impairment is recognized for goodwill.

2) Cathay United Bank

Cathay United Bank acquired China United Trust & Investment Corporation on December 29, 2007 and recognized goodwill amounting to \$6,673,083 thousand.

Cathay United Bank acquired 70% of the shares of Cambodia CUBC Bank on December 13, 2012 and recognized goodwill amounting to US\$10,570 thousand, then further acquired the remaining 30% of shares on September 16, 2013.

During impairment testing for goodwill, Cathay United Bank treated individual business units as cash-generating units (CGUs). Goodwill resulting from the merger was allocated to the relevant CGUs. The recoverable amount was determined by the value in use of each CGU and was calculated at the present values of the cash flow forecast for the next five years based on the going-concern assumption. Future cash flows were estimated on the basis of present operations and will be adjusted depending on the business outlook and economic trends.

3) Cathay Securities

On September 4, 2015, Cathay Securities acquired 100% of the shares of Cathay Securities (Hong Kong) and recognized goodwill amounting to \$8,629 thousand.

**18. COMMERCIAL PAPER PAYABLE, NET**

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Nominal amount	\$ 46,162,000	\$ 62,990,000	\$ 53,850,000
Less: Discount amount	<u>(1,494)</u>	<u>(633)</u>	<u>(2,755)</u>
	<u>\$ 46,160,506</u>	<u>\$ 62,989,367</u>	<u>\$ 53,847,245</u>
Interest rate	0.43%-0.80%	0.46%-0.86%	0.35%-0.69%

## 19. DEPOSITS AND REMITTANCES

	June 30, 2019	December 31, 2018	June 30, 2018
Checking deposits	\$ 13,437,613	\$ 15,781,941	\$ 14,120,169
Demand deposits	491,202,044	499,861,928	480,484,446
Demand savings deposits	895,873,601	847,465,305	811,036,633
Time deposits	453,324,590	450,145,909	444,791,698
Time savings deposits	378,581,621	367,920,662	364,924,801
Negotiable certificates of deposit	3,255,200	4,313,300	3,334,500
Outward remittances and remittances payable	<u>2,327,332</u>	<u>1,714,041</u>	<u>3,268,060</u>
	<u>\$ 2,238,002,001</u>	<u>\$ 2,187,203,086</u>	<u>\$ 2,121,960,307</u>

## 20. BONDS PAYABLE

	June 30, 2019	December 31, 2018	June 30, 2018
Subordinated financial debentures	\$ 55,400,000	\$ 55,600,000	\$ 55,600,000
Cumulative perpetual subordinated corporate bonds	45,000,000	35,000,000	35,000,000
Unsecured corporate bonds	<u>20,000,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 120,400,000</u>	<u>\$ 90,600,000</u>	<u>\$ 90,600,000</u>

### a. Subordinated financial debentures

	June 30, 2019	December 31, 2018	June 30, 2018
First issue of subordinated financial debentures in 2009; fixed rate at 2.6%; maturity: July 2019	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
First issue of subordinated financial debentures in 2011; fixed rate at 1.72%; maturity: March 2021	1,500,000	1,500,000	1,500,000
First issue of subordinated financial debentures in 2011; fixed rate at 1.72%; maturity: June 2021	2,500,000	2,500,000	2,500,000
First issue of subordinated financial debentures in 2012; fixed rate at 1.48%; maturity: June 2019	-	200,000	200,000
First issue of subordinated financial debentures in 2012; fixed rate at 1.65%; maturity: June 2022	4,200,000	4,200,000	4,200,000
First issue of subordinated financial debentures in 2012; fixed rate at 1.65%; maturity: August 2022	5,600,000	5,600,000	5,600,000
First issue of subordinated financial debentures in 2013; fixed rate at 1.55%; maturity: April 2020	100,000	100,000	100,000

(Continued)

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
First issue of subordinated financial debentures in 2013; fixed rate at 1.7%; maturity: April 2023	\$ 9,900,000	\$ 9,900,000	\$ 9,900,000
First issue of subordinated financial debentures in 2014; fixed rate at 1.7%; maturity: May 2021	3,000,000	3,000,000	3,000,000
First issue of subordinated financial debentures in 2014; fixed rate at 1.85%; maturity: May 2024	12,000,000	12,000,000	12,000,000
First issue of subordinated financial debentures in 2017; fixed rate at 1.85%; maturity: April 2027	12,700,000	12,700,000	12,700,000
First issue of subordinated financial debentures in 2017; fixed rate at 1.5%; maturity: April 2024	<u>2,400,000</u>	<u>2,400,000</u>	<u>2,400,000</u>
	<u>\$ 55,400,000</u>	<u>\$ 55,600,000</u>	<u>\$ 55,600,000</u> (Concluded)

b. Cumulative perpetual subordinated corporate bonds

1) Pursuant to Order No. Securities-TPEX-Bond-10600099421 of the Taipei Exchange, Cathay life issued its first perpetual cumulative subordinated corporate bonds on May 12, 2017 through public offering. 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 from the issue date.
- 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 the Cathy Life's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, the Cathy Life may, with the approval of the authorities, redeem the bonds in whole after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest.
- g) Form of bonds: Book-entry securities



2) Pursuant to Order No. Securities-TPEX-Bond-10800055731 of the Taipei Exchange, Cathay life issued its first perpetual cumulative subordinated corporate bonds on June 26, 2019 through public offering. Key terms and conditions are as follows:

- a) Issue amount: \$10,000,000 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%.
- 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 the Cathy Life's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, the Cathy Life may, with the approval of the authorities, redeem the bonds in whole after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest.
- g) Form of bonds: Book-entry securities.

c. Unsecured Corporate bonds

Pursuant to Order No. Securities-TPEX-Bond-10800038242 of the Taipei Exchange, Cathay Financial Holdings issued its first unsecured corporate bonds on May 8, 2019 through public offering. Key terms and conditions are as follows:

- 1) Issue amount: \$20,000,000 thousand, which is divided into A Note of \$4,000,000 thousand, B Note of \$4,000,000 thousand and C Note of \$12,000,000 thousand by issue periods.
- 2) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
- 3) Years to maturity: A Note is 5 years, B Note is 7 years and C Note is 10 years.
- 4) Coupon rate: Fixed rate of 0.83% for A Note, 0.93% for B Note and 1.04% for C Note.
- 5) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
- 6) Form of bonds: Book-entry securities.

## 21. LIABILITY RESERVES

	June 30, 2019	December 31, 2018	June 30, 2018
Insurance liability			
Unearned premium reserve	\$ 29,232,206	\$ 28,779,799	\$ 27,866,389
Loss reserve	19,146,190	17,377,650	16,449,830
Policy reserve	5,397,742,273	5,225,589,934	5,062,552,741
Special reserve	14,155,258	14,356,733	14,319,713
Premium deficiency reserve	21,122,235	22,559,651	24,700,529
Reserve for insurance contracts with the nature of financial products	10,464,265	9,318,713	9,120,577
Reserve for foreign exchange valuation	24,881,915	17,075,289	15,350,053
Other reserve	<u>1,883,542</u>	<u>1,894,570</u>	<u>1,904,570</u>
	5,518,627,884	5,336,952,339	5,172,264,402
Provisions for employee benefits	3,640,754	3,697,333	3,684,613
Other reserves	<u>1,368,808</u>	<u>1,286,054</u>	<u>1,425,915</u>
	<u>\$ 5,523,637,446</u>	<u>\$ 5,341,935,726</u>	<u>\$ 5,177,374,930</u>

As of June 30, 2019, loss reserve belonging to Cathay Life amounted to \$5,375,318,938 thousand.

### a. Cathay Life and its subsidiaries

The details and changes of Cathay Life and its subsidiaries' insurance contracts and financial instruments with discretionary participation features are summarized below:

#### 1) Unearned premium reserve

	<u>June 30, 2019</u>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Individual life insurance	\$ 49,362	\$ -	\$ 49,362
Individual injury insurance	6,444,223	-	6,444,223
Individual health insurance	8,659,531	-	8,659,531
Group insurance	1,546,541	-	1,546,541
Investment-linked insurance	<u>112,531</u>	-	<u>112,531</u>
	<u>16,812,188</u>	-	<u>16,812,188</u>
Less ceded unearned premium reserve:			
Individual life insurance	547,529	-	547,529
Individual injury insurance	38,636	-	38,636
Individual health insurance	200,062	-	200,062
Group insurance	<u>4,328</u>	-	<u>4,328</u>
	<u>790,555</u>	-	<u>790,555</u>
	<u>\$ 16,021,633</u>	<u>\$ -</u>	<u>\$ 16,021,633</u>

<b>December 31, 2018</b>			
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Individual life insurance	\$ 73,117	\$ -	\$ 73,117
Individual injury insurance	6,497,571	-	6,497,571
Individual health insurance	8,843,583	-	8,843,583
Group insurance	1,225,893	-	1,225,893
Investment-linked insurance	<u>112,153</u>	-	<u>112,153</u>
	<u>16,752,317</u>	-	<u>16,752,317</u>
Less ceded unearned premiums reserve			
Individual life insurance	509,092	-	509,092
Individual injury insurance	9,703	-	9,703
Individual health insurance	105,542	-	105,542
Group insurance	<u>-</u>	<u>-</u>	<u>-</u>
	<u>624,337</u>	-	<u>624,337</u>
	<u>\$ 16,127,980</u>	<u>\$ -</u>	<u>\$ 16,127,980</u>
<b>June 30, 2018</b>			
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Individual life insurance	\$ 131,674	\$ -	\$ 131,674
Individual injury insurance	6,051,418	-	6,051,418
Individual health insurance	8,193,157	-	8,193,157
Group insurance	1,482,590	-	1,482,590
Investment-linked insurance	<u>109,526</u>	-	<u>109,526</u>
	<u>15,968,365</u>	-	<u>15,968,365</u>
Less ceded unearned premiums reserve			
Individual life insurance	371,846	-	371,846
Individual injury insurance	9,155	-	9,155
Individual health insurance	121,325	-	121,325
Group insurance	<u>-</u>	<u>-</u>	<u>-</u>
	<u>502,326</u>	-	<u>502,326</u>
	<u>\$ 15,466,039</u>	<u>\$ -</u>	<u>\$ 15,466,039</u>

The changes in unearned premium reserve are summarized below:

	<b>For the Six Months Ended June 30, 2019</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Beginning balance	\$ 16,752,317	\$ -	\$ 16,752,317
Provision	16,669,957	-	16,669,957
Recovery	(16,613,258)	-	(16,613,258)
Foreign exchange	<u>3,172</u>	<u>-</u>	<u>3,172</u>
Ending balance	<u>16,812,188</u>	<u>-</u>	<u>16,812,188</u>
Less ceded unearned premium reserve			
Beginning balance	624,337	-	624,337
Increase	<u>166,218</u>	<u>-</u>	<u>166,218</u>
Ending balance	<u>790,555</u>	<u>-</u>	<u>790,555</u>
Net ending balance	<u>\$ 16,021,633</u>	<u>\$ -</u>	<u>\$ 16,021,633</u>
	<b>For the Six Months Ended June 30, 2018</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Beginning balance	\$ 15,978,199	\$ -	\$ 15,978,199
Provision	15,961,900	-	15,961,900
Recovery	(15,973,581)	-	(15,973,581)
Foreign exchange	<u>1,847</u>	<u>-</u>	<u>1,847</u>
Ending balance	<u>15,968,365</u>	<u>-</u>	<u>15,968,365</u>
Less ceded unearned premium reserve			
Beginning balance	300,568	-	300,568
Increase	<u>201,758</u>	<u>-</u>	<u>201,758</u>
Ending balance	<u>502,326</u>	<u>-</u>	<u>502,326</u>
Net ending balance	<u>\$ 15,466,039</u>	<u>\$ -</u>	<u>\$ 15,466,039</u>



	<b>December 31, 2018</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Investment-linked insurance			
Filed but not paid	\$ 218,680	\$ -	\$ 218,680
Not yet filed	<u>620</u>	<u>-</u>	<u>620</u>
	<u>8,894,186</u>	<u>9,145</u>	<u>8,903,331</u>
Less ceded loss reserve			
Individual life insurance	8,479	-	8,479
Individual injury insurance	-	-	-
Individual health insurance	14,030	-	14,030
Group insurance	<u>-</u>	<u>-</u>	<u>-</u>
	<u>22,509</u>	<u>-</u>	<u>22,509</u>
	<u>\$ 8,871,677</u>	<u>\$ 9,145</u>	<u>\$ 8,880,822</u>

(Concluded)

	<b>June 30, 2018</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Individual life insurance			
Filed but not paid	\$ 875,570	\$ 19,278	\$ 894,848
Not yet filed	85,622	-	85,622
Individual injury insurance			
Filed but not paid	48,831	-	48,831
Not yet filed	1,834,836	-	1,834,836
Individual health insurance			
Filed but not paid	849,239	-	849,239
Not yet filed	2,808,636	-	2,808,636
Group insurance			
Filed but not paid	61,687	-	61,687
Not yet filed	1,507,477	-	1,507,477
Investment-linked insurance			
Filed but not paid	105,543	-	105,543
Not yet filed	<u>980</u>	<u>-</u>	<u>980</u>
	<u>8,178,421</u>	<u>19,278</u>	<u>8,197,699</u>
Less ceded loss reserve			
Individual life insurance	1,758	-	1,758
Individual injury insurance	-	-	-
Individual health insurance	8,187	-	8,187
Group insurance	<u>7</u>	<u>-</u>	<u>7</u>
	<u>9,952</u>	<u>-</u>	<u>9,952</u>
	<u>\$ 8,168,469</u>	<u>\$ 19,278</u>	<u>\$ 8,187,747</u>

The changes in loss reserve are summarized below:

<b>For the Six Months Ended June 30, 2019</b>			
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Beginning balance	\$ 8,894,186	\$ 9,145	\$ 8,903,331
Provision	10,162,034	17,224	10,179,258
Recovery	(8,786,552)	(9,145)	(8,795,697)
Foreign exchange	<u>6,057</u>	<u>-</u>	<u>6,057</u>
Ending balance	<u>10,275,725</u>	<u>17,224</u>	<u>10,292,949</u>
Less ceded loss reserve:			
Beginning balance	22,509	-	22,509
Increase	27,153	-	27,153
Decrease	(35,397)	-	(35,397)
Foreign exchange differences	<u>158</u>	<u>-</u>	<u>158</u>
Ending balance	<u>14,423</u>	<u>-</u>	<u>14,423</u>
Net ending balance	<u>\$ 10,261,302</u>	<u>\$ 17,224</u>	<u>\$ 10,278,526</u>

<b>For the Six Months Ended June 30, 2018</b>			
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Beginning balance	\$ 7,573,219	\$ 2,678	\$ 7,575,897
Provision	8,075,577	19,278	8,094,855
Recovery	(7,477,046)	(2,678)	(7,479,724)
Foreign exchange	<u>6,671</u>	<u>-</u>	<u>6,671</u>
Ending balance	<u>8,178,421</u>	<u>19,278</u>	<u>8,197,699</u>
Less ceded loss reserve:			
Beginning balance, net	9,684	-	9,684
Increase	408	-	408
Decrease	(176)	-	(176)
Foreign exchange differences	<u>36</u>	<u>-</u>	<u>36</u>
Ending balance	<u>9,952</u>	<u>-</u>	<u>9,952</u>
Net ending balance	<u>\$ 8,168,469</u>	<u>\$ 19,278</u>	<u>\$ 8,187,747</u>

3) Policy reserve

	<b>June 30, 2019</b>		
	<b>Financial Instruments with Discretionary Participation</b>		
	<b>Insurance Contracts</b>	<b>Features</b>	<b>Total</b>
Life insurance (Note 1)	\$ 4,677,515,113	\$ 5,676	\$ 4,677,520,789
Injury insurance	7,360,500	-	7,360,500
Health insurance	686,848,952	-	686,848,952
Annuity insurance	1,398,743	23,603,053	25,001,796
Investment-limited insurance	<u>538,592</u>	<u>-</u>	<u>538,592</u>
Total (Note 2)	<u>5,373,661,900</u>	<u>23,608,729</u>	<u>5,397,270,629</u>
Less ceded policy reserve			
Life insurance	<u>427,937</u>	<u>-</u>	<u>427,937</u>
	<u>\$ 5,373,233,963</u>	<u>\$ 23,608,729</u>	<u>\$ 5,396,842,962</u>
	<b>December 31, 2018</b>		
	<b>Financial Instruments with Discretionary Participation</b>		
	<b>Insurance Contracts</b>	<b>Features</b>	<b>Total</b>
Life insurance (Note 1)	\$ 4,536,368,929	\$ 8,236	\$ 4,536,377,165
Injury insurance	7,446,584	-	7,446,584
Health insurance	653,629,984	-	653,629,984
Annuity insurance	1,395,567	25,839,454	27,235,021
Investment-limited insurance	<u>440,541</u>	<u>-</u>	<u>440,541</u>
Total (Note 2)	<u>5,199,281,605</u>	<u>25,847,690</u>	<u>5,225,129,295</u>
Less ceded policy reserve			
Life insurance	<u>365,409</u>	<u>-</u>	<u>365,409</u>
	<u>\$ 5,198,916,196</u>	<u>\$ 25,847,690</u>	<u>\$ 5,224,763,886</u>
	<b>June 30, 2018</b>		
	<b>Financial Instruments with Discretionary Participation</b>		
	<b>Insurance Contracts</b>	<b>Features</b>	<b>Total</b>
Life insurance (Note 1)	\$ 4,403,579,065	\$ 81,203	\$ 4,463,660,268
Injury insurance	7,457,583	-	7,457,583
Health insurance	620,480,889	-	620,480,889
Annuity insurance	1,387,569	28,837,376	30,224,945
Investment-limited insurance	<u>462,232</u>	<u>-</u>	<u>462,232</u>
Total (Note 2)	<u>5,033,367,338</u>	<u>28,918,579</u>	<u>5,062,285,917</u>
Less ceded policy reserve			
Life insurance	<u>364,006</u>	<u>-</u>	<u>364,006</u>
	<u>\$ 5,033,003,332</u>	<u>\$ 28,918,579</u>	<u>\$ 5,061,921,911</u>



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

Note 2: Total policy reserve after including policy reserve-payables for the insured amounted to \$5,397,742,222 thousand, \$5,225,589,886 thousand and \$5,062,552,692 thousand as of June 30, 2019, December 31, 2018 and June 30, 2018, respectively.

The changes in policy reserve are summarized below:

	<b>For the Six Months Ended June 30, 2019</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Beginning balance	\$ 5,199,281,605	\$ 25,847,690	\$ 5,225,129,295
Provision	334,148,890	904,221	335,053,111
Recovery	(172,186,169)	(3,143,226)	(175,329,395)
Foreign exchange	<u>12,417,574</u>	<u>44</u>	<u>12,417,618</u>
Ending balance	<u>5,373,661,900</u>	<u>23,608,729</u>	<u>5,397,270,629</u>
Less ceded policy reserve			
Beginning balance	365,409	-	365,409
Increase	59,155	-	59,155
Foreign exchange	<u>3,373</u>	<u>-</u>	<u>3,373</u>
Ending balance	<u>427,937</u>	<u>-</u>	<u>427,937</u>
Net ending balance	<u>\$ 5,373,233,963</u>	<u>\$ 23,608,729</u>	<u>\$ 5,396,842,692</u>
	<b>For the Six Months Ended June 30, 2018</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Beginning balance	\$ 4,828,234,670	\$ 32,918,998	\$ 4,861,153,668
Provision	320,335,795	81,816	320,417,611
Recovery	(136,295,946)	(4,056,880)	(140,352,826)
Foreign exchange	<u>21,092,819</u>	<u>(25,355)</u>	<u>21,067,464</u>
Ending balance	<u>5,033,367,338</u>	<u>28,918,579</u>	<u>5,062,285,917</u>
Less ceded policy reserve			
Beginning balance	301,806	-	301,806
Increase	61,925	-	61,925
Foreign exchange	<u>275</u>	<u>-</u>	<u>275</u>
Ending balance	<u>364,006</u>	<u>-</u>	<u>364,006</u>
Net ending balance	<u>\$ 5,033,003,332</u>	<u>\$ 28,918,579</u>	<u>\$ 5,061,921,911</u>

4) Special reserve

	<b>June 30, 2019</b>			
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Others</b>	<b>Total</b>
Participating policies				
dividends reserve	\$ (66,490)	\$ -	\$ -	\$ (66,490)
Reserve for risk of bonus	67,526	-	-	67,526
Special reserve for revaluation increments of property	<u>-</u>	<u>-</u>	<u>11,083,324</u>	<u>11,083,324</u>
	<u>\$ 1,036</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,360</u>
	<b>December 31, 2018</b>			
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Others</b>	<b>Total</b>
Participating policies				
dividends reserve	\$ (62,254)	\$ -	\$ -	\$ (62,254)
Reserve for risk of bonus	63,184	-	-	63,184
Special reserve for revaluation increments of property	<u>-</u>	<u>-</u>	<u>11,083,324</u>	<u>11,083,324</u>
	<u>\$ 930</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,254</u>
	<b>June 30, 2018</b>			
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Others</b>	<b>Total</b>
Participating policies				
dividends reserve	\$ (63,480)	\$ -	\$ -	\$ (63,480)
Reserve for risk of bonus	64,263	-	-	64,263
Special reserve for revaluation increments of property	<u>-</u>	<u>-</u>	<u>11,083,324</u>	<u>11,083,324</u>
	<u>\$ 783</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,107</u>

The changes of special reserve are summarized below:

	<b>For the Six Months Ended June 30, 2019</b>			
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Others</b>	<b>Total</b>
Beginning balance	\$ 930	\$ -	\$ 11,083,324	\$ 11,084,254
Effects of retrospective application and restatement of IFRS 9	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Beginning balance, as adjusted	<u>930</u>	<u>-</u>	<u>11,083,324</u>	<u>11,084,254</u>
Provision for participating policies dividends reserve	7,510	-	-	7,510
Provision for participating policies dividends recovery	(11,746)	-	-	(11,746)
Provision for reserve for risk of bonus	<u>4,342</u>	<u>-</u>	<u>-</u>	<u>4,342</u>
Ending balance	<u>\$ 1,036</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,360</u>

	<b>For the Six Months Ended June 30, 2018</b>			
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Others</b>	<b>Total</b>
Beginning balance	\$ 889	\$ -	\$ 11,083,324	\$ 11,084,213
Effects of retrospective application and restatement of IFRS 9	<u>(395)</u>	<u>-</u>	<u>-</u>	<u>(395)</u>
Beginning balance, as adjusted	<u>494</u>	<u>-</u>	<u>11,083,324</u>	<u>11,083,818</u>
Provision for participating policies dividends reserve	4,262	-	-	4,262
Provision for participating policies dividends recovery	(7,990)	-	-	(7,990)
Provision for reserve for risk of bonus	<u>4,017</u>	<u>-</u>	<u>-</u>	<u>4,017</u>
Ending balance	<u>\$ 783</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,107</u>

5) Premium deficiency reserve

	<b>June 30, 2019</b>		
	<b>Financial Instruments with Discretionary Participation Features</b>		
	<b>Insurance Contracts</b>	<b>Features</b>	<b>Total</b>
Individual life insurance	\$ 19,533,431	\$ -	\$ 19,533,431
Individual injury insurance	1,139	-	1,139
Individual health insurance	1,462,161	-	1,462,161
Group insurance	<u>118,172</u>	<u>-</u>	<u>118,172</u>
	<u>\$ 21,114,903</u>	<u>\$ -</u>	<u>\$ 21,114,903</u>
	<b>December 31, 2018</b>		
	<b>Financial Instruments with Discretionary Participation Features</b>		
	<b>Insurance Contracts</b>	<b>Features</b>	<b>Total</b>
Individual life insurance	\$ 20,966,673	\$ -	\$ 20,966,673
Individual injury insurance	1,229	-	1,229
Individual health insurance	1,508,079	-	1,508,079
Group insurance	<u>72,323</u>	<u>-</u>	<u>72,323</u>
	<u>\$ 22,548,304</u>	<u>\$ -</u>	<u>\$ 22,548,304</u>
	<b>June 30, 2018</b>		
	<b>Financial Instruments with Discretionary Participation Features</b>		
	<b>Insurance Contracts</b>	<b>Features</b>	<b>Total</b>
Individual life insurance	\$ 23,051,306	\$ -	\$ 23,051,306
Individual injury insurance	-	-	-
Individual health insurance	1,580,786	-	1,580,786
Group insurance	<u>62,971</u>	<u>-</u>	<u>62,971</u>
	<u>\$ 24,695,063</u>	<u>\$ -</u>	<u>\$ 24,695,063</u>

The changes in premium deficiency reserve are summarized below:

	<b>For the Six Months Ended June 30, 2019</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Beginning balance	\$ 22,548,304	\$ -	\$ 22,548,304
Provision	185,316	-	185,316
Recovery	(1,686,122)	-	(1,686,122)
Foreign exchange	<u>67,405</u>	<u>-</u>	<u>67,405</u>
Ending balance	<u>\$ 21,114,903</u>	<u>\$ -</u>	<u>\$ 21,114,903</u>

	<b>For the Six Months Ended June 30, 2018</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Beginning balance	\$ 26,232,317	\$ -	\$ 26,232,317
Provision	256,473	-	256,473
Recovery	(1,907,834)	-	(1,907,834)
Foreign exchange	<u>(114,107)</u>	<u>-</u>	<u>(114,107)</u>
Ending balance	<u>\$ 24,695,063</u>	<u>\$ -</u>	<u>\$ 24,695,063</u>

6) Other reserve

	<b>June 30, 2019</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Others	<u>\$ 1,883,542</u>	<u>\$ -</u>	<u>\$ 1,883,542</u>

	<b>December 31, 2018</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Others	<u>\$ 1,894,570</u>	<u>\$ -</u>	<u>\$ 1,894,570</u>

	<b>June 30, 2018</b>		
	<b>Financial Instruments with Discretionary Participation Features</b>		
	<b>Insurance Contracts</b>	<b>Participation Features</b>	<b>Total</b>
Others	<u>\$ 1,904,570</u>	<u>\$ -</u>	<u>\$ 1,904,570</u>

The changes in other reserve are summarized below:

	<b>For the Six Months Ended June 30, 2019</b>		
	<b>Financial Instruments with Discretionary Participation Features</b>		
	<b>Insurance Contracts</b>	<b>Participation Features</b>	<b>Total</b>
Beginning balance	\$ 1,894,570	\$ -	\$ 1,894,570
Recovery	<u>(11,028)</u>	<u>-</u>	<u>(11,028)</u>
Ending balance	<u>\$ 1,883,542</u>	<u>\$ -</u>	<u>\$ 1,883,542</u>

	<b>For the Six Months Ended June 30, 2018</b>		
	<b>Financial Instruments with Discretionary Participation Features</b>		
	<b>Insurance Contracts</b>	<b>Participation Features</b>	<b>Total</b>
Beginning balance	\$ 1,916,570	\$ -	\$ 1,916,570
Recovery	<u>(12,000)</u>	<u>-</u>	<u>(12,000)</u>
Ending balance	<u>\$ 1,904,570</u>	<u>\$ -</u>	<u>\$ 1,904,570</u>

7) Liability adequacy reserve

	<b>Insurance Contracts and Financial Instruments with Discretionary Participation Features</b>		
	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Unearned premium reserve	\$ 16,812,188	\$ 16,752,317	\$ 15,968,365
Policy reserve	5,397,742,222	5,225,129,295	5,062,285,917
Premium deficiency reserve	21,114,903	22,548,304	24,695,063
Other reserve	<u>1,883,542</u>	<u>1,894,570</u>	<u>1,904,570</u>
Book value of insurance liabilities	<u>\$ 5,437,552,855</u>	<u>\$ 5,266,324,486</u>	<u>\$ 5,104,853,915</u>
Estimated present value of cash flows	<u>\$ 4,236,118,222</u>	<u>\$ 4,244,307,094</u>	<u>\$ 4,182,756,884</u>
Balance of liability adequacy reserve	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note 1: Shown by liability adequacy test range (integrated contracts).

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

Note 3: Cathay Life has settled 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 when calculating the book value of insurance liability included in the liability adequacy test.

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

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

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing	Integrated testing
Significant assumptions			
a. Information of policies	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.
b. Discount rate	Under assets allocation plan on March 31, 2019, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2018, with neutral assumption for discount rates after 30 years.	Under assets allocation plan on September 30, 2018, discount rates are calculated using the best estimated scenario investment return based on actuary reported of 2017, with neutral assumption for discount rates after 30 years.	Under assets allocation plan on March 31, 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.

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

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing	Integrated testing
Significant assumptions			
a. Information of policies	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.
b. Discount rate	Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2018, 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 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 2017, with neutral assumption for discount rates after 30 years.

8) Reserve for insurance contracts with the nature of financial products

Cathay Life and its subsidiaries issued financial instruments without discretionary participation features and recognized reserve for insurance contracts with the nature of financial products. As of June 30, 2019, December 31, 2018 and June 30, 2018, the details and changes of reserve for insurance contracts with the nature of financial products are summarized below:

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Life insurance	\$ 9,509,295	\$ 8,475,663	\$ 8,465,041
Investment-linked insurance	<u>954,970</u>	<u>843,050</u>	<u>655,536</u>
	<u>\$ 10,464,265</u>	<u>\$ 9,318,713</u>	<u>\$ 9,120,577</u>
		<b>For the Six Months Ended June 30</b>	
		<b>2019</b>	<b>2018</b>
Beginning balance		\$ 9,318,713	\$ 8,761,609
Premiums received		2,090,033	1,188,150
Claims and payments		(1,368,825)	(135,470)
Net provision (recovery) of statutory reserve		341,189	(734,188)
Foreign exchange		<u>83,155</u>	<u>40,476</u>
Ending balance		<u>\$ 10,464,265</u>	<u>\$ 9,120,577</u>

9) Reserve for foreign exchange valuation

a) The hedging strategy and risk exposure

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

b) Reconciliation for reserve for foreign exchange valuation

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 17,075,289	\$ 11,589,138
Provision:		
Compulsory reserve	4,272,698	2,962,895
Additional reserve	<u>10,648,135</u>	<u>4,342,998</u>
	14,920,833	7,305,893
Recovery	<u>(7,114,207)</u>	<u>(3,544,978)</u>
Ending balance	<u>\$ 24,881,915</u>	<u>\$ 15,350,053</u>



c) Effects due to reserve for foreign exchange valuation

Item	For the Six Months Ended June 30, 2019		
	Inapplicable Amount (1)	Applicable Amount (2)	Effects (3)=(2)-(1)
Net income	\$ 40,379,132	\$ 34,133,831	\$ (6,245,301)
Earnings per share	2.95	2.45	(0.5)
Reserve for foreign exchange valuation	-	24,881,915	24,881,915
Equity	715,049,319	698,746,684	(16,302,635)

Item	For the Six Months Ended June 30, 2018		
	Inapplicable Amount (1)	Applicable Amount (2)	Effects (3)=(2)-(1)
Net income	\$ 39,023,131	\$ 36,014,399	\$ (3,008,732)
Earnings per share	2.95	2.71	(0.24)
Reserve for foreign exchange valuation	-	15,350,053	15,350,053
Equity	608,348,098	599,670,952	(8,677,146)

b. Century Insurance and its subsidiaries

1) Unearned insurance premium reserve

a) Details of unearned premium reserve and ceded unearned premium reserve

Insurance by Type	June 30, 2019			
	Unearned Premium Reserve		Ceded Unearned Premium Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
Fire insurance	\$ 2,094,317	\$ 142,175	\$ 1,287,034	\$ 949,458
Marine insurance	162,724	10,280	112,229	60,775
Land and air insurance	5,082,110	(87)	173,742	4,908,281
Liability insurance	724,751	1,129	245,838	480,042
Financial guarantee insurance	66,245	637	45,870	21,012
Other property insurance	752,383	65,039	467,505	349,917
Accident insurance	1,514,836	5,147	111,910	1,408,073
Health insurance	71,111	2,341	-	73,452
Compulsory auto liability insurance	<u>1,254,496</u>	<u>470,384</u>	<u>752,698</u>	<u>972,182</u>
	<u>\$ 11,722,973</u>	<u>\$ 697,045</u>	<u>\$ 3,196,826</u>	<u>\$ 9,223,192</u>

**December 31, 2018**

<b>Insurance by Type</b>	<b>Unearned Premium Reserve</b>		<b>Ceded Unearned Premium Reserve</b>	<b>Retained Business (4)=(1)+(2)-(3)</b>
	<b>Direct Business (1)</b>	<b>Reinsurance Inward Business (2)</b>	<b>Ceded Reinsurance Business (3)</b>	
	Fire insurance	\$ 1,876,580	\$ 202,282	
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
Financial guarantee 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 auto liability insurance	<u>1,261,457</u>	<u>470,972</u>	<u>756,874</u>	<u>975,555</u>
	<u>\$ 11,252,541</u>	<u>\$ 774,941</u>	<u>\$ 2,965,729</u>	<u>\$ 9,061,753</u>

**June 30, 2018**

<b>Insurance by Type</b>	<b>Unearned Premium Reserve</b>		<b>Ceded Unearned Premium Reserve</b>	<b>Retained Business (4)=(1)+(2)-(3)</b>
	<b>Direct Business (1)</b>	<b>Reinsurance Inward Business (2)</b>	<b>Ceded Reinsurance Business (3)</b>	
	Fire insurance	\$ 2,030,447	\$ 209,467	
Marine insurance	170,893	10,117	118,408	62,602
Land and air insurance	4,776,259	633	198,066	4,578,826
Liability insurance	647,792	1,110	193,474	455,428
Financial guarantee insurance	53,395	897	36,980	17,312
Other property insurance	620,389	53,471	422,972	250,888
Accident insurance	1,504,288	3,861	79,418	1,428,731
Health insurance	61,855	5,169	-	67,024
Compulsory auto liability insurance	<u>1,266,765</u>	<u>481,216</u>	<u>760,039</u>	<u>987,942</u>
	<u>\$ 11,132,083</u>	<u>\$ 765,941</u>	<u>\$ 3,006,311</u>	<u>\$ 8,891,713</u>

b) Reconciliation of unearned premium reserve and ceded unearned premium reserve

	<b>For the Six Months Ended June 30</b>			
	<b>2019</b>		<b>2018</b>	
	<b>Unearned Premium Reserves</b>	<b>Ceded Unearned Premium Reserve</b>	<b>Unearned Premium Reserves</b>	<b>Ceded Unearned Premium Reserve</b>
Beginning balance	\$ 12,027,482	\$ 2,965,729	\$ 11,502,792	\$ 2,889,339
Provision	12,415,081	3,196,750	11,895,346	3,004,847
Recovery	(12,028,452)	(2,966,272)	(11,502,124)	(2,889,022)
Foreign exchange	<u>5,907</u>	<u>619</u>	<u>2,010</u>	<u>1,147</u>
Ending balance	<u>\$ 12,420,018</u>	<u>\$ 3,196,826</u>	<u>\$ 11,898,024</u>	<u>\$ 3,006,311</u>

2) Loss reserve

a) Loss reserve and ceded loss reserve

Items	<b>June 30, 2019</b>			
	<b>Loss Reserve</b>		<b>Ceded Loss Reserve</b>	
	<b>Direct Underwriting Business (1)</b>	<b>Reinsurance Inward Business (2)</b>	<b>Ceded Reinsurance Business (3)</b>	<b>Retained Business (4)=(1)+(2)-(3)</b>
Filed not yet paid	\$ 3,918,636	\$ 388,079	\$ 1,219,104	\$ 3,087,611
Not yet filed	<u>4,091,305</u>	<u>455,221</u>	<u>1,136,177</u>	<u>3,410,349</u>
	<u>\$ 8,009,941</u>	<u>\$ 843,300</u>	<u>\$ 2,355,281</u>	<u>\$ 6,497,960</u>

Items	<b>December 31, 2018</b>			
	<b>Loss Reserve</b>		<b>Ceded Loss Reserve</b>	
	<b>Direct Underwriting Business (1)</b>	<b>Reinsurance Inward Business (2)</b>	<b>Ceded Reinsurance Business (3)</b>	<b>Retained Business (4)=(1)+(2)-(3)</b>
Filed not yet paid	\$ 3,670,166	\$ 330,733	\$ 1,231,776	\$ 2,769,123
Not yet filed	<u>4,026,955</u>	<u>446,465</u>	<u>1,113,251</u>	<u>3,360,169</u>
	<u>\$ 7,697,121</u>	<u>\$ 777,198</u>	<u>\$ 2,345,027</u>	<u>\$ 6,129,292</u>

Items	<b>June 30, 2018</b>			
	<b>Loss Reserve</b>		<b>Ceded Loss Reserve</b>	
	<b>Direct Underwriting Business (1)</b>	<b>Reinsurance Inward Business (2)</b>	<b>Ceded Reinsurance Business (3)</b>	<b>Retained Business (4)=(1)+(2)-(3)</b>
Filed not yet paid	\$ 3,434,027	\$ 286,747	\$ 1,430,673	\$ 2,290,101
Not yet filed	<u>4,087,273</u>	<u>444,084</u>	<u>1,141,196</u>	<u>3,390,161</u>
	<u>\$ 7,521,300</u>	<u>\$ 730,831</u>	<u>\$ 2,571,869</u>	<u>\$ 5,680,262</u>

b) Net changes in loss reserve and ceded loss reserve

For the six months ended June 30, 2019

Items	Direct Underwriting Business		Reinsurance Inward Business		Net Change in Loss Reserves
	Provision (1)	Recovery (2)	Provision (3)	Recovery (4)	(5)=(1)-(2)+(3)-(4)
Filed not yet paid	\$ 3,934,420	\$ 3,687,249	\$ 388,079	\$ 330,733	\$ 304,517
Not yet filed	<u>4,075,007</u>	<u>4,011,028</u>	<u>455,221</u>	<u>446,465</u>	<u>72,735</u>
	<u>\$ 8,009,427</u>	<u>\$ 7,698,277</u>	<u>\$ 843,300</u>	<u>\$ 777,198</u>	<u>\$ 377,252</u>

Items	Ceded Reinsurance Business		Net Change in Loss Reserves
	Provision (6)	Release (7)	(8)=(6)-(7)
Filed not yet paid	\$ 1,227,207	\$ 1,241,014	\$ (13,807)
Not yet filed	<u>1,128,004</u>	<u>1,105,134</u>	<u>22,870</u>
	<u>\$ 2,355,211</u>	<u>\$ 2,346,148</u>	<u>\$ 9,063</u>

For the six months ended June 30, 2018

Items	Direct Underwriting Business		Reinsurance Inward Business		Net Change in Loss Reserves
	Provision (1)	Recovery (2)	Provision (3)	Recovery (4)	(5)=(1)-(2)+(3)-(4)
Filed not yet paid	\$ 3,429,910	\$ 3,555,690	\$ 286,747	\$ 286,595	\$ (125,628)
Not yet filed	<u>4,087,026</u>	<u>3,796,188</u>	<u>444,084</u>	<u>442,692</u>	<u>292,230</u>
	<u>\$ 7,516,936</u>	<u>\$ 7,351,878</u>	<u>\$ 730,831</u>	<u>\$ 729,287</u>	<u>\$ 166,602</u>

Items	Ceded Reinsurance Business		Net Change in Loss Reserves
	Provision (6)	Recovery (7)	(8)=(6)-(7)
Filed not yet paid	\$ 1,426,944	\$ 1,340,994	\$ 85,950
Not yet filed	<u>1,141,079</u>	<u>1,132,228</u>	<u>8,851</u>
	<u>\$ 2,568,023</u>	<u>\$ 2,473,222</u>	<u>\$ 94,801</u>

c) Liability for claims filed not yet paid and claim not yet filed of policyholders

Insurance by Type	June 30, 2019		
	Liability		
	Filed Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 919,665	\$ 17,415	\$ 937,080
Marine insurance	244,621	23,414	268,035
Land and air insurance	1,542,570	1,358,865	2,901,435
Liability insurance	531,403	768,728	1,300,131
Financial guarantee insurance	60,097	49,033	109,130
Other property insurance	394,236	156,429	550,665
Accident insurance	99,119	576,713	675,832
Health insurance	3,820	49,140	52,960
Compulsory automobile liability insurance	<u>511,184</u>	<u>1,546,789</u>	<u>2,057,973</u>
	<u>\$ 4,306,715</u>	<u>\$ 4,546,526</u>	<u>\$ 8,853,241</u>
Insurance by Type	December 31, 2018		
	Liability		
	Filed Not Yet Paid	Not Yet Filed	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
Financial guarantee 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	<u>524,259</u>	<u>1,558,314</u>	<u>2,082,573</u>
	<u>\$ 4,000,899</u>	<u>\$ 4,473,420</u>	<u>\$ 8,474,319</u>
Insurance by Type	June 30, 2018		
	Liability		
	Filed Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 1,082,458	\$ 12,737	\$ 1,095,195
Marine insurance	258,924	5,141	264,065
Land and air insurance	987,810	1,370,798	2,358,608
Liability insurance	412,472	716,915	1,129,387
Financial guarantee insurance	70,777	105,845	176,622
Other property insurance	377,417	150,503	527,920
Accident insurance	75,846	566,490	642,336
Health insurance	4,485	50,801	55,286
Compulsory automobile liability insurance	<u>450,585</u>	<u>1,552,127</u>	<u>2,002,712</u>
	<u>\$ 3,720,774</u>	<u>\$ 4,531,357</u>	<u>\$ 8,252,131</u>

d) Ceded loss reserve for claims filed not yet paid and claims not yet filed of policyholders

<b>June 30, 2019</b>			
<b>Liability</b>			
<b>Insurance by Type</b>	<b>Filed Not Yet Paid</b>	<b>Not Yet Filed</b>	<b>Total</b>
Fire insurance	\$ 312,511	\$ 8,830	\$ 321,341
Marine insurance	138,659	15,347	154,006
Land and air insurance	56,540	40,377	96,917
Liability insurance	330,935	279,221	610,156
Financial guarantee insurance	31,074	31,367	62,441
Other property insurance	157,057	49,387	206,444
Accident insurance	6,639	35,163	41,802
Health insurance	-	-	-
Compulsory automobile liability insurance	<u>185,689</u>	<u>676,485</u>	<u>862,174</u>
	<u>\$ 1,219,104</u>	<u>\$ 1,136,177</u>	<u>\$ 2,355,281</u>
<b>December 31, 2018</b>			
<b>Liability</b>			
<b>Insurance by Type</b>	<b>Filed Not Yet Paid</b>	<b>Not Yet Filed</b>	<b>Total</b>
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
Financial guarantee 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	<u>206,657</u>	<u>681,671</u>	<u>888,328</u>
	<u>\$ 1,231,776</u>	<u>\$ 1,113,251</u>	<u>\$ 2,345,027</u>
<b>June 30, 2018</b>			
<b>Liability</b>			
<b>Insurance by Type</b>	<b>Filed Not Yet Paid</b>	<b>Not Yet Filed</b>	<b>Total</b>
Fire insurance	\$ 593,215	\$ 6,571	\$ 599,786
Marine insurance	177,756	1,845	179,601
Land and air insurance	54,728	39,202	93,930
Liability insurance	240,118	240,752	480,870
Financial guarantee insurance	32,817	83,613	116,430
Other property insurance	171,926	49,942	221,868
Accident insurance	5,713	41,533	47,246
Health insurance	-	-	-
Compulsory automobile liability insurance	<u>154,400</u>	<u>677,738</u>	<u>832,138</u>
	<u>\$ 1,430,673</u>	<u>\$ 1,141,196</u>	<u>\$ 2,571,869</u>

e) Reconciliation of loss reserve and ceded loss reserve

	<b>For the Six Months Ended June 30</b>			
	<b>2019</b>		<b>2018</b>	
	<b>Loss Reserve</b>	<b>Ceded Loss Reserve</b>	<b>Loss Reserve</b>	<b>Ceded Loss Reserve</b>
Beginning balance	\$ 8,474,319	\$ 2,345,027	\$ 8,082,584	\$ 2,474,474
Provision	8,852,727	2,355,211	8,247,767	2,568,023
Recovery	(8,475,475)	(2,346,148)	(8,081,165)	(2,473,222)
Foreign exchange	<u>1,670</u>	<u>1,191</u>	<u>2,945</u>	<u>2,594</u>
Ending balance	<u>\$ 8,853,241</u>	<u>\$ 2,355,281</u>	<u>\$ 8,252,131</u>	<u>\$ 2,571,869</u>

3) Special reserve

a) Special reserve for compulsory automobile liability insurance

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 1,478,016	\$ 1,575,128
Provision	21,379	5,409
Recovery	<u>(222,959)</u>	<u>(158,120)</u>
Ending balance	<u>\$ 1,276,436</u>	<u>\$ 1,422,417</u>

b) Special reserve for all insurances other than compulsory automobile liability insurance

	<b>For the Six Months Ended June 30, 2019</b>		
	<b>Liability</b>		
	<b>Catastrophic Event</b>	<b>Fluctuation of Risk</b>	<b>Total</b>
Beginning balance	\$ 449,445	\$ 1,345,017	\$ 1,794,462
Provision	-	-	-
Recovery	<u>-</u>	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 449,445</u>	<u>\$ 1,345,017</u>	<u>\$ 1,794,462</u>

	<b>For the Six Months Ended June 30, 2018</b>		
	<b>Liability</b>		
	<b>Catastrophic Event</b>	<b>Fluctuation of Risk</b>	<b>Total</b>
Beginning balance	\$ 468,172	\$ 1,345,017	\$ 1,813,189
Provision	-	-	-
Recovery	<u>-</u>	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 468,172</u>	<u>\$ 1,345,017</u>	<u>\$ 1,813,189</u>

If the Notice for the improvement of the reserves of natural disaster insurances (commercial-business earthquake, typhoon and flood insurances) for property insurance enterprises, Notice for the improvement of the reserves of co-assurance organization and Regulations governing the reserves of nuclear energy insurance were not applied, there would

be no material impact on Cathay Century and its' subsidiaries' net income and earnings per share, special reserve under liabilities decreased by \$1,485,963 thousand and special reserve under equity increased by \$508,108 thousand.

4) Premium deficiency reserve

a) Premium deficiency reserve and ceded premium deficiency reserve

<b>June 30, 2019</b>				
<b>Insurance by Type</b>	<b>Premium Deficiency Reserve</b>		<b>Ceded Premium Deficiency Reserve</b>	<b>Retained Business (4)=(1)+(2)-(3)</b>
	<b>Direct Business (1)</b>	<b>Reinsurance Inward Business (2)</b>	<b>Ceded Reinsurance Business (3)</b>	
	Fire insurance	\$ -	\$ -	
Marine insurance	3,711	311	-	4,022
Land and air insurance	3,203	107	-	3,310
Liability insurance	-	-	-	-
Financial guarantee insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory auto liability insurance	-	-	-	-
	<u>\$ 6,914</u>	<u>\$ 418</u>	<u>\$ -</u>	<u>\$ 7,332</u>

<b>December 31, 2018</b>				
<b>Insurance by Type</b>	<b>Premium Deficiency Reserve</b>		<b>Ceded Premium Deficiency Reserve</b>	<b>Retained Business (4)=(1)+(2)-(3)</b>
	<b>Direct Business (1)</b>	<b>Reinsurance Inward Business (2)</b>	<b>Ceded Reinsurance Business (3)</b>	
	Fire insurance	\$ -	\$ -	
Marine insurance	2,253	714	-	2,967
Land and air insurance	7,512	868	-	8,380
Liability insurance	-	-	-	-
Financial guarantee insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory auto liability insurance	-	-	-	-
	<u>\$ 9,765</u>	<u>\$ 1,582</u>	<u>\$ -</u>	<u>\$ 11,347</u>



**June 30, 2018**

<b>Insurance by Type</b>	<b>Premium Deficiency Reserve</b>		<b>Ceded Unearned Premium Reserve</b>	<b>Retained Business (4)=(1)+(2)-(3)</b>
	<b>Direct Business (1)</b>	<b>Reinsurance Inward Business (2)</b>	<b>Ceded Reinsurance Business (3)</b>	
Fire insurance	\$ -	\$ -	\$ -	\$ -
Marine insurance	2,317	170	-	2,487
Land and air insurance	2,537	442	388	2,591
Liability insurance	-	-	-	-
Financial guarantee insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-
	<u>\$ 4,854</u>	<u>\$ 612</u>	<u>\$ 388</u>	<u>\$ 5,078</u>

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

	<b>For the Six Months Ended June 30, 2019</b>								
	<b>Direct Underwriting Business</b>		<b>Reinsurance Inward Business</b>		<b>Net Changes in Premium Deficiency Reserve (5)=(1)-(2)+ (3)-(4)</b>	<b>Ceded Reinsurance Business</b>		<b>Net Changes in Ceded Premium Deficiency Reserve (8)=(6)-(7)</b>	<b>Net Loss Recognized for Premium Deficiency Reserve (9)=(5)-(8)</b>
	<b>Provision (1)</b>	<b>Recovery (2)</b>	<b>Provision (3)</b>	<b>Recovery (4)</b>		<b>Provision (6)</b>	<b>Recovery (7)</b>		
Fire insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Marine insurance	3,711	2,253	311	714	1,055	-	-	-	1,055
Land and air insurance	3,203	7,512	107	868	(5,070)	-	-	-	(5,070)
Liability insurance	-	-	-	-	-	-	-	-	-
Financial guarantee insurance	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-	-	-	-	-	-
	<u>\$ 6,914</u>	<u>\$ 9,765</u>	<u>\$ 418</u>	<u>\$ 1,582</u>	<u>\$ (4,015)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,015)</u>

	For the Six Months Ended June 30, 2018								Net Changes in Ceded Premium Deficiency Reserve (8)=(6)-(7)	Net Loss Recognized for Premium Deficiency Reserve (9)=(5)-(8)
	Direct Underwriting Business		Reinsurance Inward Business		Net Changes in Premium Deficiency Reserve (5)=(1)-(2)+ (3)-(4)	Ceded Reinsurance Business				
	Provision (1)	Recovery (2)	Provision (3)	Recovery (4)		Provision (6)	Recovery (7)			
Fire insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Marine insurance	2,317	1,145	170	102	1,240	-	-	-	1,240	
Land and air insurance	2,537	8,446	442	2,932	(8,399)	388	2,578	(2,190)	(6,209)	
Liability insurance	-	-	-	-	-	-	-	-	-	
Financial guarantee insurance	-	-	-	-	-	-	-	-	-	
Other property insurance	-	-	-	-	-	-	-	-	-	
Accident insurance	-	-	-	-	-	-	-	-	-	
Health insurance	-	-	-	-	-	-	-	-	-	
Compulsory automobile liability insurance	-	-	-	-	-	-	-	-	-	
	<u>\$ 4,854</u>	<u>\$ 9,591</u>	<u>\$ 612</u>	<u>\$ 3,034</u>	<u>\$ (7,159)</u>	<u>\$ 388</u>	<u>\$ 2,578</u>	<u>\$ (2,190)</u>	<u>\$ (4,969)</u>	

c) Reconciliation of premium deficiency reserve and ceded premium deficiency reserve

	For the Six Months Ended June 30			
	2019		2018	
	Premium Deficiency Reserve	Ceded Unearned Premium Reserve	Premium Deficiency Reserve	Ceded Unearned Premium Reserve
Beginning balance	\$ 11,347	\$ -	\$ 12,625	\$ 2,578
Provision	7,332	-	5,466	388
Recovery	<u>(11,347)</u>	<u>-</u>	<u>(12,625)</u>	<u>(2,578)</u>
Ending balance	<u>\$ 7,332</u>	<u>\$ -</u>	<u>\$ 5,466</u>	<u>\$ 388</u>

d) Effects for changes in estimation and assumptions

The premium deficiency reserve is measured by the present value of future expenditure. The ultimate loss ratio is estimated with reference to Cathay Century's loss experience in the past three years along with huge claims and loss trend. The standing charge ratio is estimated with reference to general expense, excluding entertainment expense and membership fee, of Cathay Century's insurance expense exhibit in the past three years. The actual ratio of return on investment may not be the same as the expected ratio due to the uncertainty of estimation and assumption.

5) Policy reserve

a) Policy reserve and ceded policy reserve ceded

June 30, 2019

Insurance by Type	Policy Reserve		Ceded	Retained Business (4)=(1)+(2)-(3)
	Direct Underwriting Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
Health insurance	<u>\$ 51</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51</u>

December 31, 2018

Insurance by Type	Policy Reserve		Ceded Unearned Premium Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
Health insurance	\$ 48	\$ -	\$ -	\$ 48

June 30, 2018

Insurance by Type	Unearned Premium Reserve		Reserve for Unearned Ceded Premium	Retained Business (4)=(1)+(2)-(3)
	Direct Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
Health insurance	\$ 49	\$ -	\$ -	\$ 49

b) Net change in policy reserve and ceded policy reserve

For the six months ended June 30, 2019

Insurance by Type	Direct Underwriting Business		Reinsurance Inward Business		Net Changes in Policy Reserve (5)=(1)-(2)+(3)-(4)
	Provision (1)	Recovery (2)	Provision (3)	Recovery (4)	
Health insurance	\$ 15	\$ 12	\$ -	\$ -	\$ 3

Insurance by Type	Ceded Reinsurance Business		Net Changes in Ceded Policy Reserve (8)=(6)-(7)
	Provision (6)	Recovery (7)	
Health insurance	\$ -	\$ -	\$ -

For the six months ended June 30, 2018

Insurance by Type	Direct Underwriting Business		Reinsurance Inward Business		Net Changes in Policy Reserve (5)=(1)-(2)+(3)-(4)
	Provision (1)	Recovery (2)	Provision (3)	Recovery (4)	
Health insurance	\$ 3	\$ 9	\$ -	\$ -	\$ (6)

Insurance by Type	Ceded Reinsurance Business		Net Changes in
	Provision (6)	Recovery (7)	Ceded Policy Reserve (8)=(6)-(7)
Health insurance	\$ -	\$ -	\$ -

## 22. PROVISIONS FOR EMPLOYEE BENEFITS

Pension expense under retirement benefits for the three months and six months ended June 30, 2019 and 2018 were calculated by using the actuarially determined pension cost rate at the end of the prior financial year and recognized in below:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Employee benefit expenses	\$ <u>122,792</u>	\$ <u>126,128</u>	\$ <u>245,738</u>	\$ <u>251,729</u>

## 23. OTHER FINANCIAL ASSETS AND LIABILITIES

	June 30, 2019	December 31, 2018	June 30, 2018
<u>Other financial assets</u>			
Separate accounts insurance product assets	\$ 596,797,768	\$ 546,964,261	\$ 573,713,591
Structured time deposits	2,000,000	2,000,000	3,500,000
Others	6,342,044	6,776,864	6,235,415
Less: Loss allowance	<u>(667)</u>	<u>(594)</u>	<u>(2,231)</u>
	\$ <u>605,139,145</u>	\$ <u>555,740,531</u>	\$ <u>583,446,775</u>
<u>Miscellaneous financial liabilities</u>			
Separate accounts insurance product liabilities	\$ 596,797,768	\$ 546,964,261	\$ 573,713,591
Principal received from the sale of structured products	70,621,746	76,615,204	77,745,333
Others	<u>3,700,532</u>	<u>4,235,713</u>	<u>3,490,686</u>
	\$ <u>671,120,046</u>	\$ <u>627,815,178</u>	\$ <u>654,949,610</u>

a. The related accounts of Cathay Life were summarized as follow:

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
<u>Separate account insurance product assets</u>			
Cash in bank	\$ 753,775	\$ 888,274	\$ 1,325,083
Financial assets at FVTPL	591,352,978	539,874,109	566,431,260
Other receivables	<u>4,570,377</u>	<u>6,090,351</u>	<u>5,825,308</u>
	<u>\$ 596,677,130</u>	<u>\$ 546,852,734</u>	<u>\$ 573,581,651</u>
<u>Separate account insurance product liabilities</u>			
Other payables	\$ 1,000,097	\$ 743,442	\$ 824,652
Reserve for separate account - insurance contracts	239,655,246	220,038,873	227,218,504
Reserve for separate account - investment contracts	<u>356,021,787</u>	<u>326,070,419</u>	<u>345,538,495</u>
	<u>\$ 596,677,130</u>	<u>\$ 546,852,734</u>	<u>\$ 573,581,651</u>
	<b>For the Three Months Ended June 30</b>	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>
			<b>2018</b>
<u>Separate account insurance product income</u>			
Premium income	\$ 7,791,694	\$ 11,351,416	\$ 15,746,317
Interest income	428	665	791
Gains (losses) from financial assets and liabilities at FVTPL	4,751,511	(3,754,518)	20,747,788
Foreign exchange gains (losses)	<u>1,301,328</u>	<u>6,788,960</u>	<u>2,162,922</u>
	<u>\$ 13,844,961</u>	<u>\$ 14,386,523</u>	<u>\$ 38,657,818</u>
<u>Separate account insurance product expenses</u>			
Claims and payments	\$ 2,877,836	\$ 12,119,324	\$ 4,820,551
Cash surrender value	6,534,307	7,339,131	12,650,634
Dividends	1	4	2
Provision (reversal) of separate account reserve	3,556,866	(5,947,316)	19,438,021
Administrative expenses	913,470	907,947	1,817,114
Non-operating income and expenses	<u>(37,519)</u>	<u>(32,567)</u>	<u>(68,504)</u>
	<u>\$ 13,844,961</u>	<u>\$ 14,386,523</u>	<u>\$ 38,657,818</u>

The commission earned for the sales of separate account insurance products from counterparties recorded under fee income for the three months ended June 30, 2019 and 2018 were \$226,936 thousand and \$270,327 thousand and for the six months ended June 30, 2019 and 2018 were \$455,367 thousand and \$535,065 thousand, respectively.

b. The related accounts of Cathay Lujiazui Life were summarized as follow:

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
<u>Separate account insurance product assets</u>			
Cash in bank	\$ 19,692	\$ 17,902	\$ 16,202
Financial assets at FVTPL	100,897	94,126	115,975
Interest receivable	5	55	44
Others	<u>44</u>	<u>(556)</u>	<u>(281)</u>
	<u>\$ 120,638</u>	<u>\$ 111,527</u>	<u>\$ 131,940</u>
<u>Separate account insurance product liabilities</u>			
Other payables	\$ (652)	\$ 8	\$ 135
Reserve for separate account - insurance contracts	121,290	98,690	118,083
Others	<u>-</u>	<u>12,829</u>	<u>13,722</u>
	<u>\$ 120,638</u>	<u>\$ 111,527</u>	<u>\$ 131,940</u>
	<b>For the Three Months Ended June 30</b>	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>
	<b>2018</b>	<b>2019</b>	<b>2018</b>
<u>Separate account insurance product income</u>			
Premium income	\$ 53	\$ 124	\$ 127
Gains (losses) from financial assets and liabilities at FVTPL	120	(3,396)	12,333
Interest income	60	56	109
Tax expense	<u>-</u>	<u>1,032</u>	<u>-</u>
	<u>\$ 233</u>	<u>\$ (2,184)</u>	<u>\$ 12,569</u>
<u>Separate account insurance product expenses</u>			
Cash surrender value	\$ 401	\$ 1,338	\$ 4,362
(Reversal) provision of separate account reserve	(548)	(3,922)	6,732
Administrative expenses	391	455	762
Tax expense	<u>(11)</u>	<u>(55)</u>	<u>713</u>
	<u>\$ 233</u>	<u>\$ (2,184)</u>	<u>\$ 12,569</u>
	<u>\$ (571)</u>	<u>\$ (571)</u>	<u>\$ (571)</u>

## 24. EQUITY

### a. Share capital

	June 30, 2019	December 31, 2018	June 30, 2018
Number of shares authorized (in thousands)	<u>18,000,000</u>	<u>18,000,000</u>	<u>18,000,000</u>
Shares authorized	<u>\$ 180,000,000</u>	<u>\$ 180,000,000</u>	<u>\$ 180,000,000</u>
Number of shares issued and fully paid (in thousands)			
Ordinary shares	<u>12,563,210</u>	<u>12,563,210</u>	<u>12,563,210</u>
Preference shares	<u>1,533,300</u>	<u>1,533,300</u>	<u>1,533,300</u>
Shares issued	<u>\$ 140,965,102</u>	<u>\$ 140,965,102</u>	<u>\$ 140,965,102</u>

Fully paid ordinary shares, which have a par value of \$10, carry one vote per share and carry a right a dividends.

On August 15, 2019, the board of directors resolved the capital raising through issuance of ordinary shares, with tentative total amount of additional \$20 billion and a tentative issue price of \$27 to \$41 per share. The chairman of the board is authorized to designate the actual issue price after effective registration.

#### Issuance of preference shares

- 1) On September 9, 2016, the board of directors resolved the capital raising through issuance of Series A Preference Shares. The Company issued 833,300 thousand preference shares, with a par value of \$10 per share and total amount of \$8,333,000 thousand, and the issue price was \$60 per share. The capital raising was approved by the FSC on October 25, 2016. The base date of capital increase was December 8, 2016. All issued shares were registered and recognized as equity. The rights and obligations of Series A Preference Shares are as follows:
  - a) 3.8% per annum for Series A Preference Shares (7-year IRS 1.06%+2.74%) calculated pursuant to the issue price per share. Interest rate per annum will be reset on the day after the 7th year from the issue date (“Issue Date”) and the day after each subsequent 7-year period hereafter. The record date for reset of interest rate shall be 2 business days before the interest reset day for financial institutions in Taipei. The 7-year IRS rate shall be the arithmetic mean of 7-year IRS quotations as published by Reuters, PYTWDFIX and COSMOS3 at 11:00 a.m. of the day of the record date for reset of interest rate (must be a business day for Taipei’s financial institutions). If the above quotations cannot be obtained on the record date for reset of interest rate, the interest rate shall be decided by the issuer in good faith, taking into account the reasonable market trends.
  - b) Dividends for Series A Preference Shares are distributed once a year in cash. After shareholders’ approval of the issuer’s financial statements at its annual shareholders’ meeting, the board of directors may set the 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 the actual issued days of the given year.
  - c) If there are retained earnings, before the issuer can distribute dividends for Series A Preference 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 preference share dividends.

- d) The Company has the sole discretion to distribute dividends of Series A Preference Shares, including its discretion to not declare dividends when no profit is recorded, or insufficient profit is recorded for Series A Preference Share dividends, or preference share dividend distribution would render the Company's CAR ratio below the level required by law or by the authorities. The Company's cancellation of preference share dividend distribution shall not be deemed an event of default. Series A Preference Shares are non-cumulative. Undeclared or under-declared dividends are not cumulative, and are not paid in subsequent years with profit.
  - e) Except for receipt of dividends at the aforementioned dividend rate in Paragraph (1), holders of Preference Shares cannot participate in the distribution of cash or stock dividends to holders of common shares from profit or additional paid-in capital.
  - f) Holders of Series A Preference Shares shall have the same priority as holders of all subsequently issued preference shares in liquidation, which are prior to holders of ordinary shares but subordinated to general creditors, to the extent of the issuance amount.
  - g) Holders of Series A Preference Shares have no voting rights at the annual shareholders' meeting, and cannot elect directors. However, holders of Series A Preference Shares have voting rights at the meeting of Series A Preference Shareholders, and at the annual shareholders' meeting on items relating to the rights of Series A Preference Shareholders.
  - h) Holders of Series A Preference Shares cannot convert the said preference shares to ordinary shares, and have no right to request the Company for redemption of Series A Preference Shares.
  - i) Through issuance of perpetual preferred stock, on the day after the 7th year from the issue date, the Company may redeem all or part of the outstanding Series A Preference Shares at the issue price. Rights and obligations of the unredeemed Series A Preference Shares shall remain the same as mentioned above.
- 2) On February 9, 2018, the board of directors resolved the capital raising through issuance of Series B Preference Shares. The Company issued 700,000 thousand preference shares, with a par value of \$10 per share and total amount of \$7,000,000 thousand, and the issue price was \$60 per share. The capital raising was approved by the FSC on May 10, 2017. The base date of capital increase was June 27, 2018. All issued shares were registered and recognized as equity. The rights and obligations of Series B Preference Shares are as follows:
- a) 3.55% per annum for Series B Preference Shares (7-year IRS 1.1675%+2.3825%) calculated pursuant to the issue price per share. The interest rate per annum will be reset on the day after the 7th year from the issue date ("Issue Date") and the day after each subsequent 7-year period hereafter. The record date for interest reset shall be 2 business days before the interest reset day for financial institutions in Taipei. The 7-year IRS rate shall be the arithmetic mean of 7-year IRS quotations as published by Reuters, 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 the record date for reset of interest rate, the interest rate shall be decided by the issuer in good faith, taking into account the reasonable market trends.
  - b) If there are retained earnings, before the issuer can distribute dividends for Series B Preference 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 preference share dividend.



- c) The Company has the sole discretion to distribute dividend of the Series B Preference Shares, including its discretion to not declare dividends when no profit is recorded, or insufficient profit is recorded for Series B Preference Share dividends, or preference share dividend distribution would render the Company's CAR ratio below the level required by law or by the authorities. The Company's cancellation of preference share dividend distribution shall not be deemed an event of default. Series B Preference Shares 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 (1), holders of Preference Shares cannot participate in the distribution of cash or stock dividends to holders of common shares from the profit or additional paid-in capital.
- e) Holders of Series B Preference Shares shall have the same priority as holders of all subsequently issued preference share in liquidation, which are prior to holders of ordinary shares but subordinated to general creditors, to the extent of the issuance amount.
- f) Holders of Series B Preference Shares have no voting rights at the annual shareholders' meeting, and cannot elect directors. However, holders of Series B Preference Shares have voting rights at the shareholders' meeting of Series B Preference Shareholders, and at the annual shareholders' meeting on items relating to rights of Series B Preference Shareholders.
- g) Holders of Series B Preference Shares cannot convert the said preference shares to ordinary shares, and have no right to request the Company for redemption of Series B Preference Shares.
- h) Through the issuance of perpetual preferred stock, on the day after the 7th year from the issue date, the Company may redeem all or part of the outstanding Series B Preference Shares at the issue price. Rights and obligations of the unredeemed Series B Preference Shares shall remain the same as mentioned above.

Issuance of overseas depositary receipt

The Company's shares have been listed on the Taiwan Stock Exchange in accordance with relevant regulations since the Company was incorporated on December 31, 2001. Since July 29, 2003, the Company has listed a portion of its ordinary shares on the Luxembourg Stock Exchange in the form of Global Depositary Shares (GDSs).

b. Capital surplus

- 1) Capital surplus are comprised as follows:

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Additional paid-in capital	\$ 157,755,009	\$ 161,523,972	\$ 161,523,972
Treasury share transactions	2,539,377	2,539,377	2,539,377
Additional paid-in capital - employee stock options	209,945	209,945	207,620
Conversion of convertible bonds	1,144,486	1,144,486	1,144,486
Others	<u>40,391</u>	<u>31,584</u>	<u>36,688</u>
	<u><b>\$ 161,689,208</b></u>	<u><b>\$ 165,449,364</b></u>	<u><b>\$ 165,452,143</b></u>

- 2) The capital surplus recorded during the conversion of shares of financial institutions may be distributed as cash dividends according to the fourth paragraph of Article 47 of the Financial Holding Company Act and other related requirements if not restricted by other regulations or may be transferred to capital in the year of conversion with the proportion of the transfer not limited by Article 72-1 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers. The unrestricted retained earnings of the financial institution presents the remaining balance after the appropriation of legal reserve or special reserve as required by law.

c. Retained earnings and dividends policy

In order for the Company to continue to expand and increase profitability in line with its long-term financial strategy and future demand for capital, the Company adopted a dividend policy in framing a proposal for the distribution of annual earnings for the purpose of sustainable development.

Under the dividends policy as set forth in the Company's articles ("Articles"), where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve of the remaining profit, setting aside a special reserve in accordance with the laws and regulations, the payment of preferred dividends, and then any remaining profit (earning of current year) together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting. When declaring the distribution of dividends, the Company should retain the funds for distribution of stock dividends, and the excess may be distributed in the form of cash dividends. However, the total distribution shall be no less than 30% of annual earnings, and the cash dividends shall be no less than 10% of the total dividends declared for the year. For the policies on the distribution of employees' compensation and remuneration of directors in the Articles, refer to employees' compensation and remuneration of directors in Note 25.

The appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriations of earnings for 2018 and 2017 which were approved in the shareholders' meeting on June 14, 2019 and June 8, 2018, respectively, were as follows:

	<b>Appropriation of Earnings</b>	
	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Legal reserve	\$ 5,146,724	\$ 5,636,280
Special reserve	72,631,553	184,004
Cash dividends of ordinary shares (Note)	18,844,815	31,408,025
Cash dividends of preference shares	2,667,891	1,899,924

Note: Cash dividends of ordinary shares included \$15,075,852 thousand from retained earnings and \$3,768,963 thousand from capital surplus.

d. Special reserves

	June 30, 2019	December 31, 2018	June 30, 2018
Special reserve transferred from reserve for trading default and for trading loss (1)	\$ 333,598	\$ 333,598	\$ 333,598
Special reserve reclassified from liability (2)	3,744,467	3,744,467	3,744,467
Special reserve appropriated at the first-time adoption of IFRSs (3)	2,994,565	2,994,565	2,994,565
Recovery of special reserve for appreciation of investment properties (4)	107,581,979	107,509,178	107,509,178
Special reserve transferred from insurance liabilities (5)	34,764,311	34,764,311	34,764,311
Special reserve appropriated following other equity's deduction (6)	<u>72,558,752</u>	<u>-</u>	<u>-</u>
	<u>\$ 221,977,672</u>	<u>\$ 149,346,119</u>	<u>\$ 149,346,119</u>

- 1) Cathay United Bank, Cathay Securities and Cathay Futures reclassified the appropriated default losses reserve and trading losses reserve as of December 31, 2010 as special reserve according to the relevant regulations. 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 a special reserve of \$333,598 thousand for the year ended December 31, 2011.
- 2) According to the Regulation Governing the Setting Aside of Various Reserves by Insurance Enterprises, for the special reserves for catastrophic event and for fluctuation of risk as of January 1, 2012, amounting to \$9,022,812 thousand, Cathay Life transferred half of the reserves amounting to \$4,511,405 thousand, net of tax effect, to special reserve under retained earnings amounting to \$3,744,467 thousand; half of the reserves were kept as the initial amount of reserve for foreign exchange valuation. The Company set aside a special reserve of \$3,744,467 thousand in the year ended December 31, 2013.
- 3) At the first-time adoption of IFRSs, Cathay Life chose to use fair values as the deemed costs of investment properties in accordance with Article 32 of Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, and the increments on property revaluation should be offset by other negative effects on the first-time adoption of IFRSs. The remaining increments on property revaluation should be recovered as special reserve under liabilities and the portion of increments on property revaluation used for offsetting other negative effects is recognized as retained earnings. In accordance with Rule No. 10202508140, the abovementioned adjustments of retained earnings amounting to \$2,994,565 thousand should be set aside as special reserve under equity following Rule No. 10102508861. The Company set aside a special reserve of \$2,994,565 thousand in the year ended December 31, 2013.
- 4) In 2014, the Group changed the subsequent measurement of investment properties from the cost model to the fair value model. According to Order No. Jin-Guan-Zheng-Fa-Zi-1030006415, in order to maintain a sound and robust financial structure of a publicly issued company, the Group appropriated a special reserve at the amount that was the same as the net increase arising the first-time application of subsequent measurement for investment property in fair value and transferred it to retained earnings.
- 5) Cathay Life transferred insurance liabilities of \$34,764,311 thousand to special reserve in accordance with Jin Guan Bao Tsai No. 10402029590. The Company set aside a special reserve of \$34,764,311 thousand in the year ended December 31, 2015.

- 6) The Group appropriated and reversed special reserves according to Order No. Jin-Guan-Zheng-Fa-Zi-1010012865. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and is thereafter distributed.

e. Other equity

- 1) Exchange differences on translating the financial statements of foreign operations

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ (12,149,871)	\$ (10,823,242)
Recognized for the period	1,004,229	616,345
Share of associates accounted for using the equity method	836,215	(643,088)
Tax effects	<u>(230,204)</u>	<u>153,285</u>
Other comprehensive income recognized for the period	<u>1,610,240</u>	<u>126,542</u>
Ending balance	<u>\$ (10,539,631)</u>	<u>\$ (10,696,700)</u>

- 2) Unrealized gain (loss) on financial assets at FVTOCI

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance per IFRS 9	\$ (17,586,946)	\$ 37,343,476
Recognized for the period	98,788,640	(59,834,103)
Share of associates accounted for using the equity method	266,469	(81,087)
Reclassification adjustments		
Disposal of investments in debt instruments	(13,418,888)	(8,861,216)
Tax effects	<u>(15,639,427)</u>	<u>11,595,891</u>
Other comprehensive income (loss) recognized for the period	69,996,794	(57,180,515)
Cumulative unrealized loss of equity instruments transferred to retained earnings due to disposal	<u>2,537,695</u>	<u>5,862,293</u>
Ending balance	<u>\$ 54,947,543</u>	<u>\$ (13,974,746)</u>

- 3) Gain (loss) on hedging instruments

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 173,289	\$ 203,647
Recognized for the period	129,165	22,790
Reclassification adjustments		
Hedged item that affects profit or loss	(32,737)	(50,397)
Tax effects	<u>(25,630)</u>	<u>(1,839)</u>
Other comprehensive income (loss) recognized for the period	<u>70,798</u>	<u>(29,446)</u>
Ending balance	<u>\$ 244,087</u>	<u>\$ 174,201</u>

- 4) Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at FVTPL

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 774,084	\$ (1,191,027)
Recognized during the period	(1,778,640)	1,355,730
Tax effects	<u>355,729</u>	<u>(228,097)</u>
Other comprehensive income (loss) recognized for the period	<u>(1,422,911)</u>	<u>1,127,633</u>
Ending balance	<u>\$ (648,827)</u>	<u>\$ (63,394)</u>

- 5) Remeasurement of defined benefit plans

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ (1,321,138)	\$ (1,449,679)
Share of associate accounted for using the equity method	8,661	(11,076)
Tax effects	<u>(1,857)</u>	<u>53,256</u>
Other comprehensive income recognized for the period	<u>6,804</u>	<u>42,180</u>
Ending balance	<u>\$ (1,314,334)</u>	<u>\$ (1,407,499)</u>

- 6) Property revaluation surplus

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 10,367,911	\$ 10,376,814
Recognized for the period	926,919	-
Tax effects	<u>(54,516)</u>	<u>46,241</u>
Other comprehensive income recognized for the period	<u>872,403</u>	<u>46,241</u>
Transferred to retained earnings	<u>-</u>	<u>(55,144)</u>
Ending balance	<u>\$ 11,240,314</u>	<u>\$ 10,367,911</u>

- 7) Other comprehensive income (loss) on reclassification using the overlay approach

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance per IFRS 9	\$ (52,816,081)	\$ 55,941,777
Recognized for the period		
Reclassification adjustments	120,182,101	2,932,105
Disposal of investments in financial instruments		
Tax effects	(25,038,013)	(39,216,901)
Other comprehensive income (loss) recognized for the period	<u>(9,373,271)</u>	<u>3,057,810</u>
	<u>85,770,817</u>	<u>(33,226,986)</u>
Ending balance	<u>\$ 32,954,736</u>	<u>\$ 22,714,791</u>

f. Non-controlling interests

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance per IFRS 9	\$ 9,557,665	\$ 9,412,376
Net income attributed to non-controlling interest		
Net profit for the period	694,062	31,176
Other comprehensive income for the period		
Exchange differences on translating financial statements of foreign operations	93,876	116,979
Financial assets at fair value through other comprehensive income	27,113	60,809
Other comprehensive income (loss) on reclassification using the overlay approach	263,131	(102,479)
Others	<u>(461,308)</u>	<u>(338,356)</u>
Ending balance	<u>\$ 10,174,539</u>	<u>\$ 9,180,505</u>

**25. NET PROFIT FOR THE PERIOD**

a. Net gain on service fee and commission fee

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Service fee revenue	\$ 6,560,995	\$ 5,596,430	\$ 12,607,455	\$ 12,033,001
Commission fee revenue	<u>1,933,731</u>	<u>2,255,855</u>	<u>3,405,897</u>	<u>4,096,346</u>
	<u>8,494,726</u>	<u>7,852,285</u>	<u>16,013,352</u>	<u>16,129,347</u>
Service fee expense	(2,009,094)	(1,485,051)	(4,014,079)	(2,768,397)
Commission fee expense	<u>(4,887,679)</u>	<u>(4,254,697)</u>	<u>(10,929,249)</u>	<u>(9,237,017)</u>
	<u>(6,896,773)</u>	<u>(5,739,748)</u>	<u>(14,943,328)</u>	<u>(12,005,414)</u>
	<u>\$ 1,597,953</u>	<u>\$ 2,112,537</u>	<u>\$ 1,070,024</u>	<u>\$ 4,123,933</u>

b. Net income on insurance operations

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Retained earned premiums revenue	\$ 147,418,159	\$ 149,238,433	\$ 307,487,123	\$ 285,784,401
Separate account insurance product income	<u>13,845,194</u>	<u>14,384,339</u>	<u>38,670,387</u>	<u>17,062,194</u>
	<u>161,263,353</u>	<u>163,622,772</u>	<u>346,157,510</u>	<u>302,846,595</u>
Claims and payments Separate account insurance product expenses	(107,900,599)	(84,169,288)	(210,252,522)	(173,818,302)
	(13,845,194)	(14,384,339)	(38,670,387)	(17,062,194)
Others	<u>(258,210)</u>	<u>(314,633)</u>	<u>(530,259)</u>	<u>(593,632)</u>
	<u>(122,004,003)</u>	<u>(98,868,260)</u>	<u>(249,453,168)</u>	<u>(191,474,128)</u>
	<u>\$ 39,259,350</u>	<u>\$ 64,754,512</u>	<u>\$ 96,704,342</u>	<u>\$ 111,372,467</u>

c. Net changes in insurance liability reserves

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Net change in loss reserve	\$ (858,833)	\$ (612,079)	\$ (1,759,994)	\$ (702,925)
Net change in policy reserve	(72,731,657)	(99,217,106)	(159,664,565)	(179,986,630)
Net change in premium deficiency reserve	867,546	1,253,274	1,504,821	1,656,331
Net change in special reserve	187,993	68,660	201,475	152,422
Net change in other reserves	6,000	6,000	11,028	12,000
Net change in reserve for insurance contracts with the nature of financial products	<u>(166,170)</u>	<u>276,015</u>	<u>(341,189)</u>	<u>734,188</u>
	<u>\$ (72,695,121)</u>	<u>\$ (98,225,236)</u>	<u>\$ (160,048,424)</u>	<u>\$ (178,134,614)</u>

d. Employee benefit expenses

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Short-term benefits				
Salaries	\$ 13,999,926	\$ 12,634,545	\$ 30,860,609	\$ 26,063,085
Labor and health insurance expenses	1,132,733	984,719	2,359,852	2,140,294
Post-employment benefits	581,619	530,859	1,146,713	1,061,985
Remuneration of directors	41,582	40,583	99,123	100,261
Others	<u>395,334</u>	<u>370,537</u>	<u>905,665</u>	<u>718,903</u>
	<u>\$ 16,151,194</u>	<u>\$ 14,561,243</u>	<u>\$ 35,371,962</u>	<u>\$ 30,084,528</u>
An analysis of employee benefit expenses by function				
Profit from operations	\$ 2,846,295	\$ 2,170,423	\$ 7,023,205	\$ 5,106,067
Operating expenses	<u>13,304,899</u>	<u>12,390,820</u>	<u>28,348,757</u>	<u>24,978,461</u>
	<u>\$ 16,151,194</u>	<u>\$ 14,561,243</u>	<u>\$ 35,371,962</u>	<u>\$ 30,084,528</u>

As of June 30, 2019 and 2018, the total number of the employees in the Group were 55,470 and 53,267, respectively.

For the six month ended June 30, 2019 and 2018, the average number of the Group's employees were 54,961 and 52,801, respectively, including 35 and 34 non-executive directors, respectively.

e. Employees' compensation and remuneration of directors

According to the Articles, if there is a profit in the current year, the Company should distribute 0.01% to 0.05% of profit in the current year as employees' compensation, and no more than 0.05% of profit in the current year as remuneration of directors. However, in the case of accumulated deficit, the Company's accumulated deficit need to be offset first.

The Company accrued employees' compensation and remuneration of directors at the rates of 0.01% and no higher than 0.05%, respectively, which were as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Employees' compensation	\$ 2,022	\$ 1,464	\$ 3,354	\$ 3,770
Remuneration of directors	675	675	1,350	1,350

If there is a change in the proposed amounts after the annual consolidated financial statements were authorized for issue, the differences are recovered as a change in accounting estimate.

The employees' compensation and remuneration of directors for 2018 and 2017 resolved by the Company's board of directors on March 21, 2019 and March 15, 2018, respectively, were as follow:

	For the Six Months Ended June 30	
	2018 Cash	2017 Cash
Employees' compensation	\$ 5,307	\$ 5,812
Remuneration of directors	2,700	2,700

There was no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2018 and 2017.

Information on the employees' compensation and remuneration of directors resolved by the Company's board of directors is available at the Market Observation Post System website of the Taiwan Stock Exchange.

f. Depreciation and amortization

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Right-of-use assets	\$ 336,184	\$ -	\$ 650,835	\$ -
Property and equipment	609,551	641,062	1,273,866	1,272,514
Intangible assets	<u>780,527</u>	<u>755,600</u>	<u>1,568,740</u>	<u>1,508,163</u>
	<u>\$ 1,726,262</u>	<u>\$ 1,396,662</u>	<u>\$ 3,493,441</u>	<u>\$ 2,780,677</u>
An analysis of depreciation by function				
Operating expenses	<u>\$ 945,735</u>	<u>\$ 641,062</u>	<u>\$ 1,924,701</u>	<u>\$ 1,272,514</u>
An analysis of amortization by function				
Operating expenses	<u>\$ 780,527</u>	<u>\$ 755,600</u>	<u>\$ 1,568,740</u>	<u>\$ 1,508,163</u>



## 26. INCOME TAXES RELATING TO CONTINUING OPERATIONS

### a. Income tax recognized in profit or loss

Major components of tax income (expense) were as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Current tax				
In respect of the current period	\$ (330,371)	\$ 944,942	\$ (919,723)	\$ (6,351,882)
Adjustments for prior years	(331,345)	(220,972)	(263,356)	(94,866)
Deferred tax				
In respect of the current period	(2,675,616)	(1,666,536)	(3,563,728)	3,644,301
Adjustments to deferred tax attributable to changes in tax rates and laws	-	155,787	-	3,573,882
Adjustments for prior years	(5,457)	-	(5,457)	-
Utilized tax loss and credit	-	(8,144)	-	-
Deferred tax assets written off	-	-	-	(9,487)
Others	<u>(283,354)</u>	<u>(2,201,335)</u>	<u>(851,046)</u>	<u>(2,299,836)</u>
Income tax (expense) benefits recognized in profit or loss	<u>\$ (3,626,143)</u>	<u>\$ (2,996,258)</u>	<u>\$ (5,603,310)</u>	<u>\$ (1,537,888)</u>

The Income Tax Act in the ROC was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings has been reduced from 10% to 5%.

### b. Income tax recognized directly in equity

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Current tax				
Derecognition of investments in equity instruments at FVTOCI	\$ 68,106	\$ 168,135	\$ 109,465	\$ 582,525
Deferred tax				
Capital surplus	-	(3)	-	(3)
Derecognition of investments in equity instruments at FVTOCI	<u>(68,106)</u>	<u>(168,135)</u>	<u>(109,465)</u>	<u>(582,525)</u>
Total income tax benefit recognized directly in equity	<u>\$ -</u>	<u>\$ (3)</u>	<u>\$ -</u>	<u>\$ (3)</u>

c. Income tax recognized in other comprehensive income

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<u>Deferred tax</u>				
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at FVTPL	\$ 112,573	\$ (129,591)	\$ 355,729	\$ (228,097)
Exchange differences on the translation of financial statements of foreign operations	(95,753)	(92,513)	(230,204)	(40,497)
Unrealized gain (loss) on financial assets at FVTOCI	(6,490,116)	4,884,266	(15,611,132)	11,576,667
Gain (loss) on hedging instruments	(5,205)	569	(25,630)	(1,839)
Property revaluation surplus	(9,470)	45,367	(54,516)	46,241
Remeasurement of defined benefit plans	-	1	-	51,401
Shares of associates accounted for using the equity method	6,376	(30,855)	(30,152)	214,861
Other comprehensive income (loss) on reclassification using the overlay approach	<u>(2,050,976)</u>	<u>(1,239,614)</u>	<u>(9,373,271)</u>	<u>3,057,810</u>
Total income tax recognized in other comprehensive income	<u>\$ (8,532,571)</u>	<u>\$ 3,437,630</u>	<u>\$ (24,969,176)</u>	<u>\$ 14,676,547</u>

d. Income tax assessments

The income tax returns of the Group assessed by tax authorities were as follows:

	<u>Year of Assessment</u>	<u>Note</u>
The Company	2014	-
Cathay Life	2014	Cathay Life was in the process of administrative remedy for 2011 and 2012.
Cathay United Bank	2014	Cathay United Bank was in the process of administrative remedy from 2011 to 2014.
Cathay Century	2014	-
Cathay Securities	2014	Cathay Securities was in the process of administrative remedy from 2011 to 2014.
Cathay Venture	2014	-
Investment Trust	2014	-
Cathay Futures	2015	-
Cathay Private Equity	2017	-

In accordance with Article 49 of the Financial Holding Company Act, the Company and all subsidiaries which has existed for the entire 12 months of a tax year elected to jointly file income tax return and surtax on undistributed retained earnings with the Company as the tax payer.

## 27. EARNINGS PER SHARE

Unit: NT\$ Per Share

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Basic earnings per share	<u>\$ 1.40</u>	<u>\$ 0.87</u>	<u>\$ 2.45</u>	<u>\$ 2.71</u>

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share were as follows:

### Net Income for the Period

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Net income for the period attributable to owners of the Company	\$ 20,226,617	\$ 12,915,840	\$ 33,439,769	\$ 35,983,223
Less: Dividends on preference shares	<u>(2,667,891)</u>	<u>(1,899,924)</u>	<u>(2,667,891)</u>	<u>(1,899,924)</u>
Earnings used in the computation of basic earnings per share	<u>\$ 17,558,726</u>	<u>\$ 11,015,916</u>	<u>\$ 30,771,878</u>	<u>\$ 34,083,299</u>

### Weighted Average Number of Ordinary Shares Outstanding (In Thousands of Shares)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Weighted average number of ordinary shares used in the computation of basic earnings per share	<u>12,563,210</u>	<u>12,563,210</u>	<u>12,563,210</u>	<u>12,563,210</u>

## 28. RELATED-PARTY TRANSACTIONS

- a. The name and the category of related parties who engaged transactions with the Group in the reporting periods are as follows:

Related Party Name	Related Party Category
Cathay Life	Subsidiary of the Company
Cathay United Bank	Subsidiary of the Company
Cathay Century	Subsidiary of the Company
Cathay Securities	Subsidiary of the Company
Cathay Venture	Subsidiary of the Company

(Continued)

<b>Related Party Name</b>	<b>Related Party Category</b>
Cathay Securities Investment Trust	Subsidiary of the Company
Cathay Lujiazui Life	Subsidiary of the Company
Cathay Life (Vietnam)	Subsidiary of the Company
Cathay Insurance (Bermuda)	Subsidiary of the Company (Note)
Conning Asia Pacific Ltd.	Subsidiary of the Company
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of the Company
Lin Yuan	Subsidiary of the Company
Cathay Insurance (Vietnam)	Subsidiary of the Company
Indovina Bank	Subsidiary of the Company
Cathay Futures	Subsidiary of the Company
Cathay Securities (Hong Kong)	Subsidiary of the Company
Cathay Private Equity	Subsidiary of the Company
Cathay Insurance (China)	Associate
Taiwan Real-estate Management Corp.	Associate
Taiwan Finance Corp.	Associate
Symphox Information Co., Ltd.	Associate
Xin-Ri-Tai Energy Corp.	Associate
Rizal Commercial Banking Corporation	Associate
PT Band Mayapada International T6K	Associate
Global Evolution Holding Aps	Associate
PSS Co., Ltd.	Associate
Greenhealth Water Resources Co., Ltd.	Associate
Seaward Card Co., Ltd.	Other related party
Vietinbank	Other related party
Lin Yuan Property Management Co., Ltd.	Other related party
Cathay Medical Care Corporate	Other related party
Cathay Real Estate Development Co., Ltd.	Other related party
San Ching Engineering Co., Ltd.	Other related party
Cathay Healthcare Management Co., Ltd.	Other related party
Cathay Hospitality Management Co., Ltd.	Other related party
Cathay Hospitality Consulting Co., Ltd.	Other related party
Liang-Ting Co., Ltd.	Other related party
Kao Yi Investment Co., Ltd.	Other related party
Ally Logistic Property	Other related party
ThinkPower Information, Corp.	Other related party
Tailin Management Consulting Limited	Other related party
Yua-Yung Marketing (Taiwan) Co., Ltd.	Other related party
Charity Foundation of Cathay Life	Other related party
Cathay Real Estate Development Cultural Foundation	Other related party
Cathay United Bank Culture and Charity Foundation	Other related party
Cathay Life Insurance Employees' Welfare Committee	Other related party
Cathay Real Estate Development Employees' Welfare Committee	Other related party
Others	Other related party

(Concluded)

Note: Cathay Insurance (Bermuda) Co., Ltd. was dissolved on May 8, 2018 and liquidated on May 21, 2018.

b. Significant transactions with related parties were as follows:

1) Cash and cash equivalent

Name	June 30, 2019	December 31, 2018	June 30, 2018
<u>Due from commercial banks</u>			
Other related party Vietinbank	<u>\$ 5,380,934</u>	<u>\$ 5,309,375</u>	<u>\$ 5,357,077</u>
<u>Due to commercial banks</u>			
Other related party Vietinbank	<u>\$ 5,373,474</u>	<u>\$ 5,360,670</u>	<u>\$ 5,350,766</u>

Name	<b>Interest Income (Expense)</b>			
	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<u>Due from commercial banks</u>				
Other related party Vietinbank	<u>\$ 1,383</u>	<u>\$ 1,283</u>	<u>\$ 2,713</u>	<u>\$ 2,583</u>
<u>Due to commercial banks</u>				
Other related party Vietinbank	<u>\$ (1,339)</u>	<u>\$ (1,263)</u>	<u>\$ (2,651)</u>	<u>\$ (2,554)</u>

2) Financial assets at FVTPL

Name	June 30, 2019	December 31, 2018	June 30, 2018
Other related party Cathay Healthcare Management Co., Ltd.	<u>\$ 217,718</u>	<u>\$ 180,180</u>	<u>\$ 146,190</u>

3) Loans

Name	June 30, 2019	December 31, 2018	June 30, 2018
Associate Taiwan Real-estate Management Corp.	\$ 33,000	\$ 30,000	\$ 32,000
Other related party Cathay Real Estate Development Co., Ltd.	-	210,000	-
Yua-Yung Marketing (Taiwan) Co., Ltd.	10,000	-	-
Others	<u>2,659,841</u>	<u>2,456,817</u>	<u>2,314,754</u>
	<u>\$ 2,702,841</u>	<u>\$ 2,696,817</u>	<u>\$ 2,346,754</u>

Name	Interest Income			
	For the Three Months Ended		For the Six Months Ended	
	June 30		June 30	
	2019	2018	2019	2018
Associate				
Taiwan Real-estate Management Corp.	\$ 147	\$ 143	\$ 290	\$ 284
Other related party				
Cathay Real Estate Development Co., Ltd.	-	-	470	-
Yua-Yung Marketing (Taiwan) Co., Ltd.	20	-	20	-
Others	<u>10,287</u>	<u>15,644</u>	<u>20,981</u>	<u>25,183</u>
	<u>\$ 10,454</u>	<u>\$ 15,787</u>	<u>\$ 21,761</u>	<u>\$ 25,467</u>

#### 4) Deposits

Name	June 30, 2019	December 31, 2018	June 30, 2018
Subsidiary of the Company			
Cathay Securities Investment Consulting Co., Ltd.	\$ 132,226	\$ 187,533	\$ 111,053
Associates			
Symphox Information Co., Ltd.	148,141	122,139	112,229
Xin-Ri-Tai Energy Corp.	42,638	137,979	72,633
Other related parties			
Cathay Real Estate Development Co., Ltd.	241,710	199,127	90,343
Cathay Hospitality Management Co., Ltd.	19,579	16,523	11,827
Cathay United Bank Culture and Charity Foundation	533,582	541,888	535,309
Cathay Life Insurance Employees' Welfare Committee	2,129,597	2,221,665	2,145,227
Cathay Real Estate Development Employees' Welfare Committee	377,381	386,529	360,331
Tailin Management Consulting Limited	46,758	-	-
Others	<u>8,711,989</u>	<u>7,457,000</u>	<u>7,877,557</u>
	<u>\$ 12,383,601</u>	<u>\$ 11,270,383</u>	<u>\$ 11,316,509</u>

Name	Interest Expense			
	For the Three Months Ended		For the Six Months Ended	
	June 30		June 30	
	2019	2018	2019	2018
Subsidiary of the Company				
Cathay Securities				
Investment Consulting				
Co., Ltd.	\$ 165	\$ 197	\$ 328	\$ 344
Associates				
Symphox Information				
Co., Ltd.	197	182	374	332
Xin-Ri-Tai Energy Corp.	10	19	24	57
Other related parties				
Cathay Real Estate				
Development Co., Ltd.	20	5	33	16
Cathay Hospitality				
Management Co., Ltd.	1	11	2	16
Cathay United Bank				
Culture and Charity				
Foundation	1,402	1,359	2,796	2,771
Cathay Life Insurance				
Employees' Welfare				
Committee	5,552	5,803	11,041	11,602
Cathay Real Estate				
Development				
Employees' Welfare				
Committee	1,028	1,022	2,056	1,941
Tailin Management				
Consulting Limited	5	-	5	-
Others	<u>20,856</u>	<u>16,429</u>	<u>40,973</u>	<u>32,774</u>
	<u>\$ 29,236</u>	<u>\$ 25,027</u>	<u>\$ 57,632</u>	<u>\$ 49,853</u>

5) Property transactions

- a) Cathay Life and its subsidiaries' significant transactions of contracted projects undertaken with related parties are listed below:

Name	Items	For the Six Months Ended	
		June 30	
		2019	2018
Other related parties			
Ally Logistic Property	Wuri E-commerce	\$ 255,935	\$ 494,275
Co., Ltd.	Building, etc.		
Lin Yuan Property	Cathay Land Mark, etc.	4,657	6,511
Management Co., Ltd.			
San Ching Engineering	THSR Taoyuan	1,039,339	552,430
Co., Ltd.	Commercial Park, etc.		
Cathay Real Estate	Minsheng Jingguo	<u>296,515</u>	<u>364,149</u>
Development Co., Ltd.	Building, etc.		
		<u>\$ 1,596,446</u>	<u>\$ 1,417,365</u>

The total amounts of contracted projects for real estate as of June 30, 2019, December 31, 2018 and June 30, 2018, between Cathay Life and its subsidiaries and Ally Logistic Property Co., Ltd. were \$3,618,783 thousand, \$3,383,783 thousand and \$3,383,783 thousand, respectively.

The total amounts of contracted projects for real estate as of June 30, 2019, December 31, 2018 and June 30, 2018, between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were \$1,838,045 thousand.

The total amounts of contracted projects for real estate as of June 30, 2019, December 31, 2018 and June 30, 2018, between Cathay Life and its subsidiaries and Cathay Real Estate Development Co., Ltd. were \$1,742,250 thousand.

b) Real-estate rental income of Cathay Life and its subsidiaries

Name	Rental Income			
	For the Three Months Ended		For the Six Months Ended	
	June 30		June 30	
	2019	2018	2019	2018
Subsidiary of the Company Cathy Securities Investment Consulting Co., Ltd.	\$ 2,290	\$ 2,225	\$ 4,581	\$ 4,450
Associate Symphox Information Co., Ltd.	12,390	10,201	23,212	20,391
Cathay Insurance Company Limited (China)	-	7,398	6,060	13,950
	<u>12,390</u>	<u>17,599</u>	<u>29,272</u>	<u>34,341</u>
Other related parties Cathay Medical Care Corp.	48,205	48,007	93,248	92,774
Cathay Real Estate Development Co., Ltd.	4,265	4,971	8,529	9,211
Cathay Healthcare Management Co., Ltd.	17,271	14,105	34,060	28,195
Cathay Hospitality Management Co., Ltd.	48,500	58,373	96,936	116,216
Cathay Hospitality Consulting Co., Ltd.	23,359	-	51,848	-
Ally Logistic Property Co., Ltd.	139,516	137,029	282,448	241,857
	<u>281,116</u>	<u>262,485</u>	<u>567,069</u>	<u>488,253</u>
	<u>\$ 295,796</u>	<u>\$ 282,309</u>	<u>\$ 600,922</u>	<u>\$ 527,044</u>



Name	Guarantee Deposits Received		
	June 30, 2019	December 31, 2018	June 30, 2018
Associate			
Symphox Information Co., Ltd.	\$ 12,708	\$ 10,363	\$ 9,798
Cathay Insurance Company Limited (China)	<u>-</u>	<u>7,030</u>	<u>7,218</u>
	<u>12,708</u>	<u>17,393</u>	<u>17,016</u>
Other related parties			
Cathay Medical Care Corp.	11,369	11,260	11,260
Cathay Real Estate Development Co., Ltd.	3,803	3,803	3,837
Cathay Healthcare Management Co., Ltd.	16,029	15,628	13,157
Cathay Hospitality Management Co., Ltd.	184,453	206,166	218,252
Ally Logistic Property Co., Ltd.	<u>110,488</u>	<u>57,040</u>	<u>56,752</u>
	<u>326,142</u>	<u>293,897</u>	<u>303,258</u>
	<u>\$ 338,850</u>	<u>\$ 311,290</u>	<u>\$ 320,274</u>

Lease periods are usually between 2 to 5 years and rental incomes are collected on a monthly basis.

c) Lease arrangements of Cathay Life and its subsidiaries

Name	Rental Expense			
	For the Three Months Ended		For the Six Months Ended	
	June 30		June 30	
	2019	2018	2019	2018
Other related party				
Cathay Real Estate Development Co., Ltd.	<u>\$ -</u>	<u>\$ 1,853</u>	<u>\$ -</u>	<u>\$ 3,706</u>

According to contracts, lease periods are generally 1 to 2 years, and rentals are usually paid on a monthly basis.

d) Acquisition of computer equipment of Cathay Life and its subsidiaries

Name	For the Three Months Ended		For the Six Months Ended	
	June 30		June 30	
	2019	2018	2019	2018
Other related party				
ThinkPower Information, Corp.	<u>\$ 10,185</u>	<u>\$ -</u>	<u>\$ 10,185</u>	<u>\$ -</u>

e) Lease arrangements of Cathay United Bank and its subsidiaries

Name	<b>Acquisition of Right-of-use Assets</b>	
	<b>For the Six Months Ended</b>	
	<b>June 30</b>	
	<b>2019</b>	<b>2018</b>
Other related party		
Cathay Real Estate Development Co., Ltd.	<u>\$ 25,777</u>	<u>\$ -</u>

The lease period and contract method are in accordance with the contract provisions, the general lease terms are two to five years and the payments are mainly made on a monthly basis.

Name	<b>Lease Liabilities</b>		
	<b>December 31,</b>		
	<b>June 30, 2019</b>	<b>2018</b>	<b>June 30, 2018</b>
Other related party			
Cathay Real Estate Development Co., Ltd.	<u>\$ 30,667</u>	<u>\$ -</u>	<u>\$ -</u>

Name	<b>Rental Expense</b>			
	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Other related party				
Cathay Real Estate Development Co., Ltd.	<u>\$ -</u>	<u>\$ 4,267</u>	<u>\$ 2,502</u>	<u>\$ 9,190</u>

Name	<b>Guarantee Deposits Paid</b>		
	<b>December 31,</b>		
	<b>June 30, 2019</b>	<b>2018</b>	<b>June 30, 2018</b>
Other related party			
Cathay Real Estate Development Co., Ltd.	<u>\$ 4,625</u>	<u>\$ 4,608</u>	<u>\$ 4,549</u>

The lease period and contract method are in accordance with the contract provisions, the general lease terms are two to five years and the payments are mainly made on a monthly basis.

6) Prepayments for long-term investments

Name	June 30, 2019	December 31,	
		2018	June 30, 2018
Associate			
Cathay Insurance (China)	<u>\$ -</u>	<u>\$ 2,200,394</u>	<u>\$ -</u>

The boards of directors of Cathay Life and Cathay Century resolved on September 17, 2018 to increase investment of CNY245 million to Cathay Insurance (China). The Investment Commission of the Ministry of Economic Affairs authorized the remittance on December 6, 2018 and November 23, 2018 through the two-character letter No. 10700277110 and No. 10700281680. The capital increase was approved by the Bank of China Banking and Insurance Regulatory Commission on January 23, 2019.

7) Guarantee deposits received

Name	June 30, 2019	December 31, 2018	June 30, 2018
Other related parties			
Lin Yuan Property Management Co., Ltd.	\$ 5,000	\$ 5,000	\$ 5,000
San Ching Engineering Co., Ltd.	453,225	440,700	424,980
Cathay Hospitality Management Co., Ltd.	235,170	256,883	104,537
Ally Logistic Property	213,060	139,386	303,386
Cathay Hospitality Consulting Co., Ltd.	<u>107,074</u>	<u>107,074</u>	<u>-</u>
	<u>\$ 1,013,529</u>	<u>\$ 949,043</u>	<u>\$ 837,903</u>

8) Payables

Name	June 30, 2019	December 31, 2018	June 30, 2018
Associate			
Symphox Information Co., Ltd.	\$ 157,789	\$ 29,398	\$ 189,374
Other related parties			
Seaward Card Co., Ltd.	29,300	34,034	27,101
Lin Yuan Property Management Co., Ltd.	3,763	-	9,762
Others	<u>4,006</u>	<u>-</u>	<u>-</u>
	<u>\$ 194,858</u>	<u>\$ 63,432</u>	<u>\$ 226,237</u>

9) Balances of beneficiary certificates purchased from related parties

Name	Items	June 30, 2019	December 31, 2018	June 30, 2018
Associate				
Global Evolution Holdings ApS	Market value	<u>\$ 2,918,004</u>	<u>\$ 2,138,492</u>	<u>\$ -</u>
	Cost	<u>\$ 2,745,963</u>	<u>\$ 2,142,144</u>	<u>\$ -</u>

10) Investment balances of related parties' discretionary accounts

Name	June 30, 2019	December 31, 2018	June 30, 2018
Other related parties			
Charity Foundation of Cathay Life	\$ 75,172	\$ 68,993	\$ 80,138
Cathay Real Estate Development Cultural Foundation	<u>50,754</u>	<u>47,019</u>	<u>57,454</u>
	<u>\$ 125,926</u>	<u>\$ 116,012</u>	<u>\$ 137,592</u>

11) Discretionary account balances managed by related parties

Name	June 30, 2019	December 31, 2018	June 30, 2018
Associate			
Global Evolution Holdings ApS	<u>\$ 7,095,103</u>	<u>\$ 6,494,247</u>	<u>\$ _____</u> -

12) Service fee income

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Subsidiary of the Company				
Cathay Securities				
Investment Consulting				
Co., Ltd.	<u>\$ 3,098</u>	<u>\$ 4,505</u>	<u>\$ 7,642</u>	<u>\$ 8,775</u>

13) Premium income

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Other related party				
Cathay Medical Care				
Corporate	\$ 11,225	\$ 10,978	\$ 18,620	\$ 22,121
Others	<u>99,984</u>	<u>99,214</u>	<u>180,271</u>	<u>139,509</u>
	<u>\$ 111,209</u>	<u>\$ 110,192</u>	<u>\$ 198,891</u>	<u>\$ 161,630</u>

14) Net other non-interest income

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Associate				
Global Evolution				
Holding ApS	<u>\$ 5,218</u>	<u>\$ _____</u> -	<u>\$ 10,127</u>	<u>\$ _____</u> -

15) Operating expenses

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Associate				
Symphox Information Co., Ltd.	\$ 221,481	\$ 239,868	\$ 453,033	\$ 470,714
Other related parties				
Seaward Card Co., Ltd.	74,405	52,245	148,572	141,787
ThinkPower	4,290	-	4,290	-
Lin Yuan Property Management Co., Ltd.	191,932	198,843	389,522	395,401
Cathay Healthcare Management Co., Ltd.	12,928	11,088	28,889	29,812
Charity Foundation of Cathay Life	-	5,300	-	5,300
	<u>\$ 505,036</u>	<u>\$ 507,344</u>	<u>\$ 1,024,306</u>	<u>\$ 1,043,014</u>

16) Acquisition of shares issued by related parties

Name	Items	For the Six Months Ended June 30	
		2019	2018
Associate			
Rizal Commercial Banking Corporation	Ordinary shares	\$ -	\$ 1,992,264
PT Band Mayapada International T6K	Ordinary shares	-	898,860
Greenhealth Water Resources Co., Ltd.	Ordinary shares	<u>387,816</u>	-
		<u>\$ 387,816</u>	<u>\$ 2,891,124</u>

17) Key management personnel compensation

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Short-term employee benefits	\$ 189,559	\$ 164,688	\$ 537,670	\$ 480,221
Post-employment benefits	6,531	4,466	11,387	8,875
Other long-term employee benefits	-	-	34	26
	<u>\$ 196,090</u>	<u>\$ 169,154</u>	<u>\$ 549,091</u>	<u>\$ 489,122</u>

The management of the Group includes the chairman, directors, president, senior executive vice president, senior vice general managers and vice general managers.

c. The Company

1) Cash in banks

Name	Items	June 30, 2019	December 31, 2018	June 30, 2018
Subsidiary of the Company				
Cathay United Bank	Cash in bank	\$ 286,787	\$ 139,920	\$ 455,597

Interest income from Cathay United Bank for the three months and the six months ended June 30, 2019 and 2018 were \$384 thousand, \$232 thousand, \$474 thousand and \$298 thousand, respectively.

2) Receivables

Name	Items	June 30, 2019	December 31, 2018	June 30, 2018
Subsidiary of the Company				
Cathay Life	Consolidated income tax, interest, dividends	\$ 690,411	\$ 65,589	\$ 10,810,278
Cathay Century	Consolidated income tax, dividends	291,780	64,901	1,533,341
Cathay United Bank	Consolidated income tax, dividends	10,368,256	-	377,029
Cathay Securities	Consolidated income tax	29,575	24,916	97,388
Cathay Securities Investment Trust	Consolidated income tax, dividends	630,532	82,083	472,027
Cathay Venture	Consolidated income tax	-	29,331	-
		<u>\$ 12,010,554</u>	<u>\$ 266,820</u>	<u>\$ 13,290,063</u>

3) Guarantee deposits paid

Name	June 30, 2019	December 31, 2018	June 30, 2018
Subsidiary of the Company			
Cathay Life	<u>\$ 28,168</u>	<u>\$ 12,588</u>	<u>\$ 12,588</u>

4) Investments in debt instruments measured at amortized cost

Name	June 30, 2019	December 31, 2018	June 30, 2018
Subsidiary of the Company			
Cathay Life	\$ -	\$ -	\$ 5,000,000
Cathay Century	<u>-</u>	<u>-</u>	<u>1,000,000</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,000,000</u>

5) Financial assets at FVTPL

Name	June 30, 2019	December 31, 2018	June 30, 2018
Subsidiary of the Company			
Cathay Life	<u>\$ 35,000,000</u>	<u>\$ 35,000,000</u>	<u>\$ 35,000,000</u>

6) Lease agreements

a) Lease liabilities

Name	June 30, 2019	December 31, 2018	June 30, 2018
Subsidiary of the Company			
Cathay Life	<u>\$ 73,843</u>	<u>\$ -</u>	<u>\$ -</u>

b) Interest expense

	<u>For the Three Months Ended June 30</u>		<u>For the Six Months Ended June 30</u>	
	2019	2018	2019	2018
Subsidiary of the Company				
Cathay Life	<u>\$ 303</u>	<u>\$ -</u>	<u>\$ 655</u>	<u>\$ -</u>

7) Payables

Name	Items	June 30, 2019	December 31, 2018	June 30, 2018
Subsidiary of the Company				
Cathay Life	Consolidated income tax, etc.	\$ 10,934,473	\$ 8,998,563	\$ 1,513,565
Cathay United Bank	Consolidated income tax	<u>-</u>	<u>485,773</u>	<u>-</u>
		<u>\$ 10,934,473</u>	<u>\$ 9,484,336</u>	<u>\$ 1,513,565</u>

8) Interest income

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Subsidiary of the Company				
Cathay Life	\$ 314,137	\$ 314,137	\$ 624,822	\$ 624,822
Cathay Century	<u>-</u>	<u>4,638</u>	<u>-</u>	<u>9,224</u>
	<u>\$ 314,137</u>	<u>\$ 318,775</u>	<u>\$ 624,822</u>	<u>\$ 634,046</u>

9) Operating expenses

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Subsidiary of the Company				
Cathay Life	<u>\$ 19,527</u>	<u>\$ 17,202</u>	<u>\$ 21,968</u>	<u>\$ 32,118</u>

10) Subscription of shares issued by related parties

Name	Items	For the Six Months Ended June 30	
		2019	2018
Subsidiary of the Company			
Cathay Life	Ordinary shares	<u>\$ -</u>	<u>\$ 42,000,000</u>

d. Significant transactions between subsidiaries and related parties that are more than \$100 million

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

1) Cathay Life and its subsidiaries

a) Property transactions

Property transactions between Cathay Life and related parties are mainly 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.



- i. Significant transactions of contracted projects undertaken with related parties are listed below:

Name	Item	For the Six Months Ended June 30	
		2019	2018
Other related parties			
Ally Logistic Property Co., Ltd.	Wuri E-commerce Building, etc.	\$ 255,935	\$ 494,275
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	1,039,339	552,430
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	<u>296,515</u>	<u>364,149</u>
		<u>\$ 1,591,789</u>	<u>\$ 1,410,854</u>

The total amounts of contracted projects for real estate as of June 30, 2019, December 31, 2018 and June 30, 2018, between Cathay Life and its subsidiaries and Ally Logistic Property Co., Ltd. were \$3,618,783 thousand, \$3,383,783 thousand and \$3,383,783 thousand, respectively.

The total amounts of contracted projects for real estate as of June 30, 2019, December 31, 2018 and June 30, 2018, between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were \$1,838,045 thousand.

The total amounts of contracted projects for real estate as of June 30, 2019, December 31, 2018 and June 30, 2018, between Cathay Life and its subsidiaries and Cathay Real Estate Development Co., Ltd. were \$1,742,250 thousand.

- ii. Real-estate rental income

Name	Rental Income			
	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Other related parties				
Ally Logistic Property Co., Ltd.	\$ 139,516	\$ 137,029	\$ 282,448	\$ 241,857
Cathay Hospitality Management Co., Ltd.	48,500	58,373	96,936	116,216
Subsidiary Cathay United Bank	<u>169,181</u>	<u>169,847</u>	<u>295,964</u>	<u>335,200</u>
	<u>\$ 357,197</u>	<u>\$ 365,249</u>	<u>\$ 675,348</u>	<u>\$ 693,273</u>

Name	Guarantee Deposits Received		
	June 30, 2019	December 31, 2018	June 30, 2018
Other related parties			
Ally Logistic Property Co., Ltd.	\$ 110,488	\$ 57,040	\$ 56,752
Cathay Hospitality Management Co., Ltd.	184,453	206,166	218,252
Subsidiary of the Company			
Cathay United Bank	<u>175,220</u>	<u>189,738</u>	<u>167,515</u>
	<u>\$ 470,161</u>	<u>\$ 452,944</u>	<u>\$ 442,519</u>

Lease periods are usually between 2 and 5 years and rental incomes are collected on a monthly basis.

b) Shares transactions

i. Issuance of shares for cash by Cathay Life

Name	Item	For the Six Months Ended June 30	
		2019	2018
The Company			
Cathay Financial Holdings	Ordinary shares	<u>\$ -</u>	<u>\$ 42,000,000</u>

ii. Acquisition of shares issued by related parties

Name	Items	For the Six Months Ended June 30	
		2019	2018
Associate			
Rizal Commercial Banking Corporation	Ordinary shares	\$ -	\$ 1,992,264
PT Band Mayapada International T6K	Ordinary shares	-	898,860
Greenhealth Water Resources Co., Ltd.	Ordinary shares	<u>387,816</u>	<u>-</u>
		387,816	2,891,124
Subsidiary of the Company			
Cathay Venture Inc.	Ordinary shares	<u>1,567,574</u>	<u>-</u>
		<u>\$ 1,955,390</u>	<u>\$ 2,891,124</u>

c) Cash in banks

Name	Item	June 30, 2019	December 31, 2018	June 30, 2018
Subsidiary of the Company				
Cathay United Bank	Time deposits	\$ 266,800	\$ 2,715,620	\$ 2,463,410
	Demand deposit	17,659,891	28,726,895	18,998,796
	Checking deposits	248,497	268,337	283,627
Indovina Bank	Time deposits	<u>752,376</u>	<u>1,536,338</u>	<u>13,290</u>
		<u>\$ 18,927,564</u>	<u>\$ 33,247,190</u>	<u>\$ 21,759,123</u>

d) Loans

Name	For the Six Months Ended June 30, 2019		
	Maximum	Rate	Ending Balance
Other related party	<u>\$ 1,004,837</u>	1.03%-3.44%	<u>\$ 979,467</u>
Name	For the Six Months Ended June 30, 2018		
	Maximum	Rate	Ending Balance
Other related party	<u>\$ 930,630</u>	1.03%-3.44%	<u>\$ 845,934</u>

e) Balance of beneficiary certificates purchased from related parties

Name	Item	June 30, 2019	December 31, 2018	June 30, 2018
Associate				
Global Evolution Holding ApS	Market value	<u>\$ 2,918,004</u>	<u>\$ 2,138,492</u>	<u>\$ -</u>
	Cost	<u>\$ 2,745,963</u>	<u>\$ 2,142,144</u>	<u>\$ -</u>
Subsidiary of the Company				
Cathy Securities Investment Trust Co., Ltd.	Market value	<u>\$ 43,779,179</u>	<u>\$ -</u>	<u>\$ -</u>
	Cost	<u>\$ 41,388,705</u>	<u>\$ -</u>	<u>\$ -</u>
Cathay Private Equity	Market value	<u>\$ 246,476</u>	<u>\$ -</u>	<u>\$ -</u>
	Cost	<u>\$ 245,425</u>	<u>\$ -</u>	<u>\$ -</u>

f) Discretionary account management balance

Name	June 30, 2019	December 31, 2018	June 30, 2018
Associate			
Global Evolution Holding ApS	\$ 7,095,103	\$ 6,494,247	\$ -
Subsidiary of the Company			
Cathay Securities Investment Trust Co., Ltd.	<u>236,942,981</u>	<u>210,965,710</u>	<u>245,494,673</u>
	<u>\$ 244,038,084</u>	<u>\$ 217,459,957</u>	<u>\$ 245,494,673</u>

g) Other receivables

Name	June 30, 2019	December 31, 2018	June 30, 2018
The Company			
Cathay Financial Holdings (Note)	<u>\$ 10,934,473</u>	<u>\$ 8,998,563</u>	<u>\$ 1,513,565</u>

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

h) Guarantee deposits paid

Name	June 30, 2019	December 31, 2018	June 30, 2018
Subsidiary of the Company			
Cathay Futures Co., Ltd.	<u>\$ 2,301,049</u>	<u>\$ 1,511,584</u>	<u>\$ 1,826,571</u>

i) Guarantee deposits received

Name	June 30, 2019	December 31, 2018	June 30, 2018
Other related party			
Ally Logistic Property Co., Ltd.	\$ 213,060	\$ 139,386	\$ 303,386
San Ching Engineering Co., Ltd.	453,225	440,700	424,980
Cathay Hospitality Management Co., Ltd.	235,170	256,883	104,537
Cathay Hospitality Consulting Co., Ltd.	<u>107,074</u>	<u>107,074</u>	<u>-</u>
	<u>\$ 1,008,529</u>	<u>\$ 944,043</u>	<u>\$ 832,903</u>

j) Prepayments for investments

	June 30, 2019	December 31, 2018	June 30, 2018
Associate			
Cathay Insurance (China)	<u>\$ -</u>	<u>\$ 1,100,344</u>	<u>\$ -</u>

The board of directors of Cathay Life resolved on September 17, 2018 to increase investment of CNY245 million to Cathay Insurance (China). The Investment Commission of the Ministry of Economic Affairs authorized the remittance on December 6, 2018 under letter No. 10700281680. The capital increase was approved by the Bank of China Banking and Insurance Regulatory Commission on January 23, 2019.

k) Other payables

Name	June 30, 2019	December 31, 2018	June 30, 2018
The Company			
Cathay Financial Holding Co., Ltd. (Note)	\$ 690,411	\$ 65,589	\$ 10,810,278
Subsidiary of the Company			
Cathay United Bank	<u>814,379</u>	<u>89,605</u>	<u>457,026</u>
	<u>\$ 1,504,790</u>	<u>\$ 155,194</u>	<u>\$ 11,267,304</u>

Note: The payables consist of interest expenses accrued from bonds payable and preferred stock liabilities and tax payable under the consolidated income tax system.

l) Bonds payable

Name	June 30, 2019	December 31, 2018	June 30, 2018
The Company			
Cathay Financial Holdings	<u>\$ 35,000,000</u>	<u>\$ 35,000,000</u>	<u>\$ 35,000,000</u>

m) Preferred stock liabilities

Name	June 30, 2019	December 31, 2018	June 30, 2018
The Company			
Cathay Financial Holdings	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,000,000</u>

n) Premium income

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Other related party				
Others	<u>\$ 97,453</u>	<u>\$ 96,691</u>	<u>\$ 174,908</u>	<u>\$ 133,972</u>

o) Other operating costs

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Subsidiary of the Company				
Cathay United Bank	\$ 319,636	\$ 266,180	\$ 609,078	\$ 508,862
Cathay Securities Investment Trust	<u>46,853</u>	<u>101,669</u>	<u>91,787</u>	<u>203,610</u>
	<u>\$ 366,489</u>	<u>\$ 367,849</u>	<u>\$ 700,865</u>	<u>\$ 712,472</u>

p) Finance costs

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
The Company Cathay Financial Holdings	\$ <u>314,137</u>	\$ <u>314,137</u>	\$ <u>624,822</u>	\$ <u>624,822</u>

Finance costs consist of interest expenses accrued from bond payable.

q) Operating expenses

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Associate Symphox Information Co., Ltd.	\$ 60,268	\$ 87,876	\$ 126,637	\$ 147,893
Subsidiary of the Company Cathay United Bank	1,413,263	1,404,689	3,519,722	3,081,698
Other related party Lin Yuan Property Management Co., Ltd.	<u>189,517</u>	<u>196,349</u>	<u>384,610</u>	<u>390,198</u>
	<u>\$ 1,663,048</u>	<u>\$ 1,688,914</u>	<u>\$ 4,030,969</u>	<u>\$ 3,619,789</u>

r) Non-operating income

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Subsidiary of the Company Cathay Century	\$ <u>176,645</u>	\$ <u>145,865</u>	\$ <u>321,365</u>	\$ <u>281,778</u>

Non-operating income is mainly generated from Cathay Life and its subsidiaries' integrated marketing activities.

s) Other

As of June 30, 2019, December 31, 2018 and June 30, 2018,, the nominal amounts (in thousands) of the financial instrument transactions between Cathay Life and Cathay United Bank are summarized below:

Item	June 30, 2019	December 31, 2018	June 30, 2018
SWAP.	<u>US\$ 3,595,000</u>	<u>US\$ 3,752,000</u>	<u>US\$ 3,615,000</u>

2) Cathay United Bank and its subsidiaries

a) Loans

June 30, 2019

Type	Account Volume or Name of Related Part	Highest Balance	Ending Balance	Loan Classification		Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties	Bad debt Expense 01.01-06.30	Allowance for Bad Debt Expense - Ending Balance
				Normal Loans	Nonperforming Loans				
Consumer loans	21	\$ 54,562	\$ 6,981	V	\$ -	None	None	\$ 11	\$ 158
Self-used housing mortgage loans	236	1,798,138	1,649,576	V	-	Real estate	None	846	20,801
Others	Cathay Real Estate Development Co., Ltd.	870,000	-	V	-	Real estate	None	(4,000)	-

December 31, 2018

Type	Account Volume or Name of Related Party	Highest Balance	Ending Balance	Loan Classification		Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties	Bad debt Expense 01.01-12.31	Allowance for Bad Debt Expense - Ending Balance
				Normal Loans	Nonperforming Loans				
Consumer loans	11	\$ 18,875	\$ 3,107	V	\$ -	None	None	\$ 157	\$ 31
Self-used housing mortgage loans	208	1,762,016	1,455,805	V	-	Real estate	None	(1,046)	18,481
Others	Cathay Real Estate Development Co., Ltd.	400,000	210,000	V	-	Real estate	None	4,000	4,000

June 30, 2018

Type	Account Volume or Name of Related Party	Highest Balance	Ending Balance	Loan Classification		Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties	Bad debt Expense 01.01-06.30	Allowance for Bad Debt Expense - Ending Balance
				Normal Loans	Nonperforming Loans				
Consumer loans	10	\$ 18,275	\$ 3,273	V	\$ -	None	None	\$ 118	\$ 143
Self-used housing mortgage loans	208	1,599,577	1,439,057	V	-	Real estate	None	(1,066)	18,537

Deposits

	June 30, 2019	December 31, 2018	June 30, 2018
The Company			
Cathay Financial Holdings	\$ 286,787	\$ 139,920	\$ 455,597
Subsidiary of the Company			
Cathay Life Insurance	17,828,099	30,744,095	21,211,086
Cathay Century	2,030,218	2,724,193	1,791,086
Cathay Securities	3,012,799	2,550,090	2,799,489
Cathay Futures	1,117,526	1,345,519	1,108,842
Cathay Venture	181,157	113,380	24,344
Cathay Securities Investment Trust	182,371	149,076	134,049
Cathay Securities Investment Consulting Co., Ltd.	132,226	187,533	111,053
Cathay Life (Vietnam)	1,028,446	1,809,689	24,002
Cathay Insurance (Vietnam)	225,736	147,705	195,145
Lin Yuan	751,718	623,035	502,907
Associate			
Symphox Information Co., Ltd.	148,141	122,139	112,229
Xin-Ri-Tai Energy Corp.	42,638	137,979	72,633
Other related parties			
Cathay United Bank Culture and Charity Foundation	533,582	541,888	535,309
Cathay Life Insurance Employees' Welfare Committee	2,129,597	2,221,665	2,145,227

(Continued)

	June 30, 2019	December 31, 2018	June 30, 2018
Cathay Real Estate Development Employees' Welfare Committee	\$ 377,381	\$ 386,529	\$ 360,331
Cathay Real Estate Development Co., Ltd.	241,710	199,127	90,343
Fund managed by Cathay Securities	179,780	137,823	29,531
Others	<u>8,711,989</u>	<u>7,457,000</u>	<u>7,877,557</u>
	<u>\$ 39,141,901</u>	<u>\$ 51,738,385</u>	<u>\$ 39,580,760</u> (Concluded)

Items	June 30, 2019	December 31, 2018	June 30, 2018
<u>Due from commercial banks</u>			
Other related parties			
Vietinbank	\$ 5,380,934	\$ 5,309,375	\$ 5,357,077

<u>Due to commercial banks</u>			
Other related parties			
Vietinbank	5,373,474	5,360,670	5,350,766

Transactions terms with related parties are similar to those with third parties, except for the preferential interest rates set by the employees' interest rates on deposits and loans within prescribed limits.

b) Derivatives

June 30, 2019

Name of Related Party	Name of Derivative Contract	Contract Period	Nominal Principal	Valuation (Loss) Gain	Balance Sheet Amount	
					Account	Balance
Cathay Life Insurance Co., Ltd.	SWAP - exchange between customers (USD)	2018.07.18-2020.05.12	\$ 111,703,840	\$ 3,533,344	Valuation adjustment for financial assets at FVTPL	\$ 2,389,065
					Valuation adjustment for FVTPL financial liabilities	(219,363)
Cathay Century Insurance Co., Ltd.	SWAP - exchange between customers (USD)	2019.01.24-2020.05.11	2,631,798	75,866	Valuation adjustment for financial assets at FVTPL	40,599
					Valuation adjustment for FVTPL financial liabilities	(1,590)

December 31, 2018

Name of Related Party	Name of Derivative Contract	Contract Period	Nominal Principal	Valuation (Loss) Gain	Balance Sheet Amount	
					Account	Balance
Cathay Life Insurance Co., Ltd.	SWAP - exchange between customers (USD)	2018.01.18-2019.12.09	\$ 115,310,216	\$ 3,885,814	Valuation adjustment for financial assets at FVTPL	\$ 1,852,498
					Valuation adjustment for FVTPL financial liabilities	(64,937)
Cathay Century Insurance Co., Ltd.	SWAP - exchange between customers (USD)	2018.05.07-2019.05.28	2,726,017	85,529	Valuation adjustment for financial assets at FVTPL	21,757
					Valuation adjustment for FVTPL financial liabilities	(3,143)

June 30, 2018

Name of Related Party	Name of Derivative Contract	Contract Period	Nominal Principal	Valuation (Loss) Gain	Balance Sheet Amount	
					Account	Balance
Cathay Life Insurance Co., Ltd.	SWAP - exchange between customers (USD)	2017.07.06-2019.03.25	\$ 110,257,500	\$ 4,983,043	Valuation adjustment for financial assets at FVTPL	\$ 4,078,640
					Valuation adjustment for FVTPL financial liabilities	-
Cathay Century Insurance Co., Ltd.	SWAP - exchange between customers (USD)	2017.10.05-2019.05.09	2,705,350	117,355	Valuation adjustment for FVTPL financial liabilities	86,498



c) Lease agreements

	<b>Lease Liabilities</b>		
	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Subsidiary of the Company Cathay Life Insurance Co., Ltd.	\$ 2,051,854	\$ -	\$ -

<b>Items</b>	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>		<b>Payment Term</b>
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	
<u>Rental expense</u>					
Subsidiary of the Company Cathay Life Insurance Co., Ltd.	\$ 46,269	\$ 169,847	\$ 103,491	\$ 335,200	Monthly

	<b>Refundable Deposits Paid</b>		
	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>Payment Term</b>
Subsidiary of the Company Cathay Life Insurance Co., Ltd.	\$ 175,220	\$ 189,738	\$ 167,515

d) Others

<b>Items</b>	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<u>Commissions and handling fees income</u>				
Subsidiary of the Company Cathay Life.	\$ 1,721,291	\$ 1,669,792	\$ 4,117,101	\$ 3,589,292
<u>Commissions and handling fees expense</u>				
Associate Symphox Information Co., Ltd.	133,465	138,120	275,525	294,393
Other related party Seaward Card Co., Ltd.	55,199	37,963	115,013	103,481

Items	June 30, 2019	December 31, 2018	June 30, 2018
<u>Related party receivables for allocation of integrated income tax systems account</u>			
The Company			
Cathay Financial Holding Co., Ltd.	\$ -	\$ 485,773	\$ -
<u>Related party receivables for insurance commission</u>			
Subsidiary			
Cathay Life Insurance Co., Ltd.	427,597	89,605	457,026
<u>Accounts payable</u>			
Associate			
Symphox Information Co., Ltd.	117,997	19,680	146,405
<u>Related party payables for allocation of integrated income tax systems account</u>			
The Company			
Cathay Financial Holding Co., Ltd.	386,256	-	377,029
<u>Dividends payable</u>			
The Company			
Cathay Financial Holding Co., Ltd.	10,000,000	-	-

The terms of the foregoing transactions with related parties are similar to those with third parties.

### 3) Cathay Century and its subsidiaries

#### a) Trading transactions

Item	Name	<u>For the Three Months Ended June 30</u>		<u>For the Six Months Ended June 30</u>	
		2019	2018	2019	2018
Net premium income	Subsidiary of the Company	<u>\$ 45,152</u>	<u>\$ 44,088</u>	<u>\$ 177,777</u>	<u>\$ 164,711</u>
Operating costs					
Marketing costs	Subsidiary of the Company Cathay Life	<u>\$ 173,275</u>	<u>\$ 135,722</u>	<u>\$ 316,468</u>	<u>\$ 270,075</u>

b) Payables to related parties

Items	Name	June 30, 2019	December 31, 2018	June 30, 2018
Current tax liabilities	The Company Cathay Financial Holdings	<u>\$ 291,780</u>	<u>\$ 64,901</u>	<u>\$ 1,533,341</u>

c) Cash in bank

Items	Name	June 30, 2019	December 31, 2018	June 30, 2018
Checking deposits and demand deposits	Subsidiary of the Company Cathay United Bank	\$ 1,412,018	\$ 2,100,993	\$ 1,172,886
Time deposits	Subsidiary of the Company Cathay United Bank	618,200	623,200	618,200
	Indovina Bank	<u>186,300</u>	<u>144,687</u>	<u>168,587</u>
		<u>\$ 2,216,518</u>	<u>\$ 2,868,880</u>	<u>\$ 1,959,763</u>

d) Financial assets at FVTPL (beneficiary certificate)

	June 30, 2019	December 31, 2018	June 30, 2018
Other related party	<u>\$ 392,697</u>	<u>\$ 359,128</u>	<u>\$ 413,642</u>

e) Discretionary account management balance

	June 30, 2019	December 31, 2018	June 30, 2018
Subsidiary of the Company Cathay Securities Investment Trust	<u>\$ 926,872</u>	<u>\$ 848,925</u>	<u>\$ 987,035</u>

f) Prepayments for investment

	June 30, 2019	December 31, 2018	June 30, 2018
Subsidiary of the Company Cathay Insurance Co., Ltd. (China)	<u>\$ -</u>	<u>\$ 1,100,050</u>	<u>\$ -</u>

The board of directors of Cathay Century approved in participating in the capital increase with the amount of CNY245,000 thousand in Cathay Insurance Company Ltd. (China) on September 17, 2018. Cathay Century's payment was approved under letter No.10700281680 issued by the Investment Commission, Ministry of Economic Affairs on November 23, 2018 and was authorized by China Banking and Insurance Regulatory Commission on January 23, 2019.

g) Preferred stock liabilities

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
The Company			
Cathay Financial Holdings	<u>\$ _____ -</u>	<u>\$ _____ -</u>	<u>\$ 1,000,000</u>

h) SWAP

The nominal amount of the derivative instruments between Cathay Century and related parties are listed below:

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Subsidiary of the Company			
Cathay United Bank	US\$ 84,700 EUR 750	US\$ 88,700 EUR 750	US\$ 88,700 EUR 1,850

4) Cathay Securities and its subsidiaries

a) Cash in bank

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Subsidiary of the Company			
Cathay United Bank	<u>\$ 3,373,569</u>	<u>\$ 3,836,853</u>	<u>\$ 3,734,054</u>

Cash in bank includes cash and cash equivalents, and receivable for underwriting of securities, pending settlement money and restricted assets recorded under other current assets.

The terms of the foregoing transactions are similar to those unrelated parties.

b) Customer's margin accounts

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Subsidiary of the Company			
Cathay United Bank	<u>\$ 756,755</u>	<u>\$ 910,355</u>	<u>\$ 691,557</u>

c) Futures trader's equity

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Subsidiary of the Company			
Cathay Life	\$ 2,301,049	\$ 1,511,584	\$ 1,826,571
Cathay Securities Investment Trust (Note)	<u>1,437,675</u>	<u>994,480</u>	<u>825,071</u>
	<u>\$ 3,738,724</u>	<u>\$ 2,506,064</u>	<u>\$ 2,651,642</u>

Note: The balances include those of investment trusts managed by Cathay Securities Investment Trust.

d) Brokerage Service fee income

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Subsidiary of the Company Cathay Life	<u>\$ 63,380</u>	<u>\$ 42,272</u>	<u>\$ 114,621</u>	<u>\$ 85,577</u>

5) Cathay Securities Investment Trust

a) Cash and cash equivalents

	June 30, 2019	December 31, 2018	June 30, 2018
Subsidiary of the Company Cathay United Bank	<u>\$ 129,822</u>	<u>\$ 101,890</u>	<u>\$ 82,106</u>

b) Accounts receivables

	June 30, 2019	December 31, 2018	June 30, 2018
Fund managed by Cathay Securities Investment Trust	<u>\$ 185,566</u>	<u>\$ 154,280</u>	<u>\$ 161,806</u>

c) Accounts payables

	June 30, 2019	December 31, 2018	June 30, 2018
Cathay Financial Holdings (Note)	<u>\$ 630,532</u>	<u>\$ 82,083</u>	<u>\$ 472,027</u>

Note: The payables consist of tax payable under the consolidated income tax system and dividend payable.

d) Operating income

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Fund managed by Cathay Securities Investment Trust	\$ 555,325	\$ 465,871	\$ 1,050,910	\$ 905,517
Subsidiary of the Company Cathay Life	<u>46,853</u>	<u>101,699</u>	<u>91,787</u>	<u>203,610</u>
	<u>\$ 602,178</u>	<u>\$ 567,570</u>	<u>\$ 1,142,697</u>	<u>\$ 1,109,127</u>

6) Cathay Venture

a) Cash and cash equivalents

Items	June 30, 2019	December 31, 2018	June 30, 2018
Subsidiary of the Company			
Cathay United Bank	\$ 3,748	\$ 1,022	\$ 22,530
Cash in bank Security deposits	<u>\$ 177,409</u>	<u>\$ 112,359</u>	<u>\$ 1,814</u>

b) Financial assets at FVTPL

Items	June 30, 2019	December 31, 2018	June 30, 2018
Other related party			
Fund managed by Cathay Securities Investment Trust	\$ 600,000	\$ 49,875	\$ 73,765
Cathay Healthcare Management Co., Ltd.	<u>217,718</u>	<u>180,180</u>	<u>146,190</u>
	<u>\$ 817,718</u>	<u>\$ 230,055</u>	<u>\$ 219,955</u>

## 29. PLEDGED ASSETS

The Group's assets pledged as collaterals or with limited use are summarized below:

Items	Description	June 30, 2019	December 31, 2018	June 30, 2018
Time deposits and guarantee deposits paid	Capital guarantee, serving as deposits paid, settlement accounts, overdraft guarantee, government bonds, collateral for court guarantees, provisions for business and collaterals	\$ 15,548,282	\$ 16,515,144	\$ 27,055,726
Financial assets at FVTPL	Collateral for securities lending and guarantees for future transactions	908,364	1,179,454	1,838,930
Financial assets at FVTOCI	Business reserves and collaterals	14,287	14,353	257,084
Financial assets at amortized cost	Business reserves and collaterals	64,490,067	64,423,052	64,973,226
Investment properties	Short-term loans	<u>290,341</u>	<u>290,341</u>	<u>290,341</u>
		<u>\$ 81,251,341</u>	<u>\$ 82,422,344</u>	<u>\$ 94,415,307</u>

### 30. COMMITMENTS AND CONTINGENT LIABILITIES

a. 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. The case has been pending in the court since July 2007, and Cathay United Bank won favorable decisions in both the first and second instances. The proceedings are currently pending in the Supreme Court. Both Cathay United Bank and its attorneys hold that this case will not have a material adverse effect on the financial position of the Bank.

b. As of June 30, 2019, December 31, 2018 and June 30, 2018 Cathay United Bank and its subsidiaries had the following entrusted item and guarantees:

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Trust and security held for safekeeping	\$ 757,626,207	\$ 750,988,804	\$ 739,692,171
Travelers checks for sale	274,421	299,765	346,081
Bills for collection	35,815,320	36,044,907	39,241,131
Book-entry for government bonds and depository for short-term marketable securities under management	415,226,571	400,999,309	459,382,221
Entrusted financial management business	21,129,171	21,016,659	10,566,396
Guarantees on duties and contracts	14,228,978	13,534,956	7,926,004
Unused commercial letters of credit	6,717,154	6,008,561	6,083,529
Irrevocable loan commitments	189,227,352	155,229,226	217,327,593
Unused credit card lines commitments	610,739,981	592,059,512	574,959,341
Underwritten securities	1,596,934	1,000,000	1,762,500
Financial guarantee contracts	2,261,179	2,511,838	3,221,936

c. As of June 30, 2019, the remaining capital commitments for the contracted private equity fund of Cathay Life was NT\$1,950,900 thousand, US\$2,583,794 thousand, EUR472,881 thousand and GBP1,558 thousand.

31. FINANCIAL STATEMENTS OF CATHAY FINANCIAL HOLDING CO., LTD.

Cathay Financial Holding Co., Ltd.

Balance Sheets  
(In Thousands of New Taiwan Dollars)

ASSETS	June 30, 2019	December 31, 2018	June 30, 2018	LIABILITIES AND EQUITY	June 30, 2019	December 31, 2018	June 30, 2018
CASH AND CASH EQUIVALENTS	\$ 292,386	\$ 445,353	\$ 461,187	COMMERCIAL PAPER PAYABLE, NET	\$ 39,040,000	\$ 59,260,000	\$ 44,340,000
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	35,717,500	35,444,500	35,826,000	PAYABLES	32,909,347	9,894,697	35,013,358
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	111,124	102,304	94,772	CURRENT TAX LIABILITIES	-	1,719,191	6,396,204
FINANCIAL ASSETS MEASURED AT AMORTIZED COST	-	-	5,998,637	BONDS PAYABLE	20,000,000	-	-
RECEIVABLES, NET	12,013,397	266,902	13,290,046	PROVISIONS	828,415	739,257	939,459
CURRENT TAX ASSETS	4,928,672	6,428,841	2,506,359	LEASE LIABILITIES	81,294	-	-
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET	728,254,318	548,662,186	619,051,367	DEFERRED TAX LIABILITIES	266,714	266,714	266,714
PROPERTY AND EQUIPMENT, NET	40,631	11,767	10,802	OTHER LIABILITIES	<u>164,086</u>	<u>164,069</u>	<u>200,750</u>
RIGHT-OF-USE ASSETS	80,951	-	-	Total liabilities	<u>93,289,856</u>	<u>72,043,928</u>	<u>87,156,485</u>
INTANGIBLE ASSETS, NET	-	1,330	3,989	EQUITY			
DEFERRED TAX ASSETS	367,289	352,601	366,741	Share capital			
OTHER ASSETS	<u>55,733</u>	<u>59,474</u>	<u>37,032</u>	Ordinary shares	125,632,102	125,632,102	125,632,102
				Preference shares	15,333,000	15,333,000	15,333,000
				Capital surplus	161,689,208	165,449,364	165,452,143
				Retained earnings			
				Legal reserve	46,122,845	40,976,121	40,976,121
				Special reserve	221,977,672	149,346,119	149,346,119
				Unappropriated earnings	30,933,430	95,553,376	86,636,398
				Other equity	<u>86,883,888</u>	<u>(72,558,752)</u>	<u>7,114,564</u>
				Total equity	<u>688,572,145</u>	<u>519,731,330</u>	<u>590,490,447</u>
TOTAL	<u>\$ 781,862,001</u>	<u>\$ 591,775,258</u>	<u>\$ 677,646,932</u>	TOTAL	<u>\$ 781,862,001</u>	<u>\$ 591,775,258</u>	<u>\$ 677,646,932</u>



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

**Statements of Comprehensive Income**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
<b>REVENUE</b>				
Share of gain of subsidiaries, associates and joint ventures accounted for using the equity method	\$ 19,927,444	\$ 14,315,731	\$ 33,345,858	\$ 36,790,209
Other operating income	<u>605,634</u>	<u>614,879</u>	<u>916,738</u>	<u>1,552,488</u>
Total revenue	<u>20,533,078</u>	<u>14,930,610</u>	<u>34,262,596</u>	<u>38,342,697</u>
<b>EXPENSES AND LOSSES</b>				
Operating expenses	(314,457)	(232,642)	(543,202)	(530,712)
Other expenses and losses	<u>(9,997)</u>	<u>(53,968)</u>	<u>(188,385)</u>	<u>(114,094)</u>
Total expenses and losses	<u>(324,454)</u>	<u>(286,610)</u>	<u>(731,587)</u>	<u>(644,806)</u>
INCOME BEFORE TAX	20,208,624	14,644,000	33,531,009	37,697,891
INCOME TAX BENEFIT (EXPENSE)	<u>17,993</u>	<u>(1,728,160)</u>	<u>(91,240)</u>	<u>(1,714,668)</u>
NET INCOME	<u>20,226,617</u>	<u>12,915,840</u>	<u>33,439,769</u>	<u>35,983,223</u>
<b>OTHER COMPREHENSIVE INCOME</b>				
Items that will not be reclassified subsequently to profit or loss:				
Gain on equity instruments at fair value through other comprehensive income	9,281	2,114	8,820	3,635
Share of other comprehensive income of associates accounted for using the equity method for items that will not be reclassified subsequently to profit or loss	3,410,427	(1,529,327)	8,425,047	(768,157)
Income tax relating to items that will not be reclassified subsequently to profit or loss	-	-	-	1,001
Items that may be reclassified subsequently to profit or loss:				
Share of other comprehensive income (loss) of associates accounted for using the equity method for items that may be reclassified subsequently to profit or loss	<u>35,228,926</u>	<u>(28,897,791)</u>	<u>148,471,078</u>	<u>(88,330,830)</u>
Other comprehensive income (loss) for the period, net of income tax	<u>38,648,634</u>	<u>(30,425,004)</u>	<u>156,904,945</u>	<u>(89,094,351)</u>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>	<u>\$ 58,875,251</u>	<u>\$ (17,509,164)</u>	<u>\$ 190,344,714</u>	<u>\$ (53,111,128)</u>
<b>EARNINGS PER SHARE</b>				
Basic	<u>\$1.40</u>	<u>\$0.87</u>	<u>\$2.45</u>	<u>\$2.71</u>

Cathay Financial Holding Co., Ltd.

Statements of Changes in Equity  
(In Thousands of New Taiwan Dollars)

	Share Capital		Capital Surplus	Retained Earnings			Other Equity								Total Equity
	Ordinary Shares	Preference Shares		Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating the Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Gain (Loss) on Hedging Instruments	Changes in the Fair Value Attributable to Changes in the Credit Risk of Financial Liabilities Designated as at Fair Value Through Profit or Loss	Remeasurement Using the Overlay Benefit Plans	Gains on Property Revaluation	Other Comprehensive Income (Loss) on Reclassification Using Overlay Approach	
BALANCE AT JANUARY 1, 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
Effect of retrospective application and retrospective restatement	-	-	-	-	-	(3,653,038)	-	37,343,476	(53,789,800)	-	-	-	-	55,941,777	35,842,415
BALANCE, AT JANUARY 1, 2018 AS RESTATED	125,632,102	8,333,000	130,452,105	35,339,841	149,106,971	95,643,701	(10,823,242)	37,343,476	-	203,647	(1,191,027)	(1,449,679)	10,376,814	55,941,777	634,909,486
Appropriation of 2017 earnings															
Legal reserve	-	-	-	5,636,280	-	(5,636,280)	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	234,146	(234,146)	-	-	-	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	-	(31,408,025)	-	-	-	-	-	-	-	-	(31,408,025)
Cash dividends on preferred shares	-	-	-	-	-	(1,899,924)	-	-	-	-	-	-	-	-	(1,899,924)
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	38	-	-	-	-	-	-	-	-	-	-	-	38
Net income for the six months ended June 30, 2018	-	-	-	-	-	35,983,223	-	-	-	-	-	-	-	-	35,983,223
Other comprehensive income (loss) for the six months ended June 30, 2018, net of income tax	-	-	-	-	-	-	126,542	(57,180,515)	-	(29,446)	1,127,633	42,180	46,241	(33,226,986)	(89,094,351)
Total comprehensive income (loss) for six months ended June 30, 2018	-	-	-	-	-	35,983,223	126,542	(57,180,515)	-	(29,446)	1,127,633	42,180	46,241	(33,226,986)	(53,111,128)
Issuance of preference shares	-	7,000,000	35,000,000	-	-	-	-	-	-	-	-	-	-	-	42,000,000
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	(5,862,293)	-	5,862,293	-	-	-	-	-	-	-
Other	-	-	-	-	5,002	50,142	-	-	-	-	-	-	(55,144)	-	-
BALANCE AT JUNE 30, 2018	\$ 125,632,102	\$ 15,333,000	\$ 165,452,143	\$ 40,976,121	\$ 149,346,119	\$ 86,636,398	\$ (10,696,700)	\$ (13,974,746)	\$ -	\$ 174,201	\$ (63,394)	\$ (1,407,499)	\$ 10,367,911	\$ 22,714,791	\$ 590,490,447
BALANCE AT JANUARY 1, 2019	\$ 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
Appropriation of 2018 earnings															
Legal reserve	-	-	-	5,146,724	-	(5,146,724)	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	72,631,553	(72,631,553)	-	-	-	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	-	(15,075,852)	-	-	-	-	-	-	-	-	(15,075,852)
Cash dividends on preferred shares	-	-	-	-	-	(2,667,891)	-	-	-	-	-	-	-	-	(2,667,891)
Issuance of cash dividends from capital surplus	-	-	(3,768,963)	-	-	-	-	-	-	-	-	-	-	-	(3,768,963)
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	8,807	-	-	-	-	-	-	-	-	-	-	-	8,807
Net income for the six months ended June 30, 2019	-	-	-	-	-	33,439,769	-	-	-	-	-	-	-	-	33,439,769
Other comprehensive income (loss) for the six months ended June 30, 2019, net of income tax	-	-	-	-	-	-	1,610,240	69,996,794	-	70,798	(1,422,911)	6,804	872,403	85,770,817	156,904,945
Total comprehensive income (loss) for six months ended June 30, 2019	-	-	-	-	-	33,439,769	1,610,240	69,996,794	-	70,798	(1,422,911)	6,804	872,403	85,770,817	190,344,714
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	(2,537,695)	-	2,537,695	-	-	-	-	-	-	-
BALANCE AT JUNE 30, 2019	\$ 125,632,102	\$ 15,333,000	\$ 161,689,208	\$ 46,122,845	\$ 221,977,672	\$ 30,933,430	\$ (10,539,631)	\$ 54,947,543	\$ -	\$ 244,087	\$ (648,827)	\$ (1,314,334)	\$ 11,240,314	\$ 32,954,736	\$ 688,572,145

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

**Statements of Cash Flows**  
(In Thousands of New Taiwan Dollars)

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 33,531,009	\$ 37,697,891
Adjustments for:		
Depreciation expenses	30,199	1,313
Amortization expenses	1,330	2,660
Gain on of financial assets and liabilities at fair value through profit or loss	(273,000)	(850,500)
Interest income	(625,401)	(680,559)
Interest expenses	169,714	98,977
Share of gain of associates accounted for using the equity method	(33,345,858)	(36,790,209)
Loss on disposal of property and equipment	-	89
Reversal of impairment loss on financial assets	-	(1,510)
Unrealized foreign exchange gain	-	(2,268)
Changes in operating assets and liabilities		
Receivables	(610)	-
Other assets	(30)	(900)
Payables	(146,470)	(51,782)
Provisions	5,847	5,993
Other liabilities	17	36,948
Cash used in operations	(653,253)	(533,857)
Interest received	661	583
Interest paid	(150,363)	(103,311)
Income tax refunded	944,288	-
Income taxes paid	-	(1,516,216)
	<u>141,333</u>	<u>(2,152,801)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of investments accounted for using the equity method	-	(42,000,000)
Acquisition of property and equipment	(30,287)	(957)
Increase in other assets	(15,580)	-
	<u>(45,867)</u>	<u>(42,000,957)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(Decrease) increase in commercial paper payable	(20,220,000)	1,400,000
Proceeds from issuance of bonds	20,000,000	-
Repayments of the principal portion of lease liabilities	(28,433)	-
Issuance of ordinary shares for cash	-	42,000,000
	<u>(248,433)</u>	<u>43,400,000</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>		
	<u>-</u>	<u>2,268</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(152,967)</b>	<b>(751,490)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNINGS OF THE PERIOD</b>	<b><u>445,353</u></b>	<b><u>1,212,677</u></b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b><u>\$ 292,386</u></b>	<b><u>\$ 461,187</u></b>

## 32. INFORMATION OF THE COMPANY'S SUBSIDIARIES

### a. Condensed balance sheets and condensed statements of comprehensive income

#### Cathay Life Insurance Co., Ltd.

#### Condensed Balance Sheets (In Thousands of New Taiwan Dollars)

Assets	June 30	
	2019	2018
Cash and cash equivalents	\$ 291,043,716	\$ 220,140,165
Receivables	84,957,549	78,839,217
Financial assets at fair value through profit or loss	1,207,774,760	1,090,132,521
Financial assets at fair value through other comprehensive income	869,457,857	938,656,941
Financial assets measured at amortized cost	2,502,128,645	2,144,271,230
Financial assets for hedging	258,198	217,899
Investments accounted for using the equity method	103,064,171	92,212,941
Other financial assets	1,999,333	3,497,769
Investment property	439,875,621	424,267,760
Loans	554,223,711	616,759,960
Reinsurance assets	1,548,116	1,317,427
Property and equipment	29,706,709	29,516,392
Right-of-use assets	550,071	-
Intangible assets	32,508,836	34,607,313
Deferred tax assets	26,253,533	36,495,120
Other assets	38,640,625	48,784,306
Separate account insurance product assets	<u>596,677,130</u>	<u>573,581,651</u>
Total	<u>\$ 6,780,668,581</u>	<u>\$ 6,333,298,612</u>
<b>Liabilities</b>		
Payables	\$ 23,169,586	\$ 29,002,017
Financial liabilities at fair value through profit or loss	33,266,335	55,410,128
Bonds payable	80,000,000	70,000,000
Preference stock liabilities	-	5,000,000
Insurance liabilities	5,435,816,988	5,108,513,913
Reserve for insurance contracts with the nature of financial products	1,037,294	778,290
Reserve for foreign exchange valuation	24,881,915	15,350,053
Provisions	56,245	56,245
Lease liabilities	9,329,463	-
Deferred tax liabilities	45,165,167	29,598,672
Other liabilities	6,845,727	7,948,401
Separate account insurance product liabilities	<u>596,677,130</u>	<u>573,581,651</u>
Total liabilities	<u>6,256,245,850</u>	<u>5,895,239,370</u>
<b>Equity</b>		
Ordinary shares	57,265,274	57,265,274
Capital surplus	51,544,732	51,541,029
Retained earnings	347,837,245	332,494,857
Other equity	<u>67,775,480</u>	<u>(3,241,918)</u>
Total equity	<u>524,422,731</u>	<u>438,059,242</u>
Total	<u>\$ 6,780,668,581</u>	<u>\$ 6,333,298,612</u>

**Cathay Life Insurance Co., Ltd.**

**Condensed Statements of Comprehensive Income**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 454,784,536	\$ 411,683,522
Operating costs	(422,070,955)	(379,914,105)
Operating expenses	(11,106,152)	(10,506,656)
Operating income	21,607,429	21,262,761
Non-operating income and expenses	812,657	700,282
Profit before income tax	22,420,086	21,963,043
Income tax (expense) benefit	(2,992,045)	3,072,079
Net income	19,428,041	25,035,122
Other comprehensive income (loss)	148,393,174	(87,191,822)
Total comprehensive income (loss)	\$ 167,821,215	\$ (62,156,700)
Basic earnings per share	\$3.39	\$4.71

**Cathay Lujiazui Life Insurance Co., Ltd.**

**Condensed Balance Sheets**  
**(In Thousands of New Taiwan Dollars)**

	<b>June 30</b>	
<b>Assets</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 2,013,765	\$ 1,681,448
Receivables	1,219,619	823,162
Financial assets at fair value through profit or loss	33,558,965	25,711,067
Financial assets measured at amortized cost	271,440	1,575,963
Loans	651,499	278,725
Reinsurance assets	86,147	40,168
Property and equipment	124,588	111,807
Right-of-use assets	343,310	-
Intangible assets	35,048	24,033
Other assets	3,227,101	2,845,913
Separate account insurance product assets	120,638	131,939
<b>Total</b>	<b>\$ 41,652,120</b>	<b>\$ 33,224,225</b>
<b>Liabilities</b>		
Payables	\$ 1,375,064	\$ 1,707,256
Current tax liabilities	32,597	205,447
Insurance liabilities	19,334,108	12,979,772
Reserve for insurance contracts with the nature of financial instruments	9,426,971	8,342,287
Lease liabilities	347,101	-
Other liabilities	47,253	40,081
Separate account insurance product liabilities	120,638	131,939
<b>Total liabilities</b>	<b>30,683,732</b>	<b>23,406,782</b>
<b>Equity</b>		
Ordinary shares	13,497,155	13,497,155
Retained earnings	(2,937,935)	(3,533,976)
Other equity	409,168	(145,736)
<b>Total equity</b>	<b>10,968,388</b>	<b>9,817,443</b>
<b>Total</b>	<b>\$ 41,652,120</b>	<b>\$ 33,224,225</b>

**Cathay Lujiazui Life Insurance Co., Ltd.**

**Condensed Statements of Comprehensive Income**  
**(In Thousands of New Taiwan Dollars)**

	<b>For the Six Months Ended</b>	
	<b>June 30</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 7,082,458	\$ 6,195,084
Operating costs	(5,742,468)	(5,039,477)
Operating expenses	(930,367)	(909,111)
Operating income	409,623	246,496
Non-operating income and expenses	45,383	(1,533)
Profit before income tax	455,006	244,963
Income tax benefit (expense)	110,018	(256,297)
Net income (loss)	565,024	(11,334)
Other comprehensive income (loss)	620,667	(158,321)
Total comprehensive income (loss)	<u>\$ 1,185,691</u>	<u>\$ (169,655)</u>
Basic earnings per share	Note	Note

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

**Cathay Life Insurance Company (Vietnam)**

**Condensed Balance Sheets**  
**(In Thousands of New Taiwan Dollars)**

	<b>June 30</b>	
<b>Assets</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 1,750,969	\$ 435,396
Receivables	483,733	310,798
Financial assets at fair value through profit or loss	10,799,781	7,803,066
Financial assets measured at amortized cost	236,118	186,060
Loans	54,139	35,351
Property and equipment	9,516	12,243
Right-of-use assets	108,049	-
Intangible assets	4,654	260
Other assets	95,302	76,443
<b>Total</b>	<b>\$ 13,542,261</b>	<b>\$ 8,859,617</b>
<b>Liabilities</b>		
Payables	\$ 112,263	\$ 76,736
Insurance liabilities	3,779,068	2,908,810
Lease liabilities	106,055	-
Other liabilities	131	255
<b>Total liabilities</b>	<b>3,997,517</b>	<b>2,985,801</b>
<b>Equity</b>		
Ordinary shares	9,090,730	5,410,990
Retained earnings	189,851	(5,768)
Other equity	264,163	468,594
<b>Total equity</b>	<b>9,544,744</b>	<b>5,873,816</b>
<b>Total</b>	<b>\$ 13,542,261</b>	<b>\$ 8,859,617</b>



**Cathay Life Insurance Company (Vietnam)**

**Condensed Statements of Comprehensive Income  
(In Thousands of New Taiwan Dollars)**

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 1,042,131	\$ 701,785
Operating costs	(668,553)	(973,696)
Operating expenses	(310,547)	(213,122)
Operating income (loss)	63,031	(485,033)
Non-operating income and expenses	2,326	1,831
Profit (loss) before income tax	65,357	(483,202)
Income tax expense	-	(1,008)
Net income (loss)	65,357	(484,210)
Other comprehensive (loss) income	(85,863)	392,407
 Total comprehensive loss	 \$ (20,506)	 \$ (91,803)
 Basic earnings per share	 Note	 Note

Note: Cathay Life (Vietnam) is a limited company; therefore, there is no information about its earnings per share.

**Lin Yuan (Shanghai) Real Estate Co., Ltd.**

**Condensed Balance Sheets  
(In Thousands of New Taiwan Dollars)**

	<b>June 30</b>	
	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current assets	\$ 1,182,787	\$ 955,092
Investment property	7,319,832	7,274,478
Property and equipment	<u>2</u>	<u>61</u>
Total	<u>\$ 8,502,621</u>	<u>\$ 8,229,631</u>
<b>Liabilities</b>		
Current liabilities	\$ 2,594	\$ 1,594
Deferred tax liabilities	454,779	371,637
Other liabilities	<u>82,145</u>	<u>91,217</u>
Total liabilities	<u>539,518</u>	<u>464,448</u>
<b>Equity</b>		
Ordinary shares	7,223,435	7,223,435
Retained earnings	1,034,737	700,450
Other equity	<u>(295,069)</u>	<u>(158,702)</u>
Total equity	<u>7,963,103</u>	<u>7,765,183</u>
Total	<u>\$ 8,502,621</u>	<u>\$ 8,229,631</u>

**Lin Yuan (Shanghai) Real Estate Co., Ltd.**

**Condensed Statements of Comprehensive Income  
(In Thousands of New Taiwan Dollars)**

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 208,316	\$ 133,273
Operating expenses	<u>(23,185)</u>	<u>(23,650)</u>
Operating income	185,131	109,623
Non-operating income and expenses	<u>(11)</u>	<u>(10)</u>
Profit before income tax	185,120	109,613
Income tax expense	<u>(40,655)</u>	<u>(23,754)</u>
Net income	144,465	85,859
Other comprehensive income	<u>81,292</u>	<u>151,468</u>
Total comprehensive income	<u>\$ 225,757</u>	<u>\$ 237,327</u>
Basic earnings per share	Note	Note

Note: Lin Yuan is a limited company; therefore, there is no information about its earnings per share.

**Cathay Woolgate Exchange Holding 1 Limited**

**Condensed Balance Sheets  
(In Thousands of New Taiwan Dollars)**

	<b>June 30</b>	
<b>Assets</b>	<b>2019</b>	<b>2018</b>
Current assets	\$ 2,726,021	\$ 2,197,090
Investment property	<u>10,769,444</u>	<u>11,355,763</u>
Total	<u>\$ 13,495,465</u>	<u>\$ 13,552,853</u>
 <b>Liabilities</b>		
Current liabilities	\$ <u>105,095</u>	\$ <u>102,845</u>
Total liabilities	<u>105,095</u>	<u>102,845</u>
 <b>Equity</b>		
Ordinary shares	16,654,013	16,654,013
Retained earnings	741,376	590,983
Other equity	<u>(4,005,019)</u>	<u>(3,794,988)</u>
Total equity	<u>13,390,370</u>	<u>13,450,008</u>
Total	<u>\$ 13,495,465</u>	<u>\$ 13,552,853</u>

**Cathay Woolgate Exchange Holding 1 Limited**

**Condensed Statements of Comprehensive Income  
(In Thousands of New Taiwan Dollars)**

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 333,984	\$ (248,362)
Operating expenses	<u>(257)</u>	<u>(261)</u>
Operating revenue (expenses)	333,727	(248,623)
Income tax expense	<u>(87,755)</u>	<u>(60,920)</u>
Net income (loss)	245,972	(309,543)
Other comprehensive income (loss)	<u>159,127</u>	<u>(66,569)</u>
Total comprehensive income (loss)	<u>\$ 405,099</u>	<u>\$ (376,112)</u>
Basic earnings per share	Note	Note

Note: Cathay Woolgate Exchange Holding 1 Limited is a limited company; therefore, there is no information about its earnings per share.

**Cathay Woolgate Exchange Holding 2 Limited**

**Condensed Balance Sheets**  
(In Thousands of New Taiwan Dollars)

	<b>June 30</b>	
<b>Assets</b>	<b>2019</b>	<b>2018</b>
Current assets	\$ 27,292	\$ 22,469
Investment property	<u>108,782</u>	<u>114,704</u>
Total	<u>\$ 136,074</u>	<u>\$ 137,173</u>
<b>Liabilities</b>		
Current liabilities	\$ 1,108	\$ 950
Total liabilities	<u>1,108</u>	<u>950</u>
<b>Equity</b>		
Ordinary shares	168,222	168,222
Retained earnings	7,210	6,353
Other equity	<u>(40,466)</u>	<u>(38,352)</u>
Total equity	<u>134,966</u>	<u>136,223</u>
Total	<u>\$ 136,074</u>	<u>\$ 137,173</u>

**Cathay Woolgate Exchange Holding 2 Limited**

**Condensed Statements of Comprehensive Income**  
(In Thousands of New Taiwan Dollars)

	<b>For the Six Months Ended</b>	
	<b>June 30</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 3,369	\$ (2,510)
Operating expenses	<u>(256)</u>	<u>(261)</u>
Operating revenue (expenses)	3,113	(2,771)
Income tax expense	<u>(897)</u>	<u>(499)</u>
Net income (loss)	2,216	(3,270)
Other comprehensive income (loss)	<u>1,612</u>	<u>(673)</u>
Total comprehensive income (loss)	<u>\$ 3,828</u>	<u>\$ (3,943)</u>
Basic earnings per share	Note	Note

Note: Cathay Woolgate Exchange Holding 2 Limited is a limited company; therefore, there is no information about its earnings per share.

**Cathay Walbrook Holding 1 Limited**

**Condensed Balance Sheets**  
(In Thousands of New Taiwan Dollars)

	<b>June 30</b>	
	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current assets	\$ 896,188	\$ 624,782
Investment property	<u>21,006,159</u>	<u>21,714,880</u>
Total	<u>\$ 21,902,347</u>	<u>\$ 22,339,662</u>
 <b>Liabilities</b>		
Current liabilities	\$ 131,763	\$ 94,966
Non-current liabilities	<u>12,909,057</u>	<u>13,108,754</u>
Total liabilities	<u>13,040,820</u>	<u>13,203,720</u>
 <b>Equity</b>		
Ordinary shares	10,189,090	10,189,090
Retained earnings	482,446	619,067
Other equity	<u>(1,810,009)</u>	<u>(1,672,215)</u>
Total equity	<u>8,861,527</u>	<u>9,135,942</u>
Total	<u>\$ 21,902,347</u>	<u>\$ 22,339,662</u>

**Cathay Walbrook Holding 1 Limited**

**Condensed Statements of Comprehensive Income**  
(In Thousands of New Taiwan Dollars)

	<b>For the Six Months Ended</b>	
	<b>June 30</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 305,916	\$ 46,634
Operating costs	(247,882)	(233,069)
Operating expenses	<u>(256)</u>	<u>(387)</u>
Profit (loss) before income tax	57,778	(186,822)
Income tax expense	<u>(35,172)</u>	<u>(1,281)</u>
Net income (loss)	22,606	(188,103)
Other comprehensive income (loss)	<u>109,500</u>	<u>(45,571)</u>
Total comprehensive income (loss)	<u>\$ 132,106</u>	<u>\$ (233,674)</u>
Basic earnings per share	Note	Note

Note: Cathay Walbrook Holding 1 Limited is a limited company; therefore, there is no information about its earnings per share.

**Cathay Walbrook Holding 2 Limited**

**Condensed Balance Sheets**  
(In Thousands of New Taiwan Dollars)

	<b>June 30</b>	
<b>Assets</b>	<b>2019</b>	<b>2018</b>
Current assets	\$ 44,185	\$ 30,577
Investment property	<u>1,105,587</u>	<u>1,142,888</u>
<b>Total</b>	<u>\$ 1,149,772</u>	<u>\$ 1,173,465</u>
<b>Liabilities</b>		
Current liabilities	\$ 6,826	\$ 4,973
Non-current liabilities	<u>679,424</u>	<u>689,935</u>
<b>Total liabilities</b>	<u>686,250</u>	<u>694,908</u>
<b>Equity</b>		
Ordinary shares	536,268	536,268
Retained earnings	22,266	30,095
Other equity	<u>(95,012)</u>	<u>(87,806)</u>
<b>Total equity</b>	<u>463,522</u>	<u>478,557</u>
<b>Total</b>	<u>\$ 1,149,772</u>	<u>\$ 1,173,465</u>

**Cathay Walbrook Holding 2 Limited**

**Condensed Statements of Comprehensive Income**  
(In Thousands of New Taiwan Dollars)

	<b>For the Six Months Ended</b>	
	<b>June 30</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 16,082	\$ 2,454
Operating costs	(13,047)	(12,266)
Operating expenses	<u>(256)</u>	<u>(335)</u>
Profit (loss) before income tax	2,779	(10,147)
Income tax expense	<u>(1,799)</u>	<u>(5)</u>
Net income (loss)	980	(10,152)
Other comprehensive income (loss)	<u>5,734</u>	<u>(2,383)</u>
<b>Total comprehensive income (loss)</b>	<u>\$ 6,714</u>	<u>\$ (12,535)</u>
Basic earnings per share	Note	Note

Note: Cathay Walbrook Holding 2 Limited is a limited company; therefore, there is no information about its earnings per share.

**Conning Holdings Limited**  
**Condensed Balance Sheets**  
(In Thousands of New Taiwan Dollars)

	<b>June 30</b>	
<b>Assets</b>	<b>2019</b>	<b>2018</b>
Current assets	\$ 4,584,926	\$ 3,192,342
Financial assets at fair value through profit or loss	1,043,976	782,029
Financial assets at fair value through other comprehensive income	4,550	3,614
Financial assets measured at amortized cost	-	1,741,703
Investments accounted for using the equity method	2,784,084	2,679,234
Property and equipment	628,935	429,664
Right-of-use assets	880,306	-
Intangible assets	10,362,262	10,597,791
Deferred tax assets	61,978	92,198
Other non-current assets	<u>228,425</u>	<u>236,401</u>
<b>Total</b>	<b><u>\$ 20,579,442</u></b>	<b><u>\$ 19,754,976</u></b>
<b>Liabilities</b>		
Current liabilities	\$ 2,930,103	\$ 3,493,660
Provisions	161,574	167,750
Lease liabilities	930,658	-
Deferred tax liabilities	361,543	400,966
Other non-current liabilities	<u>376,416</u>	<u>348,876</u>
<b>Total liabilities</b>	<b><u>4,760,294</u></b>	<b><u>4,411,252</u></b>
<b>Equity</b>		
Ordinary shares	99,343	99,343
Capital surplus	15,624,196	15,624,196
Retained earnings	341,434	158,608
Other equity	(914,144)	(1,152,665)
Non-controlling interests	<u>668,319</u>	<u>614,242</u>
<b>Total equity</b>	<b><u>15,819,148</u></b>	<b><u>15,343,724</u></b>
<b>Total</b>	<b><u>\$ 20,579,442</u></b>	<b><u>\$ 19,754,976</u></b>

**Conning Holdings Limited**

**Condensed Statements of Comprehensive Income**  
**(In Thousands of New Taiwan Dollars)**

	<b>For the Six Months Ended</b>	
	<b>June 30</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 3,607,269	\$ 3,108,818
Operating costs	(408,814)	(322,475)
Operating expenses	<u>(2,834,456)</u>	<u>(2,633,138)</u>
Profit before income tax	363,999	153,205
Income tax expense	<u>(90,015)</u>	<u>(65,417)</u>
Net income	273,984	87,788
Other comprehensive income	<u>140,508</u>	<u>299,620</u>
Total comprehensive income	<u>\$ 414,492</u>	<u>\$ 387,408</u>
Basic earnings per share	Note	Note

Note: CHL is a limited company; therefore, there is no information about its earnings per share.



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

**Condensed Balance Sheets**  
**(In Thousands of New Taiwan Dollars)**

	<b>June 30</b>	
<b>Assets</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 10,966,000	\$ 9,079,034
Receivables	2,532,375	2,677,848
Financial assets at fair value through profit or loss	6,949,853	8,405,122
Financial assets at fair value through other comprehensive income	1,181,078	1,449,549
Financial assets measured at amortized cost	7,866,846	8,453,686
Investments accounted for using the equity method	2,804,418	1,708,289
Loans	225,344	228,330
Reinsurance assets	6,287,457	6,106,603
Property and equipment	149,531	58,544
Right-of-use assets	57,332	-
Intangible assets	59,796	53,384
Deferred tax assets	113,407	169,832
Other assets	<u>644,333</u>	<u>697,589</u>
<b>Total</b>	<u>\$ 39,837,770</u>	<u>\$ 39,087,810</u>
<b>Liabilities</b>		
Payables	\$ 2,830,018	\$ 3,618,254
Current income tax liabilities	190,809	151,489
Financial liabilities at fair value through profit or loss	77,241	207,418
Preference stock liabilities	-	1,000,000
Lease liabilities	56,969	-
Insurance liabilities	24,050,720	22,965,869
Provisions	440,032	427,118
Deferred tax liabilities	290,310	295,699
Other liabilities	<u>530,577</u>	<u>303,018</u>
<b>Total liabilities</b>	<u>28,466,676</u>	<u>28,968,865</u>
<b>Equity</b>		
Ordinary shares	3,057,052	3,057,052
Capital surplus	502,500	502,500
Retained earnings	8,163,342	6,936,444
Other equity	<u>(351,800)</u>	<u>(377,051)</u>
<b>Total equity</b>	<u>11,371,094</u>	<u>10,118,945</u>
<b>Total</b>	<u>\$ 39,837,770</u>	<u>\$ 39,087,810</u>

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

**Condensed Statements of Comprehensive Income**  
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 9,686,505	\$ 9,248,309
Operating costs	(6,590,626)	(6,044,092)
Operating expenses	<u>(1,894,531)</u>	<u>(1,795,435)</u>
Operating profit	1,201,348	1,408,782
Non-operating income and expenses	<u>(966)</u>	<u>(9,402)</u>
Profit before income tax	1,200,382	1,399,380
Income tax expense	<u>(204,053)</u>	<u>(231,271)</u>
Net income	996,329	1,168,109
Other comprehensive income (loss)	<u>460,847</u>	<u>(223,842)</u>
 Total comprehensive income	 <u>\$ 1,457,176</u>	 <u>\$ 944,267</u>
 Basic earnings per share	 <u>\$3.26</u>	 <u>\$3.82</u>

**Cathay Insurance Co., Ltd. (Vietnam)**

**Condensed Balance Sheets**  
**(In Thousands of New Taiwan Dollars)**

	<b>June 30</b>	
<b>Assets</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 228,550	\$ 152,786
Receivables	61,114	47,251
Financial assets measured at amortized cost	512,678	538,610
Reinsurance assets	194,562	321,071
Property and equipment	5,935	5,183
Right-of-use assets	9,005	-
Intangible assets	3,680	1,085
Other assets	43,035	48,706
 Total	 <b>\$ 1,058,559</b>	 <b>\$ 1,114,692</b>
 <b>Liabilities</b>		
Payables	\$ 107,311	\$ 82,017
Insurance liabilities	300,820	425,408
Deferred tax liabilities	135	108
Lease liabilities	8,869	-
Other liabilities	11,866	10,689
Total liabilities	429,001	518,222
 <b>Equity</b>		
Ordinary shares	845,585	845,585
Retained earnings	(85,828)	(116,418)
Other equity	(130,199)	(132,697)
Total equity	629,558	596,470
 Total	 <b>\$ 1,058,559</b>	 <b>\$ 1,114,692</b>

**Cathay Insurance Co., Ltd. (Vietnam)**

**Condensed Statements of Comprehensive Income  
(In Thousands of New Taiwan Dollars)**

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Operating income	\$ 121,533	\$ 101,489
Operating costs	(39,360)	(34,161)
Operating expenses	(71,522)	(69,105)
Operating profit (loss)	10,651	(1,777)
Non-operating income and expenses	904	1,956
Profit before income tax	11,555	179
Income tax expense	-	-
Net income	11,555	179
Other comprehensive income	4,179	6,733
 Total comprehensive income	 \$ 15,734	 \$ 6,912
 Basic earnings per share	Note	Note

Note: Cathay Insurance (Vietnam) is a limited company; therefore, there is no information about its earnings per share.

**Cathay United Bank Co., Ltd.**

**Condensed Balance Sheets**  
(In Thousands of New Taiwan Dollars)

	<b>June 30</b>	
<b>Assets</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 71,499,781	\$ 106,608,451
Due from the Central Bank and call loans to other banks	148,327,438	105,873,266
Financial assets at fair value through profit or loss	235,570,025	281,083,641
Financial assets at fair value through other comprehensive income	220,737,839	197,095,405
Financial assets measured at amortized cost	403,942,901	337,343,309
Securities purchased under resale agreements	51,724,265	84,495,935
Receivables	97,502,122	95,604,559
Loans	1,500,273,423	1,478,156,926
Investments accounted for using the equity method	25,784,088	8,969,159
Other financial assets	524	3,124
Property and equipment	24,413,701	24,512,073
Right-of-use assets	3,983,975	-
Investment property	1,657,086	1,461,472
Intangible assets	7,638,920	7,418,383
Deferred tax assets	3,330,917	1,833,426
Other assets	28,443,805	35,805,019
<b>Total</b>	<b>\$ 2,824,830,810</b>	<b>\$ 2,766,264,148</b>
<b>Liabilities</b>		
Due to the Central Bank and other banks	\$ 84,612,021	\$ 83,341,138
Financial liabilities at fair value through profit or loss	107,421,195	114,073,471
Securities sold under repurchase agreements	33,016,388	102,442,860
Payables	36,787,582	25,332,790
Current tax liabilities	310,331	20,096
Deposits and remittances	2,208,041,688	2,103,861,446
Financial debentures payable	55,400,000	55,600,000
Other financial liabilities	69,698,115	77,745,333
Provisions	3,344,801	3,364,915
Lease liabilities	4,032,560	-
Deferred tax liabilities	2,996,728	1,420,986
Other liabilities	7,726,703	8,005,532
<b>Total liabilities</b>	<b>2,613,388,112</b>	<b>2,575,208,567</b>
<b>Equity</b>		
Ordinary shares	91,197,623	78,604,060
Reserve for capitalization	5,460,730	12,593,563
Capital surplus	33,610,983	33,610,983
Retained earnings	72,640,258	65,695,847
Other equity	8,533,104	551,128
<b>Total equity</b>	<b>211,442,698</b>	<b>191,055,581</b>
<b>Total</b>	<b>\$ 2,824,830,810</b>	<b>\$ 2,766,264,148</b>

**Cathay United Bank Co., Ltd.**

**Condensed Statements of Comprehensive Income**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	<b>For the Six Months Ended</b>	
	<b>June 30</b>	
	<b>2019</b>	<b>2018</b>
Interest income	\$ 25,735,955	\$ 23,782,017
Interest expense	<u>(9,603,778)</u>	<u>(8,915,507)</u>
Net interest income	16,132,177	14,866,510
Non-interest income	<u>14,904,432</u>	<u>13,399,051</u>
Total income	31,036,609	28,265,561
Bad debt expense, commitment and guarantee liability provision	(847,913)	(895,427)
Operating expenses	<u>(15,867,290)</u>	<u>(14,261,124)</u>
Profit before income tax	14,321,406	13,109,010
Income tax expense	<u>(1,891,000)</u>	<u>(1,928,300)</u>
Net income	12,430,406	11,180,710
Other comprehensive income (loss)	<u>7,246,746</u>	<u>(1,787,549)</u>
Total comprehensive income	<u>\$ 19,677,152</u>	<u>\$ 9,393,161</u>
Basic earnings per share	<u>\$1.29</u>	<u>\$1.16</u>

**Indovina Bank Limited**  
**Condensed Balance Sheets**  
(In Thousands of New Taiwan Dollars)

	<b>June 30</b>	
<b>Assets</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 6,147,500	\$ 6,009,014
Due from the Central Bank and call loans to other banks	4,387,865	4,773,358
Financial assets at fair value through profit or loss	4,326,671	1,199,730
Financial assets at fair value through other comprehensive income	10,152,018	8,504,848
Financial assets measured at amortized cost	1,065,571	2,053,756
Securities purchased under resale agreements	4,213,171	4,336,162
Receivables	602,176	148,789
Loans	37,336,069	31,738,747
Property and equipment	813,127	369,590
Intangible assets	25,238	12,094
Deferred tax assets	24,906	4,089
Right-of-use assets	87,622	-
Other assets	<u>60,476</u>	<u>552,838</u>
<b>Total</b>	<b><u>\$ 69,242,410</u></b>	<b><u>\$ 59,703,015</u></b>
<b>Liabilities</b>		
Due to the Central Bank and other banks	\$ 18,032,711	\$ 12,138,603
Payables	1,214,022	980,853
Current tax liabilities	168,916	64,630
Deposits and remittances	41,607,107	39,089,860
Provisions	3,802	21,637
Lease liabilities	62,152	-
Other liabilities	<u>57,344</u>	<u>41,803</u>
<b>Total liabilities</b>	<b><u>61,146,054</u></b>	<b><u>52,337,386</u></b>
<b>Equity</b>		
Ordinary shares	6,094,911	6,094,911
Retained earnings	1,551,688	1,162,751
Other equity	<u>449,757</u>	<u>107,967</u>
<b>Total equity</b>	<b><u>8,096,356</u></b>	<b><u>7,365,629</u></b>
<b>Total</b>	<b><u>\$ 69,242,410</u></b>	<b><u>\$ 59,703,015</u></b>

**Indovina Bank Limited**

**Condensed Statements of Comprehensive Income**  
**(In Thousands of New Taiwan Dollars)**

	<b>For the Six Months Ended</b>	
	<b>June 30</b>	
	<b>2019</b>	<b>2018</b>
Interest income	\$ 2,165,972	\$ 1,750,889
Interest expense	<u>(1,207,099)</u>	<u>(868,795)</u>
Net interest income	958,873	882,094
Non-interest income (loss)	<u>265,172</u>	<u>(38,545)</u>
Total income	<u>1,224,045</u>	<u>843,549</u>
Bad debt expense, commitment and guarantee liability provision	(46,488)	(555,956)
Operating expenses	<u>(357,820)</u>	<u>(326,621)</u>
Profit (loss) before income tax	819,737	(39,028)
Income tax expense	<u>(153,186)</u>	<u>(4,149)</u>
Net income (loss)	666,551	(43,177)
Other comprehensive income	<u>133,671</u>	<u>283,713</u>
Total comprehensive income	<u>\$ 800,222</u>	<u>\$ 240,536</u>
Basic earnings per share	Note	Note

Note: Indovina Bank is a limited company; therefore, there is no information about its earnings per share.



**Cathay United Bank (Cambodia) Corporation Limited**

**Condensed Balance Sheets**  
**(In Thousands of New Taiwan Dollars)**

	<b>June 30</b>	
<b>Assets</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 1,636,578	\$ 2,095,593
Due from the Central Bank and call loans to other banks	3,312,875	1,900,954
Financial assets at fair value through other comprehensive income	795	780
Receivables	183,284	131,134
Loans	7,259,712	6,250,552
Property and equipment	178,078	162,571
Right-of-use assets	86,933	-
Intangible assets	53,305	64,131
Other assets	56,997	54,395
<b>Total</b>	<b>\$ 12,768,557</b>	<b>\$ 10,660,110</b>
<b>Liabilities</b>		
Due to the Central Bank and other banks	\$ 68,848	\$ -
Payables	135,236	108,195
Current tax liabilities	25,247	18,714
Deposits and remittances	9,248,170	7,321,815
Provisions	9,553	-
Deferred tax liabilities	11,889	9,700
Lease liabilities	88,167	-
Other liabilities	8,199	36,141
<b>Total liabilities</b>	<b>9,595,309</b>	<b>7,494,565</b>
<b>Equity</b>		
Ordinary shares	3,020,769	3,020,769
Retained earnings	76,555	128,096
Other equity	75,924	16,680
<b>Total equity</b>	<b>3,173,248</b>	<b>3,165,545</b>
<b>Total</b>	<b>\$ 12,768,557</b>	<b>\$ 10,660,110</b>

**Cathay United Bank (Cambodia) Corporation Limited**

**Condensed Statements of Comprehensive Income**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Interest income	\$ 331,561	\$ 274,723
Interest expense	<u>(52,846)</u>	<u>(51,085)</u>
Net interest income	278,715	223,638
Non-interest income	<u>70,136</u>	<u>39,584</u>
Total income	<u>348,851</u>	<u>263,222</u>
Bad debt expense, commitment and guarantee liability provision	(100,217)	(40,477)
Operating expenses	<u>(154,200)</u>	<u>(137,409)</u>
Profit before income tax	94,434	85,336
Income tax expense	<u>(29,382)</u>	<u>(18,716)</u>
Net income	65,052	66,620
Other comprehensive income	<u>35,137</u>	<u>68,338</u>
 Total comprehensive income	 <u>\$ 100,189</u>	 <u>\$ 134,958</u>
 Basic earnings per share	 <u>\$0.65</u>	 <u>\$0.66</u>

**Cathay United Bank (China) Co., Ltd.**

**Condensed Balance Sheets**  
**(In Thousands of New Taiwan Dollars)**

<b>Assets</b>	<b>June 30, 2019</b>
Cash and cash equivalents	\$ 829,627
Due from the Central Bank and call loans to other banks	6,443,854
Financial assets at fair value through profit or loss	275,816
Financial assets at fair value through other comprehensive income	18,200,277
Financial assets measured at amortized cost	471,430
Securities purchased under resale agreements	-
Receivables	1,514,049
Loans	17,316,594
Property and equipment	67,416
Right-of-use assets	64,528
Intangible assets	112,754
Deferred tax assets	53,833
Other assets	<u>56,490</u>
Total	<u>\$ 45,406,688</u>
 <b>Liabilities</b>	
Due to the Central Bank and other banks	\$ 21,335,380
Financial liabilities at fair value through profit or loss	214,896
Payables	1,481,263
Current tax liabilities	93,575
Deposits and remittances	5,104,429
Other financial liabilities	680,734
Provisions	13,116
Lease liabilities	65,057
Deferred tax liabilities	15,196
Other liabilities	<u>40,786</u>
Total liabilities	<u>29,044,432</u>
 <b>Equity</b>	
Ordinary shares	14,377,562
Capital surplus	2,522,670
Retained earnings	289,653
Other equity	<u>(827,649)</u>
Total equity	<u>16,362,236</u>
Total	<u>\$ 45,406,668</u>

**Cathay United Bank (China) Co., Ltd.**

**Condensed Statements of Comprehensive Income  
(In Thousands of New Taiwan Dollars)**

**For the Six  
Months Ended  
June 30, 2019**

Interest income	\$ 906,572
Interest expense	<u>(370,577)</u>
Net interest income	535,995
Non-interest income	<u>(41,923)</u>
Total income	<u>494,072</u>
Bad debt expense, commitment and guarantee liability provision	77,132
Operating expenses	<u>(354,484)</u>
Profit before income tax	216,720
Income tax expense	<u>(62,491)</u>
Net income	154,229
Other comprehensive income	<u>212,838</u>
Total comprehensive income	<u>\$ 367,067</u>
Basic earnings per share	Note 2

Note 1: CUBCN BANK has been included in the consolidated financial statements as a subsidiary since September 3, 2018.

Note 2: CUBCN BANK is a limited company; therefore, there is no information about its earnings per share.

**Cathay Securities Corporation**  
**Condensed Balance Sheets**  
(In Thousands of New Taiwan Dollars)

	<b>June 30</b>	
<b>Assets</b>	<b>2019</b>	<b>2018</b>
Current assets	\$ 24,211,244	\$ 26,900,086
Financial assets at fair value through other comprehensive income - non-current	146	121
Investments accounted for using the equity method	2,021,056	1,975,946
Property and equipment	114,323	139,488
Right-of-use assets	114,369	-
Intangible assets	55,667	52,020
Deferred tax assets	14,681	39,272
Other non-current assets	690,504	586,086
 Total	 \$ 27,221,990	 \$ 29,693,019
 <b>Liabilities</b>		
Current liabilities	\$ 18,999,611	\$ 22,044,862
Lease liabilities - non-current	61,490	-
Deferred tax liabilities	736	907
Other non-current liabilities	28,913	26,151
Total liabilities	19,090,750	22,071,920
 <b>Equity</b>		
Ordinary shares	5,700,086	5,510,000
Share dividends to be distributed	299,914	190,086
Capital surplus	491,766	491,766
Retained earnings	1,238,375	1,116,678
Other equity	401,099	312,569
Total equity	8,131,240	7,621,099
 Total	 \$ 27,221,990	 \$ 29,693,019

**Cathay Securities Corporation**

**Condensed Statements of Comprehensive Income**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Revenues	\$ 1,556,267	\$ 1,696,036
Service fee expenses	(53,160)	(59,786)
Employee benefit expenses	(587,905)	(544,973)
Share of the profit of associates accounted for using the equity method	15,784	5,863
Operating expenses	(596,955)	(717,505)
Non-operating income and expenses	12,214	11,189
Profit before income tax	346,245	390,824
Income tax expense	(66,664)	(71,503)
Net income	279,581	319,321
Other comprehensive income	125,670	56,746
 Total comprehensive income	 \$ 405,251	 \$ 376,067
 Basic earnings per share	 \$0.47	 \$0.53

**Cathay Futures Co., Ltd.**

**Condensed Balance Sheets**  
**(In Thousands of New Taiwan Dollars)**

	<b>June 30</b>	
<b>Assets</b>	<b>2019</b>	<b>2018</b>
Current assets	\$ 7,483,366	\$ 6,999,857
Financial assets at fair value through other comprehensive income - non-current	448,350	370,725
Property and equipment	66,432	69,111
Investment property	290,341	290,341
Right-of-use assets	7,838	-
Intangible assets	24,554	29,033
Other non-current assets	<u>151,981</u>	<u>145,723</u>
Total	<u>\$ 8,472,862</u>	<u>\$ 7,904,790</u>
 <b>Liabilities</b>		
Current liabilities	\$ 7,139,688	\$ 6,665,190
Deferred tax liabilities	6,742	7,011
Other non-current liabilities	<u>2,712</u>	<u>1,675</u>
Total liabilities	<u>7,149,142</u>	<u>6,673,876</u>
 <b>Equity</b>		
Ordinary shares	667,000	667,000
Retained earnings	239,143	223,858
Other equity	<u>417,577</u>	<u>340,056</u>
Total equity	<u>1,323,720</u>	<u>1,230,914</u>
Total	<u>\$ 8,472,862</u>	<u>\$ 7,904,790</u>

**Cathay Futures Co., Ltd.**

**Condensed Statements of Comprehensive Income**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Revenues	\$ 144,341	\$ 147,415
Operating expenses	<u>(161,498)</u>	<u>(153,668)</u>
Operating loss	(17,157)	(6,253)
Non-operating income and expenses	<u>57,494</u>	<u>47,236</u>
Profit before income tax	40,337	40,983
Income tax expense	<u>(4,746)</u>	<u>(1,769)</u>
Net income	35,591	39,214
Other comprehensive income	<u>121,921</u>	<u>42,489</u>
 Total comprehensive income	 <u>\$ 157,512</u>	 <u>\$ 81,703</u>
 Basic earnings per share	 <u>\$0.53</u>	 <u>\$0.59</u>

**Cathay Securities (Hong Kong) Limited**

**Condensed Balance Sheets**  
(In Thousands of New Taiwan Dollars)

	<b>June 30</b>	
	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current assets	\$ 1,713,762	\$ 2,182,309
Property and equipment	14,955	18,263
Right-of-use assets	28,783	-
Intangible assets	1,965	1,917
Other non-current assets	<u>41,071</u>	<u>62,739</u>
 Total	 <u>\$ 1,800,536</u>	 <u>\$ 2,265,228</u>
 <b>Liabilities</b>		
Current liabilities	\$ 1,097,840	\$ 1,538,943
Non-current liabilities	<u>13,864</u>	<u>-</u>
Total liabilities	<u>1,111,704</u>	<u>1,538,943</u>
 <b>Equity</b>		
Ordinary shares	1,108,244	1,108,244
Retained earnings	(392,958)	(337,626)
Other equity	<u>(26,454)</u>	<u>(44,333)</u>
Total equity	<u>688,832</u>	<u>726,285</u>
 Total	 <u>\$ 1,800,536</u>	 <u>\$ 2,265,228</u>



**Cathay Securities (Hong Kong) Limited**

**Condensed Statements of Comprehensive Income**  
**(In Thousands of New Taiwan Dollars)**

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Revenues	\$ 58,004	\$ 39,038
Service fee expenses	(1,863)	(2,270)
Employee benefit expenses	(24,987)	(20,300)
Operating expenses	(53,024)	(49,939)
Non-operating income and expenses	<u>2,804</u>	<u>973</u>
Loss before income tax	(19,066)	(32,498)
Income tax expense	<u>-</u>	<u>-</u>
Net loss	(19,066)	(32,498)
Other comprehensive income	<u>10,063</u>	<u>11,898</u>
 Total comprehensive loss	 <u>\$ (9,003)</u>	 <u>\$ (20,600)</u>
 Basic earnings per share	 Note	 Note

Note: Cathay Securities (Hong Kong) is a limited company, therefore there is no information about earnings per share.

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

**Condensed Balance Sheets**  
**(In Thousands of New Taiwan Dollars)**

	<b>June 30</b>	
<b>Assets</b>	<b>2019</b>	<b>2018</b>
Current assets	\$ 2,643,532	\$ 2,302,483
Financial assets at fair value through other comprehensive income - non-current	9,272	9,721
Investments accounted for using the equity method	479,948	554,115
Property and equipment	39,134	46,038
Right-of-use assets	24,821	-
Intangible assets	12,025	6,622
Deferred tax assets	22,339	19,374
Other non-current assets	253,562	294,451
<b>Total</b>	<b>\$ 3,484,633</b>	<b>\$ 3,232,804</b>
<b>Liabilities</b>		
Current liabilities	\$ 1,019,609	\$ 803,809
Non-current liabilities	128,379	127,617
<b>Total liabilities</b>	<b>1,147,988</b>	<b>931,426</b>
<b>Equity</b>		
Ordinary shares	1,500,000	1,500,000
Capital surplus	13,908	13,908
Retained earnings	888,422	829,870
Other equity	(65,685)	(42,400)
<b>Total equity</b>	<b>2,336,645</b>	<b>2,301,378</b>
<b>Total</b>	<b>\$ 3,484,633</b>	<b>\$ 3,232,804</b>

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

**Condensed Statements of Comprehensive Income**  
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	<b>For the Six Months Ended</b>	
	<b>June 30</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 1,237,143	\$ 1,206,164
Operating expenses	<u>(819,801)</u>	<u>(753,230)</u>
Operating profit	417,342	452,934
Non-operating income and expenses	<u>(13,666)</u>	<u>(9,385)</u>
Profit before income tax	403,676	443,549
Income tax expense	<u>(84,413)</u>	<u>(88,561)</u>
Net income	319,263	354,988
Other comprehensive income	<u>5,103</u>	<u>1,866</u>
Total comprehensive income	<u>\$ 324,366</u>	<u>\$ 356,854</u>
Basic earnings per share	<u>\$2.13</u>	<u>\$2.37</u>

**Cathay Private Equity Co., Ltd.**

**Condensed Balance Sheets**  
(In Thousands of New Taiwan Dollars)

	<b>June 30</b>	
<b>Assets</b>	<b>2019</b>	<b>2018</b>
Current assets	\$ 42,867	\$ 49,366
Other non-current assets	<u>5,688</u>	<u>176</u>
Total	<u>\$ 48,555</u>	<u>\$ 49,542</u>
<b>Liabilities</b>		
Current liabilities	\$ 3,908	\$ 269
Total liabilities	<u>3,908</u>	<u>269</u>
<b>Equity</b>		
Ordinary shares	50,000	50,000
Retained earnings	<u>(5,353)</u>	<u>(727)</u>
Total equity	<u>44,647</u>	<u>49,273</u>
Total	<u>\$ 48,555</u>	<u>\$ 49,542</u>

**Cathay Private Equity Co., Ltd.**

**Condensed Statements of Comprehensive Income**  
(In Thousands of New Taiwan Dollars, Except Loss Per Share)

	<b>For the Six Months Ended</b>	
	<b>June 30</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 1,365	\$ -
Operating expenses	<u>(5,775)</u>	<u>(799)</u>
Operating loss	(4,410)	(799)
Non-operating income and expenses	<u>19</u>	<u>18</u>
Loss before income tax	(4,391)	(781)
Income tax benefit	<u>878</u>	<u>156</u>
Net loss	<u>(3,513)</u>	<u>(625)</u>
Total comprehensive loss	<u>\$ (3,513)</u>	<u>\$ (625)</u>
Basic loss per share	<u>\$ (0.70)</u>	<u>\$ (0.13)</u>

**Cathay Venture Inc.**

**Condensed Balance Sheets**  
**(In Thousands of New Taiwan Dollars)**

	<b>June 30</b>	
<b>Assets</b>	<b>2019</b>	<b>2018</b>
Current assets	\$ 1,655,302	\$ 568,693
Financial assets at fair value through profit or loss - non-current	3,755,814	2,752,570
Investments accounted for using the equity method	261,176	286,412
Property and equipment	3,432	2,733
Deferred tax assets	55,122	18,106
Other non-current assets	1,126	1,126
<b>Total</b>	<b>\$ 5,731,972</b>	<b>\$ 3,629,640</b>
<b>Liabilities</b>		
Current liabilities	\$ 132,055	\$ 26,648
Non-current liabilities	6,538	5,873
<b>Total liabilities</b>	<b>138,593</b>	<b>32,521</b>
<b>Equity</b>		
Ordinary shares	3,359,087	3,359,087
Capital received in advance	1,567,574	-
Share dividends to be distributed	86,363	-
Capital surplus	128,625	128,625
Retained earnings	451,824	109,705
Other equity	(94)	(298)
<b>Total equity</b>	<b>5,593,379</b>	<b>3,597,119</b>
<b>Total</b>	<b>\$ 5,731,972</b>	<b>\$ 3,629,640</b>

**Cathay Venture Inc.**

**Condensed Statements of Comprehensive Income**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Six Months Ended June 30	
	2019	2018
Operating revenue	\$ 280,868	\$ 59,518
Operating costs	(14,766)	(15,896)
Operating expenses	(7,133)	(6,260)
Non-operating income and expenses	108	362
Profit before income tax	259,077	37,724
Income tax benefit	31,197	11,375
Net income	290,274	49,099
Other comprehensive income	-	11
 Total comprehensive income	 \$ 290,274	 \$ 49,110
 Basic earnings per share	 \$ 0.86	 \$ 0.15

- b. The profitability of the Company, the Group and its insurance subsidiaries, banking subsidiaries and security subsidiaries.

For the six months ended June 30, 2019

Unit: %

	Return on Assets		Return on Equity		Net Income Ratio
	Before Tax	After Tax	Before Tax	After Tax	
The Group	0.42	0.36	6.47	5.56	14.06
The Company	4.88	4.87	5.55	5.53	98.14
Cathay Life	0.34	0.30	5.09	4.41	4.27
Cathay Century	3.10	2.57	11.22	9.31	10.29
Cathay United Bank	0.51	0.44	6.93	6.02	40.05
Cathay Securities	1.37	1.11	4.37	3.53	17.96

For the six months ended June 30, 2018

Unit: %

	Return on Assets		Return on Equity		Net Income Ratio
	Before Tax	After Tax	Before Tax	After Tax	
The Group	0.42	0.40	6.04	5.79	14.12
The Company	5.52	5.27	6.15	5.87	94.13
Cathay Life	0.35	0.40	4.85	5.52	6.08
Cathay Century	3.63	3.03	13.56	11.32	12.63
Cathay United Bank	0.48	0.41	7.03	6.00	39.56
Cathay Securities	1.36	1.11	5.26	4.30	18.83

Note: Net income ratio = Net income/Net revenue

### 33. BUSINESS OR TRADING ACTIVITIES WITHIN SUBSIDIARIES

#### a. Integration of business activities

In order to improve the Group's competitiveness and enhance its operation synergy, the Company integrates various services, such as banking, insurance, and securities, and builds up a full-functioning financial platform; with 657 operating location all over Taiwan and about 30 thousand professional salesperson, the Company provides comprehensive financial planning and one-stop shopping services to its clients.

#### b. Cross utilization of information

To provide diversified financial commodities and services to clients, the Company has referred to the Financial Holding Company Act, Personal Data Protection Act, Regulations for Co-selling Activities among Subsidiaries of Financial Holding Company, Self-discipline Standards for Financial Holding Company and its Subsidiaries and other related regulations issued by the FSC, to stipulate the Regulations for Co-selling Activities among Subsidiaries of Cathay Financial Holdings, contracts for Co-selling Activities among Subsidiaries of Cathay Financial Holdings, Non-disclosure Agreement of Business Information and Customers' Personal Data among Subsidiary of Cathay Financial Holdings, Joint Statement for Security Measures of Cathay Financial Holdings and its Subsidiaries, Operation Rules of Cathay Financial Holdings Marketing Planning Division for Monitoring Subsidiaries' Selling Activities, and Guidelines of Cathay Financial Holdings' Data Storage Management; by providing customers with exit mechanism, the Company strives to cross-utilize clients' personal data under a legal and safe environment and provide comprehensive and integrated financial commodities and services to clients.

#### c. Business facilities and locations

In order to achieve the target of providing comprehensive financial services by one-stop shopping, the Group keeps on expanding co-selling activities to the extent allowed by laws and regulations.

- 1) Cathay United Bank is engaged in co-selling activities for securities business through its 164 branches. Cathay United Bank has been engaged in insurance agency business since April 29, 2016 and promoted life insurance products in its 164 branches.
- 2) Cathay Life is engaged in co-selling activities for banking and property and casualty insurance businesses in its service units (104 locations).
- 3) Cathay Securities sets up co-selling offices in Cathay Life's 32 branches (Zhongxiao and others). As permitted by laws, to facilitate account opening services through sharing business facilities and locations.

#### d. Allocation of revenues, costs, expenses, profits and losses

Revenue, costs, expenses, profits or losses arising from integrated business activities among the Company and its subsidiaries are allocated to each subsidiary based on the related business features or other reasonable allocation methods.

### 34. SEGMENT INFORMATION

#### a. General information on operating segments

The Group separated operating segments based on the nature of business and classified them into five reportable segments for management purposes:

- 1) **Banking operating segment:** The banking operating segment is engaged in 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:** The life insurance operating segment is engaged in interest-sensitive sales of traditional insurance, investment-linked insurance and annuity insurance and providing financial planning services and policy loan services.
- 3) **Property insurance operating segment:** The property insurance operating segment is engaged in fire insurance, marine insurance, land and air insurance, liability insurance, financial guarantee insurance, reinsurance and other insurance.
- 4) **Securities operating segment:** The securities operating segment is engaged in securities brokerage, discretionary and underwriting and is dedicated to capabilities of research development and design to provide security financial services with a variety of new financial products.
- 5) **Other operating segment:** Such segment includes assets, liabilities, revenue and expenditures which can not be directly attributable to or reasonably allocated to certain operating segments.

To determine allocation of resources and performance measure, the management monitors results of each operating segment. The accounting policies for each operating segment are the same as those stated in Note 4 the summary of significant accounting policies.

#### b. Information of reporting segment income was as follows:

For the three months ended June 30, 2019

Location	Banking Division	Life Insurance Division	Property Insurance Division	Securities Division	Other Division	Total
Net interest income (loss)	\$ 9,095,259	\$ 39,704,869	\$ 132,794	\$ 33,792	\$ (71,372)	\$ 48,895,342
Net income and gains other than interest income	4,329,585	60,661,885	1,406,722	799,280	1,636,590	68,834,062
Profit from operations	13,424,844	100,366,754	1,539,516	833,072	1,565,218	117,729,404
Provision for bad debt, commitments and guaranteed liability reserve	(167,731)	371,068	-	168	-	203,505
Net changes in insurance liability reserve	-	(72,759,830)	64,709	-	-	(72,695,121)
Operating expenses	(7,863,084)	(9,826,059)	(750,762)	(561,076)	(2,026,846)	(21,027,827)
Profit (loss) from continuing operations before taxes	5,394,029	18,151,933	853,463	272,164	(461,628)	24,209,961
Income tax expense	(1,065,015)	(2,290,123)	(106,489)	(55,535)	(108,981)	(3,626,143)
Net income from continuing operations	4,329,014	15,861,810	746,974	216,629	(570,609)	20,583,818



For the three months ended June 30, 2018

Location	Banking Division	Life Insurance Division	Property Insurance Division	Securities Division	Other Division	Total
Net interest income (loss)	\$ 8,287,040	\$ 35,582,611	\$ 140,649	\$ 48,701	\$ (63,293)	\$ 43,995,708
Net income and gains other than interest income	(1,455,330)	87,983,248	1,613,540	833,726	1,042,026	90,017,210
Profit from operations	6,831,710	123,565,859	1,754,189	882,427	978,733	134,012,918
Provision for bad debt, commitments and guaranteed liability reserve	(1,058,635)	32,632	-	(1,108)	-	(1,027,111)
Net changes in insurance liability reserve	-	(98,185,945)	(39,291)	-	-	(98,225,236)
Operating expenses	(7,356,882)	(8,459,633)	(734,794)	(582,305)	(1,873,226)	(19,006,840)
Profit (loss) from continuing operations before taxes	(1,583,807)	16,952,913	980,104	299,014	(894,493)	15,753,731
Income tax expense	(813,357)	366,352	(122,265)	(61,891)	(2,365,097)	(2,996,258)
Net income from continuing operations	(2,397,164)	17,319,265	857,839	237,123	(3,259,590)	12,757,473

For the six months ended June 30, 2019

Location	Banking Division	Life Insurance Division	Property Insurance Division	Securities Division	Other Division	Total
Net interest income (loss)	\$ 17,987,718	\$ 79,265,325	\$ 264,400	\$ 64,569	\$ (180,504)	\$ 97,401,508
Net income and gains other than interest income	6,732,879	129,897,633	2,981,759	1,429,959	4,371,747	145,413,977
Profit from operations	24,720,597	209,162,958	3,246,159	1,494,528	4,191,243	242,815,485
Provision for bad debt, commitments and guaranteed liability reserve	(917,487)	684,108	-	60	-	(233,319)
Net changes in insurance liability reserve	-	(159,885,827)	(162,597)	-	-	(160,048,424)
Operating expenses	(16,263,732)	(19,859,258)	(1,520,042)	(1,096,947)	(4,056,622)	(42,796,601)
Profit (loss) from continuing operations before taxes	7,539,378	30,101,981	1,563,520	397,641	134,621	39,737,141
Income tax expense	(2,144,682)	(2,790,390)	(204,068)	(66,726)	(397,444)	(5,603,310)
Net income from continuing operations	5,394,696	27,311,591	1,359,452	330,915	(262,823)	34,133,831

For the six months ended June 30, 2018

Location	Banking Division	Life Insurance Division	Property Insurance Division	Securities Division	Other Division	Total
Net interest income (loss)	\$ 16,012,081	\$ 68,834,417	\$ 272,750	\$ 91,067	\$ (110,224)	\$ 85,100,091
Net income and gains other than interest income	4,653,476	157,877,036	2,715,548	1,522,058	3,154,416	169,922,534
Profit from operations	20,665,557	226,711,453	2,988,298	1,613,125	3,044,192	255,022,625
Provision for bad debt, commitments and guaranteed liability reserve	(1,491,860)	49,403	-	(1,161)	-	(1,443,618)
Net changes in insurance liability reserve	-	(178,220,499)	85,885	-	-	(178,134,614)
Operating expenses	(14,179,736)	(17,315,159)	(1,433,700)	(1,193,242)	(3,770,269)	(37,892,106)
Profit (loss) from continuing operations before taxes	4,993,961	31,225,198	1,640,483	418,722	(726,077)	37,552,287
Income tax expense	(1,950,457)	3,173,220	(231,253)	(71,503)	(2,457,895)	(1,537,888)
Net income from continuing operations	3,043,504	34,398,418	1,409,230	347,219	(3,183,972)	36,014,399

Note: All intercompany transactions among the operating segments have been eliminated.

### **35. RISK MANAGEMENT FOR INSURANCE CONTRACTS AND FINANCIAL INSTRUMENTS**

#### **a. Cathay Life and its subsidiaries**

##### **1) Risk management objectives, policies, procedures and methods:**

###### **a) Objectives of risk management**

Cathay Life's risk management policy aims to promote operational efficiency, ensure asset safety, increase shareholders' value, and comply with applicable domestic and overseas laws and regulations for the purpose of steady growth and sustainable management.

###### **b) Framework of risk management, organizational structure and responsibilities**

###### **i. The board of directors**

- i) The board of directors should establish an appropriate risk management framework and culture, ratify the appropriate risk management policy and allocate resources in the most effective manner.
- ii) The board of directors and senior management should consistently promote, execute risk management and keep the consistency of the operational objectives of Cathay Life as well as operational strategies and operations management.
- iii) The board of directors should be aware of the risks arising from operations, ensure the effectiveness of risk management and bear the ultimate responsibility for overall risk management.
- iv) The board of directors should delegate authority to the risk management department to deal with violation to risk limits by other departments.

###### **ii. Risk management committee**

- i) The committee should propose the risk management policies, framework and organizational functions and establish quantitative and qualitative risk management standards. The committee is also responsible for reporting the results of implementing risk management to the board of directors regularly and making necessary suggestions for improvement.
- ii) The committee should execute the risk management policies set by the board of directors and review the development, build-up and performance of overall management mechanisms regularly.
- iii) The committee should assist and monitor the risk management activities.
- iv) The committee should arrange the risk category, risk limit allocation and risk taking according to the changes in environment.
- v) The committee should enhance cross-department interaction and communication.

iii. Chief risk officer

- i) 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.
- ii) The chief risk officer should be able to access any business information which may have an impact on the risk overview of Cathay Life.
- iii) The chief risk officer should be in charge of the overall risk management of Cathay Life.
- iv) The chief risk officer should participate in Cathay Life's important decision-making process and, as appropriate, provide opinions from a risk management perspective.

iv. Risk management department

- i) The department is responsible for operational affairs such as monitoring, measuring and evaluating daily risks, which should be performed independently to business units.
- ii) The department should perform the following functions with regard to different business activities:
  - Propose and execute the risk management policies set by the board of directors.
  - Propose the risk limits based on risk appetite.
  - Summarize the risk information provided by each department, negotiate and communicate with each department to facilitate the execution of the policies and the risk limits.
  - Regularly present risk management reports.
  - Regularly review the risk limits of each business unit and deal with the violation of the business units authorized by the board of directors.
  - Assist to execute stress testing.
  - Execute back testing if necessary.
  - Other risk management related issues.

v. Business units

- i) Each business unit should assign a risk management coordinator to assist in execution of the risk management of each business unit.
- ii) The duties of risk management include the following:
  - Identify and measure risks and report risk exposures and potential impacts on time.
  - Regularly review the risks and their limits and, in case of any excess of risk limits, report the excess of risk limits along with the corresponding actions.
  - Assist to develop the risk model and ensure that risk measurement, application of the model and the parameter settings are reasonable and consistent.

- Ensure that internal control procedures are executed effectively to comply with applicable rules and the risk management policies.
- Assist to collect data related to operational risk.
- Manager of a business unit is responsible for daily risk management and risk reporting of the unit, if necessary, and takes necessary actions to mitigate such risks.
- Manager of a business unit should supervise the unit to submit risk management information regularly to the risk management department.

vi. Audit department

The department is responsible for the audit of each department's performance of risk management pursuant to the applicable laws and regulations and related rules and guidance of Cathay Life.

Each subsidiary's risk management department or related unit should develop risk management policies based on the nature of its business and needs and report to Cathay Life's risk management committee for future reference.

c) Range and nature of risk assessment or risk reporting

Cathay Life's risk management procedures include risk identification, risk measurement, risk control and risk reporting. Cathay life sets its management standards for market risk, credit risk, country risk, liquidity risk, operational risk, insurance risk, and asset and liability matching risk, as well as for capital adequacy. Cathay life also develops methods of assessment and evaluation, monitors its risks and regularly provides risk management reports.

i. Market risk

Market risk is the risk of loss in value of Cathay Life's financial assets arising from the changes in market prices of financial instruments. Cathay life adopts measurement indicators for market risk based on VaR and reviews regularly. In addition, Cathay life performs back testing to ensure the accuracy of the market risk model regularly. Furthermore, Cathay life applies scenario analysis and stress testing to evaluate the possible impacts on asset portfolio due to significant domestic and/or international events. In response to the implementation of foreign exchange valuation reserve, Cathay life determines the ceiling of foreign exchange risk, implements warning system and monitors foreign exchange risk regularly.

ii. Credit risk

Credit risk is the risk of losses on Cathay Life's rights in the event that the counterparty or debtor does not perform its contractual obligations. Cathay life applies credit rating, credit concentration and VaR of credit as measurement indicators which are reviewed regularly. Furthermore, Cathay life applies scenario analysis and stress testing to evaluate the possible impacts on asset portfolio due to significant domestic and/or international events.

iii. Country risk

Country risk is the risk that Cathay life suffers losses from loans, financial investments and long-term investments in a specific country as a result of market price fluctuation or default of security issuers or debtors stemming from local political and/or economic situations. Cathay life adopts measurement indicators for country risk, which are calculated by total investments in a certain country or specific area divided by total foreign investments or adjusted net assets. Cathay life reviews and adjusts the indicator on a regular basis.

iv. Liquidity risk

Liquidity risk is comprised of funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that Cathay Life is not capable of performing their matured commitments because of failure to realize assets or obtain sufficient funds. Cathay Life has established measurement indicators of funding liquidity risk and reviews the indicators regularly. In addition, a funding reporting system has been established under which the risk management department manages funding liquidity based on the information provided by relevant business units. Furthermore, the cash flow analysis model has been applied and monitored regularly, and improvements should be made once unusual events occur. The cash flow analysis model is also applied to set the annual asset allocation plan to maintain appropriate liquidity of assets. Market liquidity risk is the risk of significant changes in fair values when Cathay Life sells or offsets its positions during a market disorder or a lack of sufficient market depth. Cathay Life has established a liquidity threshold for investment positions. Each investment department evaluates the market trading volumes and adequacy of positions held according to the features and objectives of its investment positions.

v. Operational risk

Operational risk is the risk of losses caused by misconducts or errors of internal process, personnel, and system by external issues. Operational risk includes legal risk but excludes strategic risk and reputation risk. Cathay Life has set the standard operating procedures based on the nature of the business and established reporting system for loss events of operation risk as well as 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 a major crisis, Cathay life has established emergency handling mechanism and information system damage responses.

vi. Insurance risk

Cathay Life assumes certain risks which is transferred from policyholders after the collection of premiums from policyholders, and Cathay Life may bear losses due to unexpected changes when paying claims and related expenses. This risk is involved with policy design and pricing risk, underwriting risk, reinsurance risk, catastrophe risk, claim risk and reserve-related risk.

vii. Asset and liability matching risk

This risk resulted from the differences between the changes in values of assets and those of liabilities. Cathay life measures the risk with capital costs, duration, cash flow management and scenario analysis.

viii. Risk-based capital (RBC) ratio

The RBC ratio is the total capital of Cathay life divided by its risk-based capital, as regulated under the Insurance Act and the Regulations Governing Capital Adequacy of Insurance Companies. Cathay life regards such ratio as a management indicator for capital adequacy.

ix. Risk of information security and personal data management

The risk of information security and personal data management refers to the damage resulted from confidentiality, accuracy and availability of information asset, or damage caused by stealing, tampering, damaging, losing or leaking personal data. Cathay Life has a security and personal data management policy to reduce the impact of information security incidents and personal data damages.

d) Process of assuming, measuring, monitoring and controlling risks and the underwriting policies to determine the proper risk classification and premium levels

i. The process of assuming, measuring, monitoring and controlling insurance risks

i) Stipulate Cathay Life's insurance risk management standards including the definitions and range of risks, management structure, risk management indicators and other risk management measures.

ii) Establish methods to evaluate insurance risks.

iii) Regularly provide the insurance risk management report as a reference for monitoring insurance risk and for developing insurance risk management strategies.

iv) Regularly summarize the results of implementing risk management policies and report to the risk management committee. When an exceptional risk event occurs, the related departments should propose corresponding solutions to the risk management committee of Cathay life and that of the Company.

ii. Underwriting policies to determine proper risk classification and premium levels

i) Underwriters should comply with the rules of financial underwriting. For underwriting a new policy of an existing policyholder, the underwriter should consider previous information as well as the exceptional cases from the insurance notification database and total insured amounts in insurance enterprises, to check if the number of policies, the insured amounts and the premiums are reasonable and affordable according to the policyholder's financial resources and socioeconomic status and to determine if the policyholder is capable of paying renewal premiums.

ii) Cathay life has set up an underwriting team to deal with controversial cases with regard to new contracts and to interpret relevant underwriting standards

iii) Cathay life has set up a special panel for large policies to enhance risk management over large policies and avoid adverse selection and moral hazard.

e) The scope of insurance risk assessment and management from a company-wide perspective

i. Insurance risk assessment covers the following risks:

i) Product design and pricing risk: The risk arises from improper design of products, inconsistent terms and conditions and pricing or unexpected changes.

- ii) Underwriting risk: Unexpected losses arise from solicitation activities, underwriting and approval activities, other expenditure activities, etc.
  - iii) Reinsurance risk: This risk occurs when a company fails to reinsure the excess risk over the limits or a reinsurer fails to fulfill its obligations such that premiums, claims or expenses cannot be reimbursed.
  - iv) 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 or solvency.
  - v) Claim risk: This risk arises from mishandling claims.
  - vi) Reserve-related risk: This risk occurs when Cathay life does not have sufficient reserves to fulfill its obligations owing to underestimation of its liabilities.
- ii. Scope of management of insurance risk
- i) Develop a risk control framework of Cathay Life's insurance risk to empower related development to execute risk management.
  - ii) Establish Cathay Life's insurance risk management standards including the definitions and types of risks, management structure, risk management indicators and other risk management measures.
  - iii) Develop related response in consideration of Cathay Life's growth strategy and changes in the domestic and global economic and financial environments.
  - iv) Determine methods to measure insurance risks.
  - v) Regularly provide the insurance risk management report as a reference for monitoring insurance risk and develop insurance risk management strategies.
  - vi) Other insurance risk management issues.
- f) Method to limit or transfer insurance risk exposure and to avoid inappropriate concentration risk
- Cathay Life limits or transfers insurance risk exposure and avoids inappropriate concentration risk mainly through the reinsurance management plan which is developed considering Cathay Life's risk taking ability, risk profiling and legal issues factors to determine whether to retain or cede a policy. 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
- i. Cathay Life established an asset/liability management committee to improve the asset/liability management structure, ensure the application of the asset/liability management policy and review the performance from strategy and practice aspect on a regular basis to reduce all types of risks Cathay life faces.
  - ii. Authorized departments review the measurement of asset/liability matching risk and report to the asset/liability management committee regularly and results are also reported to the risk management committee of Cathay Life. Furthermore, the annual report is delivered to the risk management committee of the Company.

- iii. When an exceptional situation occurs, the related departments should propose reactions to the asset/liability management committee, the risk management committee of Cathay life and that of the Company.
- h) Procedures to manage, monitor and control a special event for which Cathay life is committed to assuming additional liabilities or funding additional capital

Pursuant to the applicable laws and regulations, Cathay Life's RBC ratio should be higher than a certain number. In order to enhance Cathay Life's capital management and to maintain a proper RBC ratio, Cathay life has established a set of capital adequacy management standards as follows:

- i. Capital adequacy management

- i) Regularly provide capital adequacy management reports and analysis to the finance department of the Company
- ii) Regularly provide the capital adequacy management analysis report to the risk management committee.
- iii) Conduct simulation analysis to figure out the use of funding, the changes of the financial environment or the amendments to applicable laws and regulations affecting the RBC ratio.
- iv) Regularly review the RBC ratio and related control standards to ensure a solid capital adequacy management.

- ii. Exception management process

When the RBC ratio exceeds the internal risk control criteria or other exceptions occur, Cathay life is required to notify the risk management department and the finance department and the risk management department of the Company together with the capital adequacy analysis report and actions.

- i) Policies for hedge or mitigation of risk and monitoring procedures on continuous effectiveness of hedging instruments
  - i. Cathay life enters into derivative transactions to reduce market risk and credit risk of the asset positions including stock index options, index futures, interest rate futures, IRS, forwards, cross currency swap and credit default swaps for hedging the equity risk, interest rate risk, cash flow risk, foreign exchange risk and credit risk from Cathay Life's investments; however, the derivatives not qualified for hedge accounting are classified as financial assets at FVTPL.
  - ii. Hedging instruments against risks and implementation are developed preliminarily in consideration of the risk taking abilities. Cathay life executes hedge and exercises authorized financial instruments to adjust the overall risk level to the tolerance levels based on market dynamics, business strategies, the characteristics of products and risk management policies.
  - iii. 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 the board of directors; meanwhile, a copy of the assessment report is delivered to the audit department for future reference.



j) Policies and procedures against the concentration of credit and investment risks

Considering the credit risk factors, Cathay life has set up the measurement indicators for credit and investment positions by business groups, industries and countries. When the limits of credit and investments are reached or breached as a result of any increase of the credit line or investment, Cathay life shall not grant loans or make investment in general. However, if Cathay life has to undertake the business under certain circumstances, Cathay life shall follow the internal regulations, including but not limited to “Guidelines for sovereign risk management”, “Guidelines for securities investment risk limit” and “Guidelines for credit and investment risk management on conglomerate and other juristic person institute”.

2) Information of insurance risk

a) Sensitivity of insurance risk - insurance contracts and financial instruments with discretionary participation features

i. Cathay Life

	For the Six Months Ended June 30, 2019				
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 1,403,154	Decrease (increase)	\$ 1,122,523
Expense	×1.05 (×0.95)	Decrease (increase)	1,661,697	Decrease (increase)	1,329,358
Surrender rate	×1.05 (×0.95)	Increase (decrease)	295,832	Increase (decrease)	236,665
Rate of return	+0.1%	Increase	2,847,340	Increase	2,277,872
Rate of return	-0.1%	Decrease	2,848,750	Decrease	2,279,000

	For the Six Months Ended June 30, 2018				
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 1,330,937	Decrease (increase)	\$ 1,064,749
Expense	×1.05 (×0.95)	Decrease (increase)	1,414,038	Decrease (increase)	1,131,230
Surrender rate	×1.05 (×0.95)	Increase (decrease)	171,458	Increase (decrease)	137,167
Rate of return	+0.1%	Increase	2,671,937	Increase	2,137,550
Rate of return	-0.1%	Decrease	2,673,259	Decrease	2,138,607

ii. Cathay Lujiazui Life

	For the Six Months Ended June 30, 2019				
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/Morbidity	×1.10 (×0.90)	Decrease (increase)	\$ 79,980	Decrease (increase)	\$ 59,985
Expense	×1.05 (×0.95)	Decrease (increase)	43,904	Decrease (increase)	32,928
Surrender rate	×1.10 (×0.90)	Increase (decrease)	47,608	Increase (decrease)	35,706
Rate of return	+0.25%	Increase	674,816	Increase	506,112
Rate of return	-0.25%	Decrease	740,774	Decrease	555,581

	For the Six Months Ended June 30, 2018				
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/Morbidity	×1.10 (×0.90)	Decrease (increase)	\$ 80,505	Decrease (increase)	\$ 60,378
Expense	×1.05 (×0.95)	Decrease (increase)	41,917	Decrease (increase)	31,438
Surrender rate	×1.10 (×0.90)	Increase (decrease)	53,157	Increase (decrease)	39,867
Rate of return	+0.25%	Increase	292,680	Increase	219,510
Rate of return	-0.25%	Decrease	321,286	Decrease	260,964

iii. Cathay Life (Vietnam)

	For the Six Months Ended June 30, 2019				
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 486	Decrease (increase)	\$ 388
Expense	×1.05 (×0.95)	Decrease (increase)	20,038	Decrease (increase)	16,030
Surrender rate	×1.05 (×0.95)	Increase (decrease)	3,564	Increase (decrease)	2,851
Rate of return	+0.1%	Increase	6,335	Increase	5,068
Rate of return	-0.1%	Decrease	6,338	Decrease	5,070

	For the Six Months Ended June 30, 2018				
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 332	Decrease (increase)	\$ 266
Expense	×1.05 (×0.95)	Decrease (increase)	13,592	Decrease (increase)	10,874
Surrender rate	×1.10 (×0.95)	Increase (decrease)	4,317	Increase (decrease)	3,453
Rate of return	+0.1%	Increase	4,050	Increase	3,240
Rate of return	-0.1%	Decrease	4,052	Decrease	3,241

- i) Changes in income before tax listed above referred to the effects of income before tax for the six months ended June 30, 2019 and 2018. The changes in equity of Cathay Life, Cathay Lujiazui Life and Cathay Life (Vietnam) were based on assumptions that the income tax was calculated at rates of 20%, 25% and 20% of pre-tax income, respectively.
- ii) As an increase (decrease) of 0.1% in discount rates is applied to the liability adequacy test, the result of the test is still adequate for Cathay life and there is no impact on income before tax and equity. However, if the discount rate keeps declining significantly, income before tax and equity may be affected.

iii) Sensitivity test

- Mortality/morbidity sensitivity test is executed by multiplying the mortality rate, and the morbidity rate of injury insurance by changes in scenarios, resulting in the corresponding changes in income before tax.
- Expense sensitivity test is executed by multiplying all expense items listed in statements of comprehensive income (Note 1) by changes in scenarios, resulting in the corresponding changes in income before tax.
- Surrender rate sensitivity test is executed by multiplying surrender rate by changes in scenarios, resulting in the corresponding changes in income before tax.
- Rate of return sensitivity test is executed by adjusting the rate of return (Note 2) to increase (decrease) by changes in scenarios, resulting in the corresponding changes in income before tax.

Note 1: Expense items includes underwriting expenses, commission expenses, other operating costs as well as general expenses, administration expenses, employee training expenses of operating expenses, and expected credit impairment losses and gains on reversal from non-investments.

Note 2: Rate of return is calculated as follows (to be annualized):

$$2 \times (\text{net investment} - \text{finance costs}) / (\text{the beginning balance of available funds} + \text{the ending balance of available funds, net incomes (losses) on investment} + \text{finance costs})$$

b) Concentration of insurance risks

Cathay Life's insurance business is mainly from the ROC, and all the insurance policies have similar risk exposure; for example, the risk exposure to the unexpected changes in trend (mortality, morbidity, and surrender rate) or the risk exposure to multiple insurance contracts caused by a single incident (for example, simultaneous risk exposure to life insurance, health insurance, and casualty insurance caused by an earthquake). Cathay Life reduces risk exposure not only by monitoring risks consistently, but also by arranging reinsurance contracts.

In principle, Cathay Life reviews the overall results of claims and payments and its ability to assume risk periodically, and performs an evaluation of insurance risks according to the retention amounts, which is submitted for approval by the authorities. Cathay life cedes the excess of insurance risks over the retention amounts to reinsurers. At the same time, Cathay life considers unexpected human and natural disasters to estimate the reasonable maximum of losses according to the retained risks regularly; Cathay Life determines whether it is necessary to adjust the reinsured amount or catastrophe reinsurance according to the range of losses its ability to assume risks. Hence, the insurance risks to some degree have been diversified to reduce the potential impact on unexpected losses.

Furthermore, according to Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises, special reserve for major incidents should be provided for huge claims and payments due to future major incidents, and special reserve for fluctuation of risk should be provided for abnormal changes in loss ratio and claims of each insurance type. The annual increase of special reserve for major incidents and fluctuation of risks should be recorded in special reserve of equity, net of tax in accordance with IAS 12.

c) Claim development trend

i. Cathay Life

i) Direct business development trend

Accident Year	Development Year							Unreported Claim	Reserve for Unreported Claim
	1	2	3	4	5	6	7		
2012Q3-2013Q2	\$ 14,207,669	\$ 17,538,363	\$ 17,859,772	\$ 17,908,460	\$ 17,948,974	\$ 17,979,947	\$ 18,000,410	\$ -	\$ -
2013Q3-2014Q2	14,430,297	17,717,754	18,040,951	18,142,401	18,145,908	18,170,461	18,191,286	20,825	20,867
2014Q3-2015Q2	14,571,990	18,110,741	18,441,030	18,521,678	18,563,115	18,593,184	18,614,880	51,765	51,868
2015Q3-2016Q2	15,612,219	19,236,420	19,604,451	19,681,903	19,724,802	19,756,847	19,779,887	97,984	98,180
2016Q3-2017Q2	16,041,023	19,907,013	20,260,407	20,341,540	20,385,585	20,418,574	20,442,609	182,202	182,566
2017Q3-2018Q2	18,543,719	22,888,227	23,297,055	23,392,564	23,443,855	23,481,434	23,508,880	620,653	621,894
2018Q3-2019Q2	20,263,104	25,007,496	25,459,491	25,560,481	25,616,748	25,657,824	25,687,695	5,424,591	5,435,440
								Expected future payment	\$ 6,410,815
								Add: Assumed reserve for incurred but not reported claim	40,797
								Reserve for unreported claim	6,451,612
								Add: Reported but not paid claim	3,445,738
								Claims reserve balance	<u>\$ 9,897,350</u>

ii) Retained business development trend

Accident Year	Development Year							Unreported Claim	Reserve for Unreported Claim
	1	2	3	4	5	6	7		
2012Q3-2013Q2	\$ 14,396,496	\$ 17,752,964	\$ 18,079,602	\$ 18,129,471	\$ 18,170,339	\$ 18,201,957	\$ 18,222,569	\$ -	\$ -
2013Q3-2014Q2	14,508,785	17,834,585	18,162,290	18,264,353	18,268,596	18,293,585	18,314,489	20,904	20,946
2014Q3-2015Q2	14,685,660	18,279,560	18,612,485	18,694,584	18,736,320	18,767,011	18,788,813	52,493	52,598
2015Q3-2016Q2	15,749,673	19,399,201	19,773,769	19,851,792	19,895,123	19,927,688	19,950,811	99,019	99,217
2016Q3-2017Q2	16,100,992	20,016,979	20,373,156	20,454,926	20,499,276	20,532,618	20,556,725	183,569	183,936
2017Q3-2018Q2	18,688,695	23,063,158	23,477,087	23,573,662	23,625,475	23,663,714	23,691,317	628,159	629,415
2018Q3-2019Q2	20,326,834	25,095,755	25,551,144	25,652,913	25,709,619	25,751,279	25,781,425	5,454,591	5,465,500
								Expected future payment	\$ 6,451,612
								Add: Reported but not paid claim	3,443,863
								Retained claims reserve balance	<u>\$ 9,895,475</u>

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

In accordance with Order No. Financial-Supervisory-Insurance-Corporate-10402133590 issued on December 22, 2015 by the FSC, reserve for claims not yet filed is provided as claims filed and adjusted for related expenses; reserve for claims filed but not yet paid is provided on a case-by-case basis. The loss reserve is the sum of the above reserve, and due to uncertainty, estimation, and judgment, there is a high degree of complexity in the provision of loss reserve. Any changes in the estimation or judgment are treated as changes in accounting estimates and the impacts of the changes recognized as profit or loss as incurred. Notification to Cathay life may be delayed in certain cases, and estimates of the payments for cases not yet filed are involved with a large volume of past experiences and subjective judgment; therefore, it is unable to confirm that the loss reserve on the balance sheet date will be equal to the final settlements of claims and payments. The loss reserve is estimated based upon the currently available information; however, the final results may deviate from the original estimates because of the subsequent conditions of the cases.

The above table shows the development trend of claim payments. The accident year is the year when the insurance events occurred; the x-axis is the year of the development for the cases; the amounts above the diagonal line represent the cases in at specific accident year the corresponding accumulated claims and payments and claims filed but not yet paid at the end of the year for the cases in at specific accident year; the amounts below the diagonal line represent the estimates of corresponding accumulated developments for the cases in at specific accident year. The circumstances and trends affecting the provision of loss reserve in the current year may differ in the future; therefore, the expected future payments cannot be determined by this table.

ii. Cathay Lujiazui Life

i) Direct business development trend

Accident Year	Development Year							Expected Future Payment
	1	2	3	4	5	6	7	
2012Q3-2013Q2	\$ 258,566	\$ 504,967	\$ 545,754	\$ 549,906	\$ 549,906	\$ 549,906	\$ 549,906	\$ -
2013Q3-2014Q2	382,298	614,569	653,099	663,170	663,170	663,170	663,170	-
2014Q3-2015Q2	224,374	419,941	449,424	454,599	454,599	454,599	454,599	-
2015Q3-2016Q2	266,247	497,931	544,705	582,372	582,372	582,372	582,372	-
2016Q3-2017Q2	273,916	495,983	541,713	555,809	555,809	555,809	555,809	14,096
2017Q3-2018Q2	293,150	333,692	360,208	369,581	369,581	369,581	369,581	35,889
2018Q3-2019Q2	374,235	631,693	681,888	699,632	699,632	699,632	699,632	325,397
								Expected future payment \$ 375,382
								Less: Expected reported but not paid claim (1,714)
								Reserve for unreported claim 373,668
								Add: Reported but not paid claim 12,478
								Claims reserve balance <u>\$ 386,146</u>

ii) Retained business development trend

Accident Year	Development Year							Expected Future Payment
	1	2	3	4	5	6	7	
2012Q3-2013Q2	\$ 252,750	\$ 497,874	\$ 538,638	\$ 542,790	\$ 542,790	\$ 542,790	\$ 542,790	\$ -
2013Q3-2014Q2	376,535	605,624	644,110	654,178	654,178	654,178	654,178	-
2014Q3-2015Q2	201,078	396,417	425,669	430,844	430,844	430,844	430,844	-
2015Q3-2016Q2	263,561	491,337	527,240	564,906	564,906	564,906	564,906	-
2016Q3-2017Q2	260,187	482,251	523,280	537,261	537,261	537,261	537,261	13,981
2017Q3-2018Q2	274,772	305,909	328,842	337,629	337,629	337,629	337,629	31,720
2018Q3-2019Q2	360,125	614,492	660,559	678,208	678,208	678,208	678,208	318,083
								Expected future payment \$ 363,784
								Less: Expected reported but not paid claim (1,714)
								Add: Reported but not paid claim 11,528
								Retained claims reserve balance <u>\$ 373,598</u>

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

Cathay Lujiazui Life provides loss reserve for claims filed but not paid and claims not yet filed. Due to uncertainty, estimation, and judgment, there is a high degree of complexity in the provision of loss reserve. Any changes in the estimation or judgment are treated as changes in accounting estimates and the impacts of the changes recognized as profit or loss as incurred. Notification to Cathay Lujiazui Life may be delayed in certain cases, and estimates of the payments for cases not yet filed involved a large volume of past experiences and subjective judgment; therefore, it is unable to confirm that the loss reserve on the balance sheet date will be equal to the final settlements of claims and payments. The loss reserve is estimated based upon the currently available information; however, the final results may deviate from the original estimates because of the subsequent conditions of the cases.

The above table shows the development trend of claim payments. The accident year is the year when the insurance events occurred; the x-axis is the year of the development for the cases; the amounts above the diagonal line represent the cases in at specific accident year the corresponding accumulated claims and payments and claims filed but not yet paid at the end of the year for the cases in at specific accident year; the amounts below the diagonal line represent the estimates of corresponding accumulated developments for the cases in at specific accident year. The circumstances and trends affecting the provision of loss reserve in current year may differ in the future; therefore, the expected future payments cannot be determined by this table.

iii. Cathay Life (Vietnam)

Direct business development trend (and retained business development trend):

Accident Year	Development Year				
	1	2	3	4	5
2014Q3-2015Q2	1,085	1,200	1,200	1,203	1,203
2015Q3-2016Q2	1,168	1,328	1,328	1,328	1,328
2016Q3-2017Q2	5,808	7,335	7,335	7,339	7,339
2017Q3-2018Q2	33,245	38,374	38,374	38,393	38,393
2018Q3-2019Q2	107,825	125,793	125,793	125,854	125,854

The above table shows the development trend of claim payments. The accident year is the year when the insurance events occurred; the x-axis is the year of the development for the cases; the amounts above the diagonal line represent the cases in the specific accident year the corresponding accumulated claims and payments and claims filed but not yet paid at the end of the year for the cases in a specific accident year; the amounts below the diagonal line represent the estimates of corresponding accumulated developments for the cases in a specific accident year. The circumstances and trends affecting the provision of loss reserve in the current year may differ in the future; therefore, the expected future payments cannot be determined by this table.

Cathay Life (Vietnam) provides loss reserve for claims filed but not paid and claims not yet filed. Reserve for claims not yet filed is estimated by multiplying the loss ratio of earned premiums based upon the past loss experiences instead of loss triangle method, which was approved by local authorities in Vietnam; therefore, provision for loss reserve is not determined by the above table. Notification to Cathay Life (Vietnam) may be delayed in certain cases, and estimates of the payments for cases not yet filed involved a large volume of past experiences and subjective judgement; therefore, it is unable to confirm that the loss reserve on the balance sheet date will be equal to the final settlements of claims and payments. The loss reserve is estimated based upon the currently available information; however, the final results may deviate from the original estimates because of the subsequent conditions of the cases.

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

a) Credit risk

The credit risk of the insurance contracts occurs as the reinsurers fail to perform the obligations of reinsurance contracts, which may result in impairment losses on reinsurance assets.

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

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

b) Liquidity risk

The table below is the analysis of the net (undiscounted) cash flow of insurance contracts and of financial instruments with discretionary participation features. The figures shown in this table are the total insurance payments and expenses of valid insurance contracts in the future on the balance sheet date. The actual future payment amounts may differ due to the difference between the actual and expected experiences.

**Unit: In Billions of NTD**

	<b>Insurance Contracts and Financial Instruments with Discretionary Participation Features</b>		
	<b>Within 1 Year</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>
June 30, 2019	\$ (2,071)	\$ 2,122	\$ 180,410
December 31, 2018	(1,095)	1,993	175,216
June 30, 2018	(750)	1,209	171,350

Note: Separate account products are not included.

c) Market risk

Cathay Life measures insurance liabilities by the discounted rates required by the authorities. The authorities regularly review the assumption of the discount rate for policy reserves; however, the change of the assumption may not be at the same time, in the same direction of change with the market price and interest rate, and only applied to new contracts. Therefore, the impacts of those possible changes in market risk on the provision of policy reserve for Cathay Life's valid insurance contracts are considered minor to profit or loss of equity. When the authorities change the discount rate assumption in a reasonably possible manner with remote possibility as current assessment, it will have an impact in a range on profit or loss or equity depending upon the level of the change and the overall product portfolio of Cathay Life. Furthermore, the reasonably possible change in the market risk may have an impact on the future cash flows of insurance contracts and financial instruments with discretionary participation features, which are estimated based on available information at the balance sheet date and are used for assessing the adequacy of recognized insurance liabilities. Based on the reasonably possible changes in current market risk, it has little impact on the adequacy of recognized insurance liabilities.

b. Cathay Century and its subsidiaries

1) Risk management objectives, policies, procedures and methods:

a) Framework of risk management, organizational structure and responsibilities

i. Board of directors

- i) Board of directors should be aware of the risks arising from operations, ensure the effectiveness of risk management and bear the ultimate responsibility for overall risk management.
- ii) Board of directors should establish an appropriate risk management framework and culture, ratify the appropriate risk management policy and allocate resources in the most effective manner.
- iii) Board of directors should consider the effect of the aggregated risks of business's overall perspective; should also follow the legal capital requirement and the relevant financial or business operating regulations that affect capital allocation.

ii. Risk management department

i) Risk management committee

- The committee should propose the risk management policies, framework, and organization functions and establish quantitative and qualitative management standards. The committee is also responsible for reporting the results of implementing risk management to the board of directors regularly, and making necessary suggestions for improvement.
- The committee should execute the risk management policies set by the board of directors and review development, build-up and performance of overall management mechanisms regularly.
- The committee should assist and monitor the risk management activities performed by each department.

- The committee should arrange the risk category, risk limit allocation and risk taking according to the changes in environment.
- The committee should enhance cross-department interaction and communication.

ii) Chief risk officer

The appointment of chief risk officers of Cathay Century and its subsidiaries should be approved by the board of directors, who should maintain independence and should not concurrently play a business or financial role nor has the right to access any information which may affect Cathay Century and its subsidiaries' risk overview.

- The chief risk officer should be in charge of the overall risk management.
- The chief risk officer should participate in the important decision making process and provide appropriate suggestions from a risk management perspective.
- The chief risk officers should be a member of risk management committee.

iii) Risk management department

Cathay Century and its subsidiaries established a risk management department, which is responsible for monitoring, measuring and evaluating major risks, performed independently to business units.

Duties of risk management department are as follows:

- Propose and execute the risk management policies set by the board of directors.
- Propose the risk limits based on risk appetite.
- Summarize the risk information provided by each department, negotiate and communicate with each department to facilitate the execution of the policies and the risk limits.
- Regularly present risk management reports.
- Regularly review the risk limits and its use of each business unit.
- Assist to execute stress testing and back testing if necessary.
- Other risk management related issues.

iii. Business unit

i) The risk management duties of the manager of a business unit are as follows:

- Manage and report daily risk of the business unit and take necessary responsive actions.
- Supervise the unit to submit risk management information regularly to the risk management department.



ii) The risk management duties of a business unit are as follows:

- Identify and measure risks and report risk exposures.
- Evaluate the impacts (quantitative or qualitative) when risks occur and deliver the risk information in a timely and accurate manner.
- Regularly review the risks and their limits to ensure the effective execution of risk limits within business unit.
- Monitor risk exposures and, in case of any excess of risk limits, report the excess of risk limits along with the corresponding actions.
- Assist to develop the risk model and ensure that the risk measurement, application of model, and the parameter settings are reasonable and consistent.
- Ensure that internal control procedures are executed effectively to comply with applicable rules and the risk management policies.
- Assist to collect data related to operational risk.

iv. Audit department

The department is responsible for the audit of each department's performance of risk management pursuant to the applicable laws and regulations and related rules and guidance of Cathay Century.

b) Risk reporting and range and nature of risk assessment for property insurance business

i. Risk reporting

- i) Each business unit should regularly deliver risk information to risk management department are required, and report the excess of risk limits and responding measures when risk exposure is over limit.
- ii) Risk management department summarizes the risk information provided by each department, tracks the uses of major risk limit, submits a monthly risk management report to the general manager, and makes quarterly report to the risk management committee and board of directors to regularly risks.

ii. Scope and nature of risk evaluation system

The risk management department of Cathay Century and its subsidiaries and the Company collaborated in building the market risk management system. The system structure was developed in consideration of the system functionality, data source, completeness of data upload, and the safety of the environment of the system. The front-end of investment department has acquired the information system related to the investment market. The risk management system focuses on risk quantification, which is needed by middle-end, and would be only authorized to risk management personnel.

- c) Processes to undertake, evaluate, supervise and control insurance risk of property insurance business and underwriting policies to ensure proper risk classification and premium level.

In Cathay Century and its subsidiaries, risk management department is responsible for monitoring and integrating insurance risks as a whole, and setting up risk indicators, risk limit, and managing mechanism. Each related department is the execution unit of insurance risk control and regularly reports execution to risk management department in accordance with laws and regulations, internal rules, and professional knowledge and experience related to its duties. The risk management department proposes the insurance risk management report to the risk management committee and the board of directors each quarter.

- d) The scope of insurance risk assessment and management from a company-wide perspective

Insurance risk management of Cathay Century and its subsidiaries covers product design and pricing, underwriting, reinsurance, catastrophe, claim, and reserve. Proper management mechanisms are set up and executed thoroughly.

- e) Methods to limit insurance risk exposure and avoid inappropriate concentration risk

When Cathay Century and its subsidiaries implement business, the underwriter evaluates the quality of the business based on the underwriting criteria of each insurance to decide whether to undertake the business to properly hedge and control the risk and reduce the exposure.

In addition, for reinsurance business, risk management mechanism is set up in accordance with the Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms. The capabilities of undertaking risk is considered to develop reinsurance risk management plan and maximum of accumulated retained risks of each risk unit for execution.

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 and its subsidiaries' risk management mechanism for the reinsurance business, the maximum of the retained risks of each risk unit is based on 10% of the total of shareholder's equities and special reserves under liabilities (excluding those for compulsory automobile insurance). The following table summarizes the maximum of the retained risks of each risk unit by types of insurance:

Insurance by Type	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Fire insurance	\$ 1,182,000	\$ 1,233,000
Marine insurance	1,182,000	1,233,000
Engineering insurance	1,182,000	1,233,000
Miscellaneous insurance/Liability insurance	1,182,000	1,233,000
Healthy and Accident insurance	1,182,000	1,233,000
Automobile insurance	50,000	1,233,000
Liability insurance	250,000	1,233,000

f) Asset-liability management

i. Asset liability management with risk identification and measurement

Financial accounting and actuarial department should identify the possible market risk, liquidity risk and insurance risk that may occur during operation. The cash inflows from assets are measured to evaluate whether it's sufficient to cover the cash outflow in liabilities by cash flow test method (but not limited to); that is, whether the asset allocation has reasonable liquidity to pay expenditures from liabilities in future years.

ii. Asset-liability coordinate with risk response

When market risk, liquidity risk and insurance risk events occur, financial, accounting and actuarial service department should take appropriate reactions to asset liability risk, and report to the risk management department and propose to the risk management department and risk management committee for examination.

g) Procedures to manage, monitor and control a special event for which property insurance business is commitment to assuming additional liabilities or funding additional capital

Cathay Century and its subsidiaries have established a set of capital adequacy management standards, including RBC management indicators for regular review, under which RBC is calculated each quarter and RBC management report is prepared every half year as implementation of RBC management.

If the RBC ratio exceeds the control criteria (risk limit) or other exceptions occur, the related departments should propose reactions to the risk management committee and inform the Company to review the impact on the Group's CAR.

2) Receivables and payables of insurance contracts

a) Receivables

Insurance by Type	Premiums Receivable		
	June 30, 2019	December 31, 2018	June 30, 2018
Fire insurance	\$ 1,093,337	\$ 683,291	\$ 876,887
Marine insurance	268,745	280,529	273,955
Land and air insurance	142,074	161,746	85,688
Liability insurance	186,646	209,834	162,770
Financial guarantee insurance	48,269	30,796	36,907
Other property insurance	245,544	253,298	259,838
Accident insurance	138,748	113,629	162,046
Health insurance	9,407	7,979	10,194
Compulsory auto liability insurance	27,351	19,090	17,727
	<u>2,160,121</u>	<u>1,760,192</u>	<u>1,886,052</u>
Less: Loss allowance	<u>(50,377)</u>	<u>(74,252)</u>	<u>(76,305)</u>
Net amount	<u>\$ 2,109,744</u>	<u>\$ 1,685,940</u>	<u>\$ 1,809,747</u>

Aging analysis of premiums receivable:

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Less than 90 days	\$ 1,933,248	\$ 1,533,285	\$ 1,662,740
Over 90 days	<u>226,873</u>	<u>226,907</u>	<u>223,312</u>
	<u>\$ 2,160,121</u>	<u>\$ 1,760,192</u>	<u>\$ 1,886,052</u>

The overdue amounts as of June 30, 2019, December 31, 2018 and June 30, 2018 in the above premiums receivable were \$226,784 thousand, \$226,131 thousand and \$222,730 thousand, respectively, and loss allowance of \$31,112 thousand, \$58,942 thousand and \$59,742 thousand were provided, respectively.

b) Liability on policyholders' claims filed and claims not yet filed

**Claims and payments recoverable for policyholders' claims filed and paid**

<b>Insurance by Type</b>	<b>Claims Filed and Paid</b>		
	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Fire insurance	\$ 19,181	\$ 44,225	\$ 49,192
Marine insurance	31,064	12,631	30,038
Land and air insurance	41,228	46,598	44,837
Liability insurance	38,695	53,431	32,947
Financial guarantee insurance	281	188	147
Other property insurance	14,657	19,525	50,960
Accident insurance	12,652	18,497	11,909
Health insurance	-	-	-
Compulsory auto liability insurance	<u>170,305</u>	<u>154,031</u>	<u>232,445</u>
	328,063	349,126	452,475
Less: Loss allowance	<u>(3,281)</u>	<u>(3,491)</u>	<u>(4,524)</u>
Net amount	<u>\$ 324,782</u>	<u>\$ 345,635</u>	<u>\$ 447,951</u>

c) Payables

<b>Insurance by Type</b>	<b>June 30, 2019</b>		
	<b>Commission Payable</b>	<b>Others</b>	<b>Total</b>
Fire insurance	\$ 33,185	\$ 12,823	\$ 46,008
Marine insurance	7,081	17,414	24,495
Land and air insurance	55,233	91,233	146,466
Liability insurance	15,614	20,514	36,128
Financial guarantee insurance	6,583	444	7,027
Other property insurance	6,087	9,331	15,418
Accident insurance	10,837	37,608	48,445
Health insurance	2,875	5,232	8,107
Compulsory automobile liability insurance	<u>28,375</u>	<u>-</u>	<u>28,375</u>
	<u>\$ 165,870</u>	<u>\$ 194,599</u>	<u>\$ 360,469</u>

<b>December 31, 2018</b>			
<b>Insurance by Type</b>	<b>Commission Payable</b>	<b>Others</b>	<b>Total</b>
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
Financial guarantee 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	<u>24,817</u>	<u>-</u>	<u>24,817</u>
	<u>\$ 115,180</u>	<u>\$ 188,322</u>	<u>\$ 303,502</u>

<b>June 30, 2018</b>			
<b>Insurance by Type</b>	<b>Commission Payable</b>	<b>Others</b>	<b>Total</b>
Fire insurance	\$ 27,337	\$ 13,788	\$ 41,125
Marine insurance	7,546	14,576	22,122
Land and air insurance	22,507	86,226	108,733
Liability insurance	13,067	18,484	31,551
Financial guarantee insurance	3,591	833	4,424
Other property insurance	4,544	9,467	14,011
Accident insurance	10,513	31,787	42,300
Health insurance	2,898	4,029	6,927
Compulsory automobile liability insurance	<u>28,093</u>	<u>-</u>	<u>28,093</u>
	<u>\$ 120,096</u>	<u>\$ 179,190</u>	<u>\$ 299,286</u>

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

<b>June 30, 2019</b>		
<b>Items</b>	<b>Due from Reinsurers and Ceding Companies</b>	<b>Due to Reinsurers and Ceding Companies</b>
Non-Life Insurance Association of the R.O.C	\$ 135,817	\$ 336,053
AON	66,063	42,212
Willis	46,691	45,476
Central Re	42,594	135,699
ERIF	34,000	14,218
TMR AG	33,560	45,695
Others (individually below 5%)	<u>286,755</u>	<u>1,226,524</u>
	645,480	1,845,877
Less: Loss allowance	<u>(40,350)</u>	<u>-</u>
Net amount	<u>\$ 605,130</u>	<u>\$ 1,845,877</u>

	<b>December 31, 2018</b>	
	<b>Due from Reinsurers and Ceding Companies</b>	<b>Due to Reinsurers and Ceding Companies</b>
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 (individually below 5%)	<u>145,710</u>	<u>627,165</u>
	466,224	1,499,224
Less: Loss allowance	<u>(17,818)</u>	<u>-</u>
Net amount	<u>\$ 448,406</u>	<u>\$ 1,499,224</u>

	<b>June 30, 2018</b>	
	<b>Due from Reinsurers and Ceding Companies</b>	<b>Due to Reinsurers and Ceding Companies</b>
Non-Life Insurance Association of the R.O.C.	\$ 137,421	\$ 346,298
AON	31,516	171,164
SOMPO	35,376	16,573
Marsh	14,179	135,850
Central Re	6,670	89,303
EverApex	-	92,023
Others (individually below 5%)	<u>189,764</u>	<u>647,853</u>
	414,926	1,499,064
Less: Loss allowance	<u>(17,281)</u>	<u>-</u>
Net amount	<u>\$ 397,645</u>	<u>\$ 1,499,064</u>

The overdue amounts as of June 30, 2019, December 31, 2018 and June 30, 2018 in the above due from (to) reinsurers and ceding companies were \$14,229 thousand, \$13,169 thousand and \$13,231 thousand, respectively, and loss allowances of \$14,229 thousand, \$13,169 thousand and \$13,231 thousand were provided, respectively.

Due from and due to the reinsurers and ceding companies cannot be offset, except for those meeting requirements in Article 42 of IAS 32.

3) Acquisition cost of insurance contracts

<b>For the Three Months Ended June 30, 2019</b>					
<b>Insurance by Type</b>	<b>Commission Expenses</b>	<b>Service fee Charge</b>	<b>Reinsurance Commission Expenses</b>	<b>Others</b>	<b>Total</b>
Fire insurance	\$ 46,958	\$ 4,566	\$ 18,392	\$ 3,889	\$ 73,805
Marine insurance	16,822	164	2,238	355	19,579
Land and air insurance	256,856	-	-	107,961	364,817
Liability insurance	41,173	13	32	5,126	46,344
Bonding insurance	3,709	3	43	-	3,755
Other property insurance	17,572	1,883	13,174	833	33,462
Accident insurance	107,539	23	302	30,742	138,606
Health insurance	18,297	132	147	4,395	22,971
Compulsory auto liability insurance	-	98,150	-	-	98,150
	<u>\$ 508,926</u>	<u>\$ 104,934</u>	<u>\$ 34,328</u>	<u>\$ 153,301</u>	<u>\$ 801,489</u>
<b>For the Three Months Ended June 30, 2018</b>					
<b>Insurance by Type</b>	<b>Commission Expenses</b>	<b>Service fee Charge</b>	<b>Reinsurance Commission Expenses</b>	<b>Others</b>	<b>Total</b>
Fire insurance	\$ 42,839	\$ 2,737	\$ 25,385	\$ 3,194	\$ 74,155
Marine insurance	14,064	269	1,558	305	16,196
Land and air insurance	230,790	-	6	81,788	312,584
Liability insurance	35,742	20	46	3,063	38,871
Bonding insurance	2,553	2	44	-	2,599
Other property insurance	13,977	512	5,391	532	20,412
Accident insurance	92,672	26	136	23,161	115,995
Health insurance	14,946	137	1,024	3,081	19,188
Compulsory auto liability insurance	-	88,225	-	-	88,225
	<u>\$ 447,583</u>	<u>\$ 91,928</u>	<u>\$ 33,590</u>	<u>\$ 115,124</u>	<u>\$ 688,225</u>
<b>For the Six Months Ended June 30, 2019</b>					
<b>Insurance by Type</b>	<b>Commission Expenses</b>	<b>Service fee Charge</b>	<b>Reinsurance Commission Expenses</b>	<b>Others</b>	<b>Total</b>
Fire insurance	\$ 89,491	\$ 7,697	\$ 39,583	\$ 7,614	\$ 144,385
Marine insurance	34,322	620	6,553	677	42,172
Land and air insurance	516,225	1	3	199,220	715,449
Liability insurance	81,668	47	64	7,790	89,569
Bonding insurance	8,201	4	58	-	8,263
Other property insurance	38,035	2,915	22,287	1,495	64,732
Accident insurance	202,301	137	445	53,791	256,674
Health insurance	33,930	132	147	7,596	41,805
Compulsory auto liability insurance	-	192,020	-	-	192,020
	<u>\$ 1,004,173</u>	<u>\$ 203,573</u>	<u>\$ 69,140</u>	<u>\$ 278,183</u>	<u>\$ 1,555,069</u>

<b>For the Six Months Ended June 30, 2018</b>					
<b>Insurance by Type</b>	<b>Commission Expenses</b>	<b>Service fee Charge</b>	<b>Reinsurance</b>		<b>Total</b>
			<b>Commission Expenses</b>	<b>Others</b>	
Fire insurance	\$ 86,170	\$ 4,501	\$ 42,704	\$ 6,021	\$ 139,396
Marine insurance	31,115	517	3,628	597	35,857
Land and air insurance	490,163	-	19	165,543	655,725
Liability insurance	76,868	44	284	5,548	82,744
Bonding insurance	7,762	3	55	-	7,820
Other property insurance	34,476	972	10,454	1,139	47,041
Accident insurance	188,752	185	226	44,779	233,942
Health insurance	29,192	137	1,024	5,673	36,026
Compulsory auto liability insurance	-	189,873	-	-	189,873
	<u>\$ 944,498</u>	<u>\$ 196,232</u>	<u>\$ 58,394</u>	<u>\$ 229,300</u>	<u>\$ 1,428,424</u>

Acquisition costs of the insurance contracts were not deferred.

#### 4) Profit and loss analysis of the insurance business

##### Direct underwriting business

<b>For the Three Months Ended June 30, 2019</b>						
<b>Insurance by Type</b>	<b>Written Premium (Net of Premium Allowance)</b>	<b>Net Changes in Unearned Premium Reserve</b>	<b>Acquisition Cost of Insurance Contracts</b>	<b>Claims and Payments (Including Claim Expense)</b>	<b>Net Changes in Loss Reserve</b>	<b>Profit (Loss)</b>
Fire insurance	\$ 1,228,910	\$ 370,193	\$ 55,414	\$ 151,214	\$ 90,053	\$ 562,036
Marine insurance	172,661	8,798	17,341	75,892	(6,231)	76,861
Land and air insurance	2,331,409	39,872	364,817	1,399,438	3,442	523,840
Liability insurance	342,534	(35,066)	46,311	157,988	73,110	100,191
Bonding insurance	29,993	1,750	3,712	23,118	(42,209)	43,622
Other property insurance	192,882	(50,679)	20,288	39,931	46,796	136,546
Accident insurance	865,382	33,916	138,304	291,872	9,875	391,415
Health insurance	105,081	5,641	22,824	32,445	1,362	42,809
Compulsory auto liability insurance	719,448	(588)	98,150	773,103	(32,754)	(118,463)
	<u>\$ 5,988,300</u>	<u>\$ 373,837</u>	<u>\$ 767,161</u>	<u>\$ 2,945,001</u>	<u>\$ 143,444</u>	<u>\$ 1,758,857</u>

<b>For the Three Months Ended June 30, 2018</b>						
<b>Insurance by Type</b>	<b>Written Premium (Net of Premium Allowance)</b>	<b>Net Changes in Unearned Premium Reserve</b>	<b>Acquisition Cost of Insurance Contracts</b>	<b>Claims and Payments (Including Claim Expense)</b>	<b>Net Changes in Loss Reserve</b>	<b>Profit (Loss)</b>
Fire insurance	\$ 1,141,943	\$ 338,005	\$ 48,770	\$ 183,996	\$ 39,546	\$ 531,626
Marine insurance	190,430	23,413	14,638	63,352	(18,693)	107,720
Land and air insurance	2,187,874	21,081	312,578	1,276,426	92,846	484,943
Liability insurance	314,106	(22,687)	38,825	114,627	109,317	74,024
Bonding insurance	25,656	(3,810)	2,555	358	18,322	8,231
Other property insurance	205,997	12,981	15,021	133,043	(39,278)	84,230
Accident insurance	795,028	1,081	115,859	259,022	14,263	404,803
Health insurance	89,586	3,024	18,164	26,440	6,886	35,072
Compulsory auto liability insurance	723,234	(603)	88,225	494,665	45,532	95,415
	<u>\$ 5,673,854</u>	<u>\$ 372,485</u>	<u>\$ 654,635</u>	<u>\$ 2,551,929</u>	<u>\$ 268,741</u>	<u>\$ 1,826,064</u>



For the Six Months Ended June 30, 2019						
Insurance by Type	Written Premium (Net of Premium Allowance)	Net Changes in Unearned Premium Reserve	Acquisition Cost of Insurance Contracts	Claims and Payments (Including Claim Expense)	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 1,919,739	\$ 212,088	\$ 104,803	\$ 325,034	\$ 51,901	\$ 1,225,913
Marine insurance	334,127	875	35,619	140,451	32,710	124,472
Land and air insurance	4,665,306	118,967	715,446	2,676,962	185,465	968,466
Liability insurance	712,541	(17,184)	89,504	315,313	129,281	195,627
Bonding insurance	71,675	14,948	8,205	25,218	(27,428)	50,732
Other property insurance	432,374	76,260	42,445	120,661	(4,193)	197,201
Accident insurance	1,648,790	51,554	256,229	647,978	(13,876)	706,905
Health insurance	196,311	8,802	41,658	45,313	1,849	98,689
Compulsory auto liability insurance	<u>1,407,881</u>	<u>(6,961)</u>	<u>192,020</u>	<u>1,188,882</u>	<u>(44,559)</u>	<u>78,499</u>
	<u>\$ 11,388,744</u>	<u>\$ 459,349</u>	<u>\$ 1,485,929</u>	<u>\$ 5,485,812</u>	<u>\$ 311,150</u>	<u>\$ 3,646,504</u>

For the Six Months Ended June 30, 2018						
Insurance by Type	Written Premium (Net of Premium Allowance)	Net Changes in Unearned Premium Reserve	Acquisition Cost of Insurance Contracts	Claims and Payments (Including Claim Expense)	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 1,709,931	\$ 129,777	\$ 96,692	\$ 391,760	\$ (114,429)	\$ 1,206,131
Marine insurance	347,874	31,165	32,229	122,700	(30,380)	192,160
Land and air insurance	4,412,202	127,435	655,706	2,575,298	108,573	945,190
Liability insurance	633,255	(1,801)	82,460	242,783	100,992	208,821
Bonding insurance	70,448	7,841	7,765	8,652	31,491	14,699
Other property insurance	378,080	(3,292)	36,587	208,472	16,568	119,745
Accident insurance	1,566,338	53,904	233,716	517,647	48,103	712,968
Health insurance	167,753	9,682	35,002	45,117	5,085	72,867
Compulsory auto liability insurance	<u>1,432,419</u>	<u>(3,552)</u>	<u>189,873</u>	<u>917,615</u>	<u>(945)</u>	<u>329,428</u>
	<u>\$ 10,718,300</u>	<u>\$ 351,159</u>	<u>\$ 1,370,030</u>	<u>\$ 5,030,044</u>	<u>\$ 165,058</u>	<u>\$ 3,802,009</u>

### Reinsurance inward business

For the Three Months Ended June 30, 2019						
Insurance by Type	Written Premium (Net of Premium Allowance)	Net Changes in Unearned Premium Reserve	Acquisition Cost of Insurance Contracts	Claims and Payments (Including Claim Expense)	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 128,793	\$ (28,049)	\$ 18,392	\$ 64,998	\$ 9,900	\$ 63,552
Marine insurance	10,480	(2,458)	2,238	9,450	(10,559)	11,809
Land and air insurance	17	(621)	-	(1,395)	(2,523)	4,556
Liability insurance	1,169	415	32	15	171	536
Bonding insurance	255	(174)	43	49	(2,022)	2,359
Other property insurance	77,469	1,240	13,174	76,838	9,109	(22,892)
Accident insurance	3,372	(176)	302	655	350	2,241
Health insurance	5,270	(2,850)	147	8,939	195	(1,161)
Compulsory auto liability insurance	<u>174,272</u>	<u>(1,238)</u>	<u>-</u>	<u>253,719</u>	<u>(9,916)</u>	<u>(68,293)</u>
	<u>\$ 401,097</u>	<u>\$ (33,911)</u>	<u>\$ 34,328</u>	<u>\$ 413,268</u>	<u>\$ (5,295)</u>	<u>\$ (7,293)</u>

**For the Three Months Ended June 30, 2018**

Insurance by Type	Written Premium (Net of Premium Allowance)	Net Changes in Unearned Premium Reserve	Acquisition Cost of Insurance Contracts	Claims and Payments (Including Claim Expense)	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 117,074	\$ 37,110	\$ 25,385	\$ 27,726	\$ (17,791)	\$ 44,644
Marine insurance	7,164	(866)	1,558	8,576	9,094	(11,198)
Land and air insurance	40	(1,020)	6	33	(19)	1,040
Liability insurance	354	(274)	46	4	496	82
Bonding insurance	306	149	44	1,087	1,250	(2,224)
Other property insurance	23,913	(5,102)	5,391	2,922	7,986	12,716
Accident insurance	2,826	203	136	502	566	1,419
Health insurance	5,464	2,871	1,024	6,877	326	(5,634)
Compulsory auto liability insurance	<u>175,162</u>	<u>(6,929)</u>	<u>-</u>	<u>232,146</u>	<u>2,791</u>	<u>(52,846)</u>
	<u>\$ 332,303</u>	<u>\$ 26,142</u>	<u>\$ 33,590</u>	<u>\$ 279,873</u>	<u>\$ 4,699</u>	<u>\$ (12,001)</u>

**For the Six Months Ended June 30, 2019**

Insurance by Type	Written Premium (Net of Premium Allowance)	Net Changes in Unearned Premium Reserve	Acquisition Cost of Insurance Contracts	Claims and Payments (Including Claim Expense)	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 246,690	\$ (60,108)	\$ 39,583	\$ 132,557	\$ 66,701	\$ 67,957
Marine insurance	25,904	2,387	6,553	20,978	(6,282)	2,268
Land and air insurance	56	(1,204)	3	4	284	969
Liability insurance	1,602	131	64	29	639	739
Bonding insurance	785	(43)	58	601	(899)	1,068
Other property insurance	120,838	(11,252)	22,287	93,817	(15,196)	31,182
Accident insurance	6,915	2	445	1,248	588	4,632
Health insurance	5,270	(7,221)	147	8,939	306	3,099
Compulsory auto liability insurance	<u>367,643</u>	<u>(588)</u>	<u>-</u>	<u>462,090</u>	<u>19,959</u>	<u>(113,818)</u>
	<u>\$ 775,703</u>	<u>\$ (77,896)</u>	<u>\$ 69,140</u>	<u>\$ 720,263</u>	<u>\$ 66,100</u>	<u>\$ (1,904)</u>

**For the Six Months Ended June 30, 2018**

Insurance by Type	Written Premium (net of Premium Allowance)	Net Changes in Unearned Premium Reserve	Acquisition Cost of Insurance Contracts	Claims and Payments (Including Claim Expense)	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 206,782	\$ 53,660	\$ 42,704	\$ 74,632	\$ (18,743)	\$ 54,529
Marine insurance	15,991	2,960	3,628	17,149	8,781	(16,527)
Land and air insurance	45	(2,029)	19	42	(822)	2,835
Liability insurance	1,082	(80)	284	265	618	(5)
Bonding insurance	763	17	55	1,725	1,664	(2,698)
Other property insurance	46,699	(9,261)	10,454	29,521	8,322	7,663
Accident insurance	5,731	574	226	974	663	3,294
Health insurance	5,464	(174)	1,024	6,877	267	(2,530)
Compulsory auto liability insurance	<u>369,201</u>	<u>(3,604)</u>	<u>-</u>	<u>551,147</u>	<u>794</u>	<u>(179,136)</u>
	<u>\$ 651,758</u>	<u>\$ 42,063</u>	<u>\$ 58,394</u>	<u>\$ 682,332</u>	<u>\$ 1,544</u>	<u>\$ (132,575)</u>

Ceded reinsurance business

**For the Three Months Ended June 30, 2019**

Insurance by Type	Written Premium (Net of Premium Allowance)	Net Changes in Unearned Premium Reserve	Acquisition Cost of Insurance Contracts	Claims and Payments (Including Claim Expense)	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 826,526	\$ 255,667	\$ 37,107	\$ 106,714	\$ (32,271)	\$ 459,309
Marine insurance	127,504	14,682	17,145	57,393	(5,029)	43,313
Land and air insurance	77,502	(13,176)	21,558	45,121	(13,769)	37,768
Liability insurance	106,813	(20,719)	22,404	55,711	77,216	(27,799)
Bonding insurance	20,626	(336)	4,068	20,399	(16,234)	12,729
Other property insurance	129,325	(27,070)	18,383	13,451	27,557	97,004
Accident insurance	51,370	1,411	15,636	14,708	(4,094)	23,709
Health insurance	-	-	-	-	-	-
Compulsory auto liability insurance	<u>300,704</u>	<u>(352)</u>	<u>-</u>	<u>435,219</u>	<u>(19,043)</u>	<u>(115,120)</u>
	<u>\$ 1,640,370</u>	<u>\$ 210,107</u>	<u>\$ 136,301</u>	<u>\$ 748,716</u>	<u>\$ 14,333</u>	<u>\$ 530,913</u>

**For the Three Months Ended June 30, 2018**

Insurance by Type	Written Premium (Net of Premium Allowance)	Net Changes in Unearned Premium Reserve	Acquisition Cost of Insurance Contracts	Claims and Payments (Including Claim Expense)	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 748,054	\$ 198,302	\$ 37,774	\$ 69,633	\$ 87,237	\$ 355,108
Marine insurance	141,658	17,880	15,876	31,362	(5,082)	81,622
Land and air insurance	82,024	(17,623)	23,504	44,848	(5,141)	36,436
Liability insurance	80,288	(28,978)	18,295	34,142	48,341	8,488
Bonding insurance	15,585	(2,749)	2,747	(513)	10,067	6,033
Other property insurance	133,811	59,077	18,442	50,053	(1,705)	7,944
Accident insurance	49,595	(3,667)	14,172	14,334	2,679	22,077
Health insurance	-	-	-	-	-	-
Compulsory auto liability insurance	301,601	(364)	-	291,286	27,992	(17,313)
	<u>\$ 1,552,616</u>	<u>\$ 221,878</u>	<u>\$ 130,810</u>	<u>\$ 535,145</u>	<u>\$ 164,388</u>	<u>\$ 500,395</u>

**For the Six Months Ended June 30, 2019**

Insurance by Type	Written Premium (Net of Premium Allowance)	Net Changes in Unearned Premium Reserve	Acquisition Cost of Insurance Contracts	Claims and Payments (Including Claim Expense)	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 1,266,791	\$ 150,631	\$ 87,168	\$ 191,723	\$ (42,151)	\$ 879,420
Marine insurance	236,341	6,295	33,010	113,903	7,294	75,839
Land and air insurance	149,336	(33,471)	43,055	99,460	(17,180)	57,472
Liability insurance	229,207	(20,768)	48,705	112,615	92,304	(3,649)
Bonding insurance	50,323	9,385	10,179	22,410	(10,756)	19,105
Other property insurance	294,971	79,503	45,082	49,817	3,635	116,934
Accident insurance	119,614	37,903	30,624	36,205	2,071	12,811
Health insurance	-	-	-	-	-	-
Compulsory auto liability insurance	586,358	(4,176)	-	681,374	(26,154)	(64,686)
	<u>\$ 2,932,941</u>	<u>\$ 225,302</u>	<u>\$ 297,823</u>	<u>\$ 1,307,507</u>	<u>\$ 9,063</u>	<u>\$ 1,093,246</u>

**For the Six Months Ended June 30, 2018**

<b>Insurance by Type</b>	<b>Written Premium (Net of Premium Allowance)</b>	<b>Net Changes in Unearned Premium Reserve</b>	<b>Acquisition Cost of Insurance Contracts</b>	<b>Claims and Payments (Including Claim Expense)</b>	<b>Net Changes in Loss Reserve</b>	<b>Profit (Loss)</b>
Fire insurance	\$ 1,076,695	\$ 66,637	\$ 76,478	\$ 129,978	\$ 41,538	\$ 762,064
Marine insurance	241,264	28,849	29,797	71,142	(11,689)	123,165
Land and air insurance	160,774	(28,654)	48,668	98,885	(44,122)	85,997
Liability insurance	188,517	(23,666)	41,485	67,951	32,000	70,747
Bonding insurance	49,211	6,005	9,095	4,628	8,939	20,544
Other property insurance	228,680	44,193	36,717	68,427	60,981	18,362
Accident insurance	122,578	24,625	29,453	28,310	6,545	33,645
Health insurance	-	-	-	-	(324)	324
Compulsory auto liability insurance	595,089	(2,164)	-	535,897	933	60,423
	<u>\$ 2,662,808</u>	<u>\$ 115,825</u>	<u>\$ 271,693</u>	<u>\$ 1,005,218</u>	<u>\$ 94,801</u>	<u>\$ 1,175,271</u>

5) Sensitivity to insurance risk

a) Cathay Century

<b>Insurance by Type</b>	<b>Premium Income</b>	<b>Expected Loss Rate</b>	<b>Impact on Profit or Loss of 5% Change in Expected Loss Rate</b>	
			<b>Before Reinsurance</b>	<b>After Reinsurance</b>
Fire insurance	\$ 1,802,801	43.05%	\$ (90,140)	\$ (75,759)
Marine insurance	329,748	40.27%	(16,487)	(7,060)
Land and air insurance	4,609,352	64.34%	(230,468)	(222,195)
Liability insurance	711,806	53.26%	(35,590)	(24,387)
Financial guarantee insurance	71,675	186.38%	(3,584)	(2,352)
Other property insurance	431,029	66.43%	(21,551)	(16,236)
Accident insurance	1,634,621	42.73%	(81,731)	(76,759)
Health insurance	196,311	41.38%	(9,816)	(9,802)
Compulsory automobile liability insurance	1,407,881	Not applicable	Not applicable	Not applicable
	<u>\$ 11,195,224</u>		<u>\$ (489,367)</u>	<u>\$ (434,550)</u>

The above table shows that with 5% increase in the expected loss rate of every insurance contract of Cathay Century, profit or loss may be impacted to an extent; however, the impact has been mitigated through the arrangement of reinsurance to achieve the effect of risk diversification.

b) Cathay Insurance (Vietnam)

Insurance by Type	Premium Income	Expected Loss Rate	Impact on Profit or Loss of 5% Change in Expected Loss Rate	
			Before Reinsurance	After Reinsurance
Automobile insurance	\$ 55,954	35.74%	\$ (2,798)	\$ (857)
Marine insurance	4,379	24.55%	(219)	(44)
Fire insurance	116,938	38.17%	(5,847)	(5,378)
Engineering insurance	1,345	-	(67)	(24)
Accident insurance	14,169	33.12%	(708)	(247)
Liability insurance	<u>735</u>	-	<u>(37)</u>	<u>(1)</u>
	<u>\$ 193,520</u>		<u>\$ (9,676)</u>	<u>\$ (6,551)</u>

The above table shows that with 5% increase in the expected loss rate of every insurance contract of Cathay Insurance (Vietnam), profit or loss may be impacted to an extent; however, the impact has been mitigated through the arrangement of reinsurance to achieve the effect of risk diversification.

6) Risk concentration

a) Cathay Century

i. Situations that may cause concentration of insurance risk:

i) Single insurance contract or several related contracts

As of June 30, 2019, according to related underwriting guidelines for the commercial insurance with low frequency of occurrence and enormous possible losses, the underwriting department, reinsurance department and risk management department have reviewed or discussed in project meeting.

ii) Exposure to unanticipated changes in trend

As of June 30, 2019, there is no exposure to unanticipated change in trend.

iii) Material litigation or legal risks that may lead to huge losses incurred by a single contract or have an extensive effect on several contracts

“The Regulations for Assisting in Filing Lawsuit Cases of Cathay Century Insurance” is set up to safeguard the rights of Cathay Century and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each unit has appointed a staff for compliance matters to minimize possible legal risk. As of June 30, 2019, there are no material litigation or legal risks that may lead to huge losses incurred by a single contract or have an extensive effect on several contracts.

iv) Correlation and interaction among different risks

When a catastrophe occurs, the underwritten cases will incur huge claims, and other risks such as market risk, credit risk, liquidity risk, may be derived accordingly. To avoid the operations being severely endangered by these derived risks from a catastrophe, Cathay Century established “Operation Standards under Crisis”, under which crisis handling team is set up in reaction to the event and execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and Cathay Century and to keep financial stability. As of June 30, 2019, there is no interaction among risks resulting from a catastrophe.

v) Significantly non-linear relationship as a certain key variable has approached to the extent that future cash flows may be materially influenced

Since the 3rd stage of liberalization of property insurance premium rate took effect, Cathay Century has conducted regular reviews on voluntary automobile insurance, commercial fire insurance, and residential fire insurance in accordance with regulations. When the actual loss rate exceeds the expected loss rate to a certain percentage, premium rates will be properly adjusted to avoid persistent enlargement of losses. In addition, the actuarial department observes the changes in trend of loss rates of each product on irregular basis and adjusts pricing and coverage in a timely manner to effectively lower insurance risks.

For investment instruments, changes in risk indicators are monitored on a regular basis with cash flow analysis as well as stress testing, to control and manage the impact of fluctuations in major risk factors.

In addition, stress testing is performed for the overall business every year to assess the impacts on financial positions due to extreme scenarios of the assets and insurance risk and understand the major risk factors to response in advance.

vi) Concentration of geographic regions and operating segments

Cathay Century’s catastrophe insurance for earthquakes and floods are mainly in Taipei, Taoyuan, Hsinchu, Chiayi, Tainan, Kaohsiung and Pingtung.

- ii. Disclosure of concentration of insurance risk, including explanation of indicators used to identify the common features of insurance risk concentration and exposure to related insurance liabilities related to such feature

The following table summarizes Cathay Century's concentration of risk before and after reinsurance by insurance type:

Insurance Type	For the Three Months Ended June 30, 2019				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Fire insurance	\$ 1,185,945	\$ 130,073	\$ 789,040	\$ 526,978	11.20
Marine insurance	169,779	10,481	125,415	54,845	1.17
Land and air insurance	2,299,511	(1)	77,488	2,222,022	47.23
Liability insurance	342,485	1,169	106,783	236,871	5.04
Financial guarantee insurance	29,992	255	20,625	9,622	0.20
Other property insurance	192,458	77,470	129,071	140,857	2.98
Accident insurance	857,914	3,372	51,370	809,916	17.22
Health insurance	105,081	5,270	-	110,351	2.35
Compulsory automobile liability insurance	719,448	174,272	300,704	593,016	12.61
Total	\$ 5,902,613	\$ 402,361	\$ 1,600,496	\$ 4,704,478	100.00

Insurance Type	For the Six Months Ended June 30, 2019				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Fire insurance	\$ 1,802,801	\$ 247,463	\$ 1,159,153	\$ 891,111	9.74
Marine insurance	329,748	25,904	233,240	122,412	1.34
Land and air insurance	4,609,352	40	149,298	4,460,094	48.74
Liability insurance	711,806	1,602	228,727	484,681	5.30
Financial guarantee insurance	71,675	785	50,323	22,137	0.24
Other property insurance	431,029	120,839	294,164	257,704	2.81
Accident insurance	1,634,621	6,915	119,614	1,521,922	16.63
Health insurance	196,311	5,270	-	201,581	2.20
Compulsory automobile liability insurance	1,407,881	367,643	586,358	1,189,166	13.00
Total	\$ 11,195,224	\$ 776,461	\$ 2,820,877	\$ 9,150,808	100.00



- iii. Disclosure of the past performance of property insurance business regarding the management risks with low frequency of occurrence but enormous impact, to the user of financial statement assess the uncertainty of cash flows related to such risks

Catastrophes such as earthquake, typhoon, and flood along with related hung claims, result in tremendous impact to the property insurance business.

To control and manage risk with low frequency of occurrence but enormous impact, Cathay Century assesses the risk of natural disasters and special insured items (for example, high-tech factory, power plant and traffic engineering) holds loss prevention seminars regularly to help clients lower the incidence rate of disasters.

b) Cathay Insurance (Vietnam)

- i. Situations that may cause concentration of insurance risk:

- i) Single insurance contract or several related contracts

- As of June 30, 2019, according to related underwriting guidelines for the commercial insurance with low frequency of occurrence and enormous possible losses, the underwriting department and reinsurance department have reviewed or discussed in project meeting.

- ii) Exposure to unanticipated changes in trend

- As of June 30, 2019, there is no exposure to unanticipated change in trend.

- iii) Material litigation or legal risks that may lead to huge losses incurred by a single contract or have an extensive effect on several contracts

- “The Procedure for Subrogation” and “The Proceedings of the Court” are 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 unit has appointed a staff for compliance matters to minimize possible legal risk. As of June 30, 2019, there are no material litigation or legal risks that may lead to huge losses incurred by a single contract or have an extensive effect on several contracts.

- iv) Correlation and interaction among different risks

- When a catastrophe occurs, the underwritten cases will incur huge claims, and other risks such as market risk, credit risk, liquidity risk, may be derived accordingly. To avoid the operations being severely endangered by these derived risks from a catastrophe, Cathay Insurance (Vietnam) established the Points for Handling Major Events of Cathay Insurance (Vietnam) under which crisis handling team is set up in reaction to the event and execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and Cathay Century and to keep financial stability. As of June 30, 2019, there is no interaction among risks resulting from a catastrophe.

- v) Concentration of geographical regions and operating segments

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

- ii. Disclosure of concentration of insurance risk, including explanation of indicators used to identify the common features of insurance risk concentration and exposure to related insurance liabilities related to such feature.

The following table summarizes the Cathay Insurance (Vietnam)'s concentration of risk before and after reinsurance by insurance type:

Insurance Type	For the Three Months Ended June 30, 2019				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Automobile insurance	\$ 31,898	\$ 17	\$ 15	\$ 31,900	71.61
Flood insurance	2,882	-	2,089	793	1.78
Fire insurance	42,964	220	38,987	4,197	9.42
Engineering insurance	424	-	255	169	0.38
Accident insurance	7,468	-	-	7,468	16.77
Liability insurance	50	-	30	20	0.04
Total	\$ 85,686	\$ 237	\$ 41,376	\$ 44,547	100.00

Insurance Type	For the Six Months Ended June 30, 2019				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Automobile insurance	\$ 55,954	\$ 17	\$ 38	\$ 55,933	69.30
Flood insurance	4,379	-	3,101	1,278	1.58
Fire insurance	116,938	726	109,138	8,526	10.57
Engineering insurance	1,345	-	807	538	0.67
Accident insurance	14,169	-	-	14,169	17.56
Liability insurance	735	-	480	255	0.32
Total	\$ 193,520	\$ 743	\$ 113,564	\$ 80,699	100.00

- c) Disclosure of the past performance of property insurance business regarding the management risks with low frequency of occurrence but enormous impact, to the user of financial statement assess the uncertainty of cash flows related to such risks

Catastrophes such as typhoon and flood, will bring tremendous insurance risk to property insurance business. To control and manage risk with low frequency occurrence but enormous impact, Cathay Insurance (Vietnam) assesses the risk of natural disasters and special insured items holds loss prevention seminars regularly to help clients lower the incidence rate of disasters.

## 7) Development trends of claims

### a) Cathay Century

Accident Year	2013Q2	2013Q3-2014Q2	2014Q3-2015Q2	2015Q3-2016Q2	2016Q3-2017Q2	2017Q3-2018Q2	2018Q3-2019Q2	Total
Accumulated estimated claim payments								
End of the underwriting year	\$ 15,836,410	\$ 6,483,154	\$ 7,170,324	\$ 10,927,997	\$ 8,351,788	\$ 8,563,452	\$ 9,186,812	
After the first year	17,075,656	6,675,204	7,441,579	11,188,856	8,026,850	8,325,438	-	
After the second year	17,297,430	6,617,395	7,353,789	11,209,255	7,945,756	-	-	
After the third year	17,277,491	6,566,833	7,419,731	11,076,759	-	-	-	
After the fourth year	17,327,532	6,567,427	7,301,127	-	-	-	-	
After the fifth year	17,310,317	6,544,686	-	-	-	-	-	
After the sixth year	17,716,702	-	-	-	-	-	-	
Final estimated claim payments	17,716,702	6,544,686	7,301,127	11,076,759	7,945,756	8,325,438	9,186,812	
Accumulated claims disbursed	17,171,867	6,483,936	7,042,947	10,817,133	7,596,595	7,508,119	5,172,954	
Adjustment	544,835	60,750	258,180	259,626	349,161	817,319	4,013,858	\$ 6,303,729
Amount recognized in balance sheet	\$ 544,835	\$ 60,750	\$ 258,180	\$ 259,626	\$ 349,161	\$ 817,319	\$ 4,159,493	\$ 6,449,364

Note: The upper part of table illustrates claim payments estimated in underwriting years by property insurance business. The lower part of the table illustrates the reconciliation of the accumulated claims disbursed to the balance sheet.

The above table excludes direct loss reserve of compulsory insurance of \$1,438,485 thousand and assumed loss reserve of \$843,300 thousand.

### b) Cathay Insurance (Vietnam)

Since the claim data of Cathay Insurance (Vietnam) is still immature, the historical experience for development trend of claim are not available. Cathay Insurance (Vietnam) provided loss reserve for claims incurred but not yet filed at 5% of retained premiums following the suggestion by Vietnamese Ministry of Finance 2842/BTC/QLBH.

## 36. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

	June 30, 2019	December 31, 2018	June 30, 2018
<u>Financial assets</u>			
Financial assets at FVTPL	\$ 1,512,589,693	\$ 1,428,824,049	\$ 1,423,426,036
Financial assets at FVTOCI	1,122,648,310	1,127,810,270	1,149,474,661
Financial assets for hedging	258,198	216,611	217,899
Measured at amortized cost			
Cash and cash equivalents	327,504,526	206,576,054	309,655,895
Due from the Central Bank and other banks	148,924,269	104,223,315	109,711,078
Financial assets measured at amortized cost	2,917,332,569	2,688,221,788	2,496,164,317
Notes and bonds purchased under resale agreements	92,401,508	59,212,899	109,042,261

(Continued)

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Discounts and loans, net	\$ 2,103,752,021	\$ 2,176,775,907	\$ 2,119,649,909
Receivables, net	188,568,814	161,216,190	189,220,327
Other financial assets	605,139,145	555,740,531	583,446,775
Guarantee deposits paid	68,283,666	57,523,991	73,586,582
<b><u>Financial liabilities</u></b>			
Financial liabilities at FVTPL	140,826,566	129,698,896	167,696,630
Financial liabilities for hedging	31,843	-	-
Financial liabilities at amortized cost			
Due to the Central Bank and other banks	100,140,913	81,432,233	91,802,507
Notes and bonds sold under repurchase agreements	35,343,325	59,307,037	105,689,690
Commercial paper payable, net	46,160,506	62,989,367	53,847,245
Payables	88,362,798	66,727,399	92,897,195
Deposits and remittances	2,238,002,001	2,187,203,086	2,121,960,307
Bonds payable	120,400,000	90,600,000	90,600,000
Other borrowings	238,942	336,381	218,389
Other financial liabilities	671,120,046	627,815,178	654,949,610
Guarantee deposits received	6,457,941	6,059,194	6,571,466
			(Concluded)

b. 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:

- 1) The carrying amount of cash and cash equivalents, accounts receivable, short-term debts and accounts payable approximates their fair value due to their short maturities.
- 2) 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.
- 3) Fair values 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).
- 4) 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 instruments (such as yield curves published by the Taipei Exchange, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk information.)

- 5) 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 the 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).
- 6) 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 on the Taipei Exchange.

c. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

Items	June 30, 2019				December 31, 2018				June 30, 2018			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<b>Assets</b>												
Financial assets at FVTPL												
Stocks	\$ 602,909,992	\$ 520,551,904	\$ 76,881,747	\$ 5,476,341	\$ 673,969,471	\$ 595,193,754	\$ 72,200,110	\$ 6,575,607	\$ 687,367,571	\$ 606,199,057	\$ 73,805,824	\$ 7,362,690
Bonds	293,360,145	10,715,734	280,765,102	1,879,309	247,536,253	14,790,150	231,090,829	1,655,274	240,589,654	80,725,179	158,577,222	1,287,253
Other	550,010,678	319,918,081	143,853,804	86,238,793	455,969,651	196,842,000	182,125,718	77,001,933	425,820,814	205,639,592	153,661,741	66,519,481
Financial assets at FVTOCI												
Stocks	63,126,533	53,557,459	152,896	9,416,179	43,192,054	34,662,164	154,309	8,375,581	58,780,887	49,417,292	201,622	9,161,973
Bonds	1,060,632,772	104,873,774	955,758,998	-	1,086,899,086	114,029,003	972,870,083	-	1,094,934,261	146,992,454	947,941,807	-
<b>Liabilities</b>												
Financial liabilities at FVTPL												
Financial liabilities designated as at FVTPL	58,349,871	-	58,349,871	-	51,441,482	-	51,441,482	-	52,116,988	-	52,116,988	-
Held for trading	1,730,115	1,730,115	-	-	2,521,778	2,521,778	-	-	1,709,015	1,709,015	-	-
<b>Derivative instruments</b>												
<b>Assets</b>												
Financial assets at FVTPL	66,308,878	1,188,766	54,937,359	10,182,753	51,348,674	512,621	38,751,836	12,084,217	69,647,997	909,344	56,407,833	12,330,820
Financial assets for hedging	258,198	-	258,198	-	216,611	-	216,611	-	217,889	-	217,899	-
<b>Liabilities</b>												
Financial liabilities at FVTPL	80,746,580	522,096	70,041,731	10,182,753	75,735,636	271,010	63,380,409	12,084,217	113,870,627	451,385	101,115,219	12,304,023
Financial liabilities for hedging	31,843	-	31,843	-	-	-	-	-	-	-	-	-

Note: Guarantee deposits paid in bonds are included.

Transfers between Level 1 and Level 2:

- For the six months ended June 30, 2018, Cathay Life and its subsidiaries transferred shares mandatorily classified as FVTPL of \$220,445 thousand from Level 2 to Level 1 due to the availability of market prices.
- For the six months ended June 30, 2018, Cathay Century and its subsidiaries transferred shares mandatorily classified as FVTPL of \$103,292 thousand from Level 2 to Level 1 due to the availability of market prices.
- For the six months ended June 30, 2019, there were no transfers between Level 1 and Level 2 for assets or liabilities measured at fair value.

2) Reconciliation for movements in Level 3 fair value measurements

	<b>For the Six Months Ended June 30, 2019</b>		
	<b>Financial Assets</b>		<b>Financial Liabilities</b>
	<b>At FVTPL</b>	<b>At FVTOCI</b>	<b>At FVTPL</b>
Beginning balance	\$ 97,317,031	\$ 8,375,581	\$ 12,084,217
Amount recognized in profit or loss			
Loss on financial assets and liabilities at FVTPL	4,057,667	-	(1,256,599)
Gain on reclassification using the overlay approach	(2,305,993)	-	-
Amount recognized in other comprehensive income			
Exchange differences on translating the financial statements of foreign operations	11,818	51	-
Other comprehensive loss reclassified using the overlay approach	2,305,993	-	-
Gain on equity instruments at FVTOCI	-	970,612	-
Acquisitions or issuances	12,897,111	83,400	23,000
Disposals or settlements	<u>(10,506,431)</u>	<u>(13,465)</u>	<u>(667,865)</u>
Ending balance	<u>\$ 103,777,196</u>	<u>\$ 9,416,179</u>	<u>\$ 10,182,753</u>
	<b>For the Six Months Ended June 30, 2018</b>		
	<b>Financial Assets</b>		<b>Financial Liabilities</b>
	<b>At FVTPL</b>	<b>At FVTOCI</b>	<b>At FVTPL</b>
Beginning balance	\$ 70,194,011	\$ 8,805,837	\$ 8,822,872
Amount recognized in profit or loss			
Losses on financial assets and liabilities at FVTPL	9,165,172	-	4,160,993
Gain on reclassification using the overlay approach	(3,256,688)	-	-
Amount recognized in other comprehensive income			
Exchange differences on translating the financial statements of foreign operations	18,788	95	(739)
Other comprehensive loss reclassified using the overlay approach	3,256,688	-	-
Gain on equity instruments at FVTOCI	-	1,735,540	-
Acquisitions or issuances	14,685,129	256,500	37,579
Disposals or settlements	(5,284,563)	-	(716,682)
Transfers to Level 3	407,474	-	-
Transfers out of Level 3	<u>(1,685,767)</u>	<u>(1,635,999)</u>	<u>-</u>
Ending balance	<u>\$ 87,500,244</u>	<u>\$ 9,161,973</u>	<u>\$ 12,304,023</u>

Regarding the above amounts recognized in profit or loss for the six months ended June 30, 2019 and 2018, unrealized losses of \$2,028,184 thousand and unrealized gains of \$4,782,344 thousand were related to financial assets held at the end of the period, respectively.

Regarding the above amounts recognized in profit or loss for the six months ended June 30, 2019 and 2018, unrealized losses of \$1,256,599 thousand and unrealized gains of \$4,160,993 thousand were related to financial assets held at the end of the period, respectively.

3) Information on significant unobservable inputs applied for Level 3 fair value measurement

The significant unobservable inputs applied for recurring Level 3 fair value measurement were as follows:

Cathay Life and its subsidiaries

<b>June 30, 2019</b>				
<b>Items</b>	<b>Valuation Techniques</b>	<b>Significant Unobservable Inputs</b>	<b>Interval (Weighted-average)</b>	<b>Relationship Between Inputs and Fair Value</b>
Financial assets at FVTPL and financial assets at FVTOCI	Equity approach	Discount for lack of liquidity	0%-3%	The higher the discount for lack of marketability, the lower the fair value estimates
	Market approach	Discount for lack of marketability	11%-30%	The higher the discount for lack of marketability, the lower the fair value estimates
	Income approach	Discount for lack of marketability, discount for minority interest, etc.	22%-38%	The higher the discount for lack of marketability and control, the lower the fair value estimates
		Growth rate of net profit after tax	(48%)-21%	The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates
		Dividend payout ratio	80%-140%	The higher the dividend payout ratio, the higher the fair value estimates
<b>December 31, 2018</b>				
<b>Items</b>	<b>Valuation Techniques</b>	<b>Significant Unobservable Inputs</b>	<b>Interval (Weighted-average)</b>	<b>Relationship Between Inputs and Fair Value</b>
Financial assets at FVTPL and financial assets at FVTOCI	Equity approach	Discount for lack of liquidity	0%-3%	The higher the discount for lack of marketability, the lower the fair value estimates
	Market approach	Discount for lack of marketability	11%-30%	The higher the discount for lack of marketability, the lower the fair value estimates
	Income approach	Discount for lack of marketability, discount for minority interest, etc.	22%-37%	The higher the discount for lack of marketability and control, the lower the fair value estimates
		Growth rate of net profit after tax	(48%)-36%	The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates
		Dividend payout ratio	70%-140%	The higher the dividend payout ratio, the higher the fair value estimates



<b>June 30, 2018</b>				
<b>Items</b>	<b>Valuation Techniques</b>	<b>Significant Unobservable Inputs</b>	<b>Interval (Weighted-average)</b>	<b>Relationship Between Inputs and Fair Value</b>
Financial assets at FVTPL and financial assets at FVTOCI	Equity approach	Discount for lack of marketability	0%-3%	The higher the discount for lack of marketability, the lower the fair value estimates
	Market approach	Discount for lack of marketability	10%-30%	The higher the discount for lack of marketability, the lower the fair value estimates
	Income approach	Discount for lack of marketability, discount for minority interest, etc.	14%-51%	The higher the discount for lack of marketability and control, the lower the fair value estimates
		Growth rate of net profit after tax	(48%)-62%	The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates
		Dividend payout ratio	80%-140%	The higher the dividend payout ratio, the higher the fair value estimates

Cathay United Bank and its subsidiaries

<b>June 30, 2019</b>				
<b>Items</b>	<b>Valuation Techniques</b>	<b>Significant Unobservable Inputs</b>	<b>Interval (Weighted-average)</b>	<b>Relationship Between Inputs and Fair Value</b>
Financial assets at fair value through profit or loss	Market approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value of shares
Financial assets at fair value through other comprehensive income	Market approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value of shares
	Income approach	Cost of equity rate	6%-7%	The higher the cost of equity rate, the lower the fair value of the shares
	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 shares.

<b>December 31, 2018</b>				
<b>Items</b>	<b>Valuation Techniques</b>	<b>Significant Unobservable Inputs</b>	<b>Interval (Weighted-average)</b>	<b>Relationship Between Inputs and Fair Value</b>
Financial assets at fair value through profit or loss	Market approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value of shares
Financial assets at fair value through other comprehensive income	Market approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value of shares
	Income approach	Cost of equity rate	6%-7%	The higher the cost of equity rate, the lower the fair value of the shares
	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 shares

<b>June 30, 2018</b>				
<b>Items</b>	<b>Valuation Techniques</b>	<b>Significant Unobservable Inputs</b>	<b>Interval (Weighted-average)</b>	<b>Relationship Between Inputs and Fair Value</b>
Financial assets at fair value through profit or loss	Market approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value of shares
Financial assets at fair value through other comprehensive income	Market approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value of shares
	Income approach	Cost of equity rate	6%-7%	The higher the cost of equity rate, the lower the fair value of the shares
	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 shares

Cathay Century and its subsidiaries

<b>June 30, 2019</b>				
<b>Financial Assets</b>	<b>Valuation Techniques</b>	<b>Significant Unobservable Inputs</b>	<b>Weighted Average Number</b>	<b>Relationship Between Inputs and Fair Value</b>
Financial assets at FVTOCI	Market approach	Discount for lack of marketability	29%	The higher the discount for lack of marketability, the lower the fair value of the shares

<b>December 31, 2018</b>				
<b>Financial Assets</b>	<b>Valuation Techniques</b>	<b>Significant Unobservable Inputs</b>	<b>Weighted Average Number</b>	<b>Relationship Between Inputs and Fair Value</b>
Financial assets at FVTOCI	Market approach	Discount for lack of marketability	29%	The higher the discount for lack of marketability, the lower the fair value of the shares

<b>June 30, 2018</b>				
<b>Financial Assets</b>	<b>Valuation Techniques</b>	<b>Significant Unobservable Inputs</b>	<b>Weighted Average Number</b>	<b>Relationship Between Inputs and Fair Value</b>
Financial assets at FVTOCI	Market approach	Discount for lack of marketability	30%	The higher the discount for lack of marketability, the lower the fair value of the shares

Cathay Securities and its subsidiaries

<b>June 30, 2019</b>					
<b>Items</b>	<b>Valuation Techniques</b>	<b>Significant Unobservable Inputs</b>	<b>Interval (Weighted-average)</b>	<b>Relationship Between Inputs and Fair Value</b>	<b>Sensitivity of the Input to Fair Value</b>
Investments in equity instruments at fair value through other comprehensive income	Market comparison approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value	Rate of discount for lack of marketability (3%)-3%, floating rate of fair value 3.67%-(3.67%)

<b>December 31, 2018</b>					
<b>Items</b>	<b>Valuation Techniques</b>	<b>Significant Unobservable Inputs</b>	<b>Interval (Weighted-average)</b>	<b>Relationship Between Inputs and Fair Value</b>	<b>Sensitivity of the Input to Fair Value</b>
Investments in equity instruments at fair value through other comprehensive income	Market comparison approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value	Rate of discount for lack of marketability (3%)-3%, floating rate of fair value 3.67%-(3.67%)

June 30, 2018					
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value	Sensitivity of the Input to Fair Value
Investments in equity instruments at fair value through other comprehensive income	Market comparison approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value	Rate of discount for lack of marketability (3%)-3%, floating rate of fair value 3.67%-(3.67%)

4) Valuation process for Level 3 fair value measurements.

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 Group's accounting policies at each reporting date.

d. Fair values of financial instruments not measured at fair value

Other than cash and cash equivalents, due from the Central Bank and call loans to other banks, securities purchased under resale agreements, receivables, loans, guarantee deposits paid, due to the Central Bank and other banks, securities sold under repurchase agreements, commercial paper payable, bonds payable, other borrowings, payables, deposits and guarantee deposits received, the items whose carrying amount approximate their fair value, the fair values of the Group's financial instruments which are not measured at fair value are listed in the table below:

June 30, 2019

Carrying Amount	Fair Value				Total
	Level 1	Level 2	Level 3		
<u>Financial assets</u>					
Financial assets measured at amortized cost	\$ 2,931,892,814	\$ 94,211,354	\$ 2,962,775,209	\$ 4,900,864	\$ 3,060,887,427
Other financial assets	1,999,333	-	2,000,211	-	2,000,211

December 31, 2018

Carrying Amount	Fair Value				Total
	Level 1	Level 2	Level 3		
<u>Financial assets</u>					
Financial assets measured at amortized cost	\$ 2,704,025,477	\$ 121,132,583	\$ 2,480,186,972	\$ 6,061,288	\$ 2,607,380,843
Other financial assets	1,999,406	-	2,009,973	-	2,009,973

June 30, 2018

Carrying Amount	Fair Value				Total
	Level 1	Level 2	Level 3		
<u>Financial assets</u>					
Financial assets measured at amortized cost	\$ 2,514,710,980	\$ 121,238,654	\$ 2,315,773,504	\$ 7,894,632	\$ 2,444,906,790
Other financial assets	3,497,769	-	3,524,111	-	3,524,111

Note: Guarantee deposits paid in bonds are included.

The fair values of the financial assets and financial liabilities included in the Level 2 and Level 3 categories above have been determined in accordance with income approaches based on a discounted cash flow analysis. Significant unobservable inputs used in Level 3 fair value measurement were the discount rates that reflect the credit risk of counterparties and the cash flows that reflect the feature of early reimbursement.

e. Hedge accounting disclosures

Cathay Life and its subsidiaries

1) Cash flow hedges

The future cash flows of the floating-rate assets held by Cathay life may fluctuate due to changes in market interest rates and thus lead to risks. Accordingly, Cathay life held interest rate swaps to hedge risks arising from the changes in interest rates. Information of hedge accounting is as follows:

a) Hedging instruments

June 30, 2019					
Hedging Instrument	Nominal Amount of the Hedging Instrument	Carrying Amount of the Hedging Instrument		Line Item in the Balance Sheet Where the Hedging Instrument Is Included	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period
		Assets	Liabilities		
Interest rate swaps	\$ 6,800,000	\$ 218,706	\$ -	Financial assets for hedging	\$ 34,833
Interest rate swaps	1,359,400	-	31,843	Financial liabilities for hedging	(31,720)
December 31, 2018					
Hedging Instrument	Nominal Amount of the Hedging Instrument	Carrying Amount of the Hedging Instrument		Line Item in the Balance Sheet Where the Hedging Instrument Is Included	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period
		Assets	Liabilities		
Interest rate swaps	\$ 6,800,000	\$ 216,611	\$ -	Financial assets for hedging	\$ 54,891
June 30, 2018					
Hedging Instrument	Nominal Amount of the Hedging Instrument	Carrying Amount of the Hedging Instrument		Line Item in the Balance Sheet Where the Hedging Instrument Is Included	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period
		Assets	Liabilities		
Interest rate swaps	\$ 6,800,000	\$ 217,899	\$ -	Financial assets for hedging	\$ 22,790

b) Maturities of the nominal amount of hedging instruments and average price or rate

	Maturity				
	1 Month	1-3 Months	3 Months - 1 Year	1-5 Years	Over 5 Years
<u>June 30, 2019</u>					
Interest rate swaps					
Nominal principal	\$ -	\$ -	\$ 38,840	\$ 8,120,560	\$ -
Average fixed rate	-	-	2.5%	1.6%-2.5%	-

	<b>Maturity</b>				
	<b>1 Month</b>	<b>1-3 Months</b>	<b>3 Months - 1 Year</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>
<u>December 31, 2018</u>					
Interest rate swaps					
Nominal principal	\$ -	\$ -	\$ -	\$ 3,800,000	\$ 3,000,000
Average fixed rate	-	-	-	1.6%	1.7%

	<b>Maturity</b>				
	<b>1 Month</b>	<b>1-3 Months</b>	<b>3 Months - 1 Year</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>
<u>June 30, 2018</u>					
Interest rate swaps					
Nominal principal	\$ -	\$ -	\$ -	\$ 2,800,000	\$ 4,000,000
Average fixed rate	-	-	-	1.6%	1.7%

c) Hedged items

	<b>For the Six Months Ended June 30, 2019</b>							
	<b>Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period</b>	<b>Cash Flow Hedge Reserve</b>	<b>Balance of Cash Flow Hedge Reserve Generated from the Hedging Relationships Where Hedge Accounting Is No Longer Applicable</b>	<b>Change in the Value of the Hedging Instrument Recognized in Other Comprehensive Income</b>	<b>Hedge Ineffectiveness Recognized in Profit or loss</b>	<b>Line Item in Profit or Loss that Includes Hedge Ineffectiveness</b>	<b>Amount Reclassified from the Cash Flow Hedge Reserve to Profit or Loss</b>	<b>Line Item Affected in Profit or Loss Because of the Reclassification</b>
Floating-rate bonds	\$ (34,833)	\$ 218,706	N/A	\$ 34,833	\$ -	\$ -	\$ (32,737)	Finance cost
Payables	31,720	(31,843)	N/A	(31,720)	-	-	-	Finance cost
Discontinued hedge - floating-rate bonds	N/A	N/A	-	N/A	N/A	N/A	-	Finance cost

	<b>For the Six Months Ended June 30, 2018</b>							
	<b>Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period</b>	<b>Cash Flow Hedge Reserve</b>	<b>Balance of Cash Flow Hedge Reserve Generated from the Hedging Relationships Where Hedge Accounting Is No Longer Applicable</b>	<b>Change in the Value of the Hedging Instrument Recognized in Other Comprehensive Income</b>	<b>Hedge Ineffectiveness Recognized in Profit or loss</b>	<b>Line Item in Profit or Loss that Includes Hedge Ineffectiveness</b>	<b>Amount Reclassified from the Cash Flow Hedge Reserve to Profit or Loss</b>	<b>Line Item Affected in Profit or Loss Because of the Reclassification</b>
Floating-rate bonds	\$ (22,790)	\$ 217,899	N/A	\$ 22,790	\$ -	\$ -	\$ (51,335)	Finance cost
Discontinued hedge - floating-rate bonds	N/A	N/A	\$ (149)	N/A	N/A	N/A	938	Finance cost

- d) Reconciliation for equity component applying hedge accounting and related other comprehensive income were summarized below:

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 173,288	\$ 203,647
Gross amount recognized in other comprehensive income		
Change in the value of the hedging instrument recognized in other comprehensive income	3,113	22,790
Amount reclassified from the cash flow hedge reserve to profit or loss	(32,737)	(50,397)
Income tax	(420)	(1,839)
Ending balance	<u>\$ 143,244</u>	<u>\$ 174,201</u>

2) Fair value hedges

The book value of the foreign currency denominated assets held by Cathay life may fluctuate due to changes in market exchange rates and thus lead to risk. Accordingly, Cathay life held derivative instruments related to exchange rates to hedge risks arising from changes in exchange rates. Information of hedge accounting is as follows:

a) Hedging instruments

Hedging Instrument	Nominal Amount of the Hedging Instrument	June 30, 2019		Line Item in the Balance Sheet Where the Hedging Instrument Is Included	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period
		Carrying Amount of the Hedging Instrument			
		Assets	Liabilities		
Cross currency swaps	\$ 11,447,869	\$ 39,492	\$ -	Financial assets for hedging	\$ (86,560)

b) Maturities of the nominal amount of hedging instruments and average price or rate

	Maturity				
	1 Month	1-3 Months	3 Months - 1 Year	1-5 Years	Over 5 Years
<u>June 30, 2019</u>					
Cross currency swaps					
Nominal principal	\$ -	\$ -	\$ -	\$ -	\$ 11,447,869
Interest rate	-	-	-	-	1.59%-2.39%
Exchange rate (EUR/USD)	-	-	-	-	1.1210-1.1353

c) Hedged items

	For the Six Months Ended June 30, 2019						Charges in Fair Value Used for Calculating Hedge Ineffectiveness for Current Period	Ineffectiveness Recognized in Profit or loss	Line item in Profit or Loss That Includes the Hedge Ineffectiveness
	Book Value of Hedged Item		Cumulative Adjustment for Change in Fair Value of Hedged Item Included in the Book Value of the Hedged Item		Line item in the Statement of Financial Position That Includes the Hedged items				
	Assets	Liabilities	Assets	Liabilities					
Overseas bonds	\$ 11,447,869	\$ -	\$ 86,560	\$ -	Financial assets at amortized cost	\$ 86,560	\$ -	\$ -	

- d) Reconciliation for equity component applying hedge accounting and related other comprehensive income were summarized below:

**For the Six  
Months Ended  
June 30, 2019**

Foreign currency basis-related period

Beginning balance	\$ -
Gross amount recognized in other comprehensive income	
Change in the value of the hedging instrument recognized in other comprehensive income	126,052
Income tax	<u>(25,210)</u>
Ending balance	<u>\$ 100,842</u>

- f. Offsetting of financial assets and financial liabilities

Cathay Life and its subsidiaries

Cathay Life and its subsidiaries engage in derivative financial instruments that do not meet the offsetting criteria of standards, but enters into master netting arrangements or other similar agreements with counterparties. Financial instruments subject to master netting arrangements or other similar agreements could be settled at net amount as agreed by both parties of the transaction, or the financial instrument should be settled at gross amount otherwise. However, if one of both parties of the transaction defaults, the other party could choose to settle the transaction at net amount.

Information related to offsetting of financial assets and financial liabilities is disclosed as follows:

June 30, 2019

<b>Financial Assets Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement</b>						
<b>Item</b>	<b>Gross Amount of Recognized Financial Assets</b>	<b>Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet</b>	<b>Net Financial Assets Recognized on the Balance Sheet</b>	<b>Relevant Amount That Has Not Been Offset on the Balance Sheet</b>		<b>Net Amount</b>
				<b>Financial Instruments (Note)</b>	<b>Cash Collateral Received</b>	
Derivative financial instruments	\$ 10,206,701	\$ -	\$ 10,206,701	\$ 9,311,480	\$ 887,759	\$ 7,462
<b>Financial Liabilities Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement</b>						
<b>Item</b>	<b>Gross Amount of Recognized Financial Liabilities</b>	<b>Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet</b>	<b>Net Financial Liabilities Recognized on the Balance Sheet</b>	<b>Relevant Amount That Has Not Been Offset on the Balance Sheet</b>		<b>Net Amount</b>
				<b>Financial Instruments (Note)</b>	<b>Cash Collateral Received</b>	
Derivative financial instruments	\$ 33,155,289	\$ -	\$ 33,155,289	\$ 9,311,480	\$ 11,940,116	\$ 11,903,693

December 31, 2018

<b>Financial Assets Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement</b>						
<b>Item</b>	<b>Gross Amount of Recognized Financial Assets</b>	<b>Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet</b>	<b>Net Financial Assets Recognized on the Balance Sheet</b>	<b>Relevant Amount That Has Not Been Offset on the Balance Sheet</b>		<b>Net Amount</b>
				<b>Financial Instruments (Note)</b>	<b>Cash Collateral Received</b>	
Derivative financial instruments	\$ 5,584,159	\$ -	\$ 5,584,159	\$ 5,424,679	\$ -	\$ 159,480

<b>Financial Liabilities Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement</b>						
<b>Item</b>	<b>Gross Amount of Recognized Financial Liabilities</b>	<b>Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet</b>	<b>Net Financial Liabilities Recognized on the Balance Sheet</b>	<b>Relevant Amount That Has Not Been Offset on the Balance Sheet</b>		<b>Net Amount</b>
				<b>Financial Instruments (Note)</b>	<b>Cash Collateral Received</b>	
Derivative financial instruments	\$ 27,499,106	\$ -	\$ 27,499,106	\$ 5,424,679	\$ 10,921,864	\$ 11,152,563

June 30, 2018

<b>Financial Assets Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement</b>						
<b>Item</b>	<b>Gross Amount of Recognized Financial Assets</b>	<b>Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet</b>	<b>Net Financial Assets Recognized on the Balance Sheet</b>	<b>Relevant Amount That Has Not Been Offset on the Balance Sheet</b>		<b>Net Amount</b>
				<b>Financial Instruments (Note)</b>	<b>Cash Collateral Received</b>	
Derivative financial instruments	\$ 4,692,108	\$ -	\$ 4,692,108	\$ 4,611,905	\$ -	\$ 80,203

<b>Financial Liabilities Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement</b>						
<b>Item</b>	<b>Gross Amount of Recognized Financial Liabilities</b>	<b>Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet</b>	<b>Net Financial Liabilities Recognized on the Balance Sheet</b>	<b>Relevant Amount That Has Not Been Offset on the Balance Sheet</b>		<b>Net Amount</b>
				<b>Financial Instruments (Note)</b>	<b>Cash Collateral Received</b>	
Derivative financial instruments	\$ 55,410,128	\$ -	\$ 55,410,128	\$ 4,611,905	\$ 24,103,943	\$ 26,694,280

Cathay United Bank and its subsidiaries

Cathay United Bank engages in financial instrument transactions that are offset in accordance with IAS 32, section 42, and the financial assets and financial liabilities that are relevant to such transactions are presented in the balance sheets at net amounts.

Cathay United Bank is also engaged in financial instrument transactions that are not offset in accordance with the regulations, but entered into enforceable master netting arrangements or other similar agreements with counterparties, for example: Global master repurchase agreements, global securities lending agreements, or other similar agreements. Financial instruments subject to enforceable master netting arrangement or other similar agreements could be settled at net amount as chosen by the counterparties, or the financial instruments could be settled at gross amount if not. However, if one of the counterparty defaults, the other party could choose to settle the transaction at net amount.



Information related to offsetting of financial assets and financial liabilities was disclosed as follows:

June 30, 2019

<b>Financial Assets Subject to Offsetting, Master Netting Arrangement or Similar Agreements</b>						
<b>Item</b>	<b>Gross Amount of Recognized Financial Assets (a)</b>	<b>Gross Amount Offset in the Balance Sheet (b)</b>	<b>Amount Presented in the Balance Sheet (c)= (a)-(b)</b>	<b>Amount Not Offset in the Balance Sheet (d)</b>		<b>Net Amount (e)=(c)-(d)</b>
				<b>Financial Instruments (Note)</b>	<b>Cash Collateral Received/ Pledged</b>	
Derivative financial instruments	\$ 57,364,999	\$ -	\$ 57,364,999	\$ 49,284,816	\$ 2,246,062	\$ 5,834,121

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

June 30, 2019

<b>Financial Liabilities Subject to Offsetting, Master Netting Arrangement or Similar Agreements</b>						
<b>Item</b>	<b>Gross Amount of Recognized Financial Liabilities (a)</b>	<b>Gross Amount Offset in the Balance Sheet (b)</b>	<b>Amount Presented in the Balance Sheet (c)= (a)-(b)</b>	<b>Amount Not Offset in the Balance Sheet (d)</b>		<b>Net Amount (e)=(c)-(d)</b>
				<b>Financial Instruments (Note)</b>	<b>Cash Collateral Received/ Pledged</b>	
Derivative financial instruments	\$ 49,284,816	\$ -	\$ 49,284,816	\$ 49,284,816	\$ -	\$ -

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

December 31, 2018

<b>Financial Assets Subject to Offsetting, Master Netting Arrangement or Similar Agreements</b>						
<b>Item</b>	<b>Gross Amount of Recognized Financial Assets (a)</b>	<b>Gross Amount Offset in the Balance Sheet (b)</b>	<b>Amount Presented in the Balance Sheet (c)= (a)-(b)</b>	<b>Amount Not Offset in the Balance Sheet (d)</b>		<b>Net Amount (e)=(c)-(d)</b>
				<b>Financial Instruments (Note)</b>	<b>Cash Collateral Received/ Pledged</b>	
Derivative financial instruments	\$ 49,475,706	\$ -	\$ 49,475,706	\$ 49,475,706	\$ -	\$ -

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

December 31, 2018

<b>Financial Liabilities Subject to Offsetting, Master Netting Arrangement or Similar Agreements</b>						
<b>Item</b>	<b>Gross Amount of Recognized Financial Liabilities (a)</b>	<b>Gross Amount Offset in the Balance Sheet (b)</b>	<b>Amount Presented in the Balance Sheet (c)= (a)-(b)</b>	<b>Amount Not Offset in the Balance Sheet (d)</b>		<b>Net Amount (e)=(c)-(d)</b>
				<b>Financial Instruments (Note)</b>	<b>Cash Collateral Received/ Pledged</b>	
Derivative financial instruments	\$ 51,966,013	\$ -	\$ 51,966,013	\$ 49,475,706	\$ 2,490,307	\$ -

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

June 30, 2018

<b>Financial Assets Subject to Offsetting, Master Netting Arrangement or Similar Agreements</b>						
<b>Item</b>	<b>Gross Amount of Recognized Financial Assets (a)</b>	<b>Gross Amount Offset in the Balance Sheet (b)</b>	<b>Amount Presented in the Balance Sheet (c)= (a)-(b)</b>	<b>Amount Not Offset in the Balance Sheet (d)</b>		<b>Net Amount (e)=(c)-(d)</b>
				<b>Financial Instruments (Note)</b>	<b>Cash Collateral Received/ Pledged</b>	
Derivative financial instruments	\$ 68,413,681	\$ -	\$ 68,413,681	\$ 61,956,486	\$ 2,876,061	\$ 3,581,134

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

June 30, 2018

<b>Financial Liabilities Subject to Offsetting, Master Netting Arrangement or Similar Agreements</b>						
<b>Item</b>	<b>Gross Amount of Recognized Financial Liabilities (a)</b>	<b>Gross Amount Offset in the Balance Sheet (b)</b>	<b>Amount Presented in the Balance Sheet (c)= (a)-(b)</b>	<b>Amount Not Offset in the Balance Sheet (d)</b>		<b>Net Amount (e)=(c)-(d)</b>
				<b>Financial Instruments (Note)</b>	<b>Cash Collateral Received/ Pledged</b>	
Derivative financial instruments	\$ 61,956,486	\$ -	\$ 61,956,486	\$ 61,956,486	\$ -	\$ -

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

Cathay Securities and its subsidiaries

Cathay Securities enters into secured repurchase agreements with counterparties, for which Cathay Securities provides securities as collateral. Only in the event of default, insolvency or bankruptcy, these transactions are allowed to be offset, which does not meet the offsetting criteria of financial instrument transactions, Article 42 of IAS 32, and they are not subject to enforceable master netting arrangements or other similar agreements and should be settled at gross amounts. However, if one of the counterparty defaults, the other party could choose to settle the transaction at net amount.

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

June 30, 2019

<b>Financial Liabilities</b>	<b>Gross Amount of Recognized Financial Liabilities</b>	<b>Gross Amount of Offset Financial Assets Recognized on the Balance Sheet</b>	<b>Net Financial Liabilities Recognized on the Balance Sheet</b>	<b>Relevant Amount That Has Not Been Offset on the Balance Sheet</b>		<b>Net Amount</b>
				<b>Financial Instruments (Note)</b>	<b>Cash Collateral Received</b>	
Repurchase bonds	\$ <u>2,326,937</u>	\$ <u>-</u>	\$ <u>2,326,937</u>	\$ <u>2,345,004</u>	\$ <u>-</u>	\$ <u>(18,067)</u>

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

December 31, 2018

Financial Liabilities	Gross Amount of Recognized Financial Liabilities	Gross Amount of Offset Financial Assets Recognized on the Balance Sheet	Net Financial Liabilities Recognized on the Balance Sheet	Relevant Amount That Has Not Been Offset on the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Received	
Repurchase bonds	\$ 3,332,528	\$ -	\$ 3,332,528	\$ 3,379,521	\$ -	\$ (46,993)

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

June 30, 2018

Financial Liabilities	Gross Amount of Recognized Financial Liabilities	Gross Amount of Offset Financial Assets Recognized on the Balance Sheet	Net Financial Liabilities Recognized on the Balance Sheet	Relevant Amount That Has Not Been Offset on the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Received	
Repurchase bonds	\$ 3,246,829	\$ -	\$ 3,246,829	\$ 3,288,187	\$ -	\$ (41,358)

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

g. Transfers of financial assets

Financial assets transferred that have not been fully removed

Cathay United Bank and its subsidiaries

Transferred financial assets that are part of Cathay United Bank and its subsidiaries' daily operations that do not meet the criteria for full removal are mostly made up of debt securities used as counterparty collateral for repurchase agreements or equity securities lent out as part of securities lending agreement. The nature of these transactions are secured loans, and reflects the liability where Cathay United Bank is obligated to repurchase the transferred financial assets according to a fixed price in future periods. With respect to such transactions, Cathay United Bank will not be able to use, sell or pledge such transferred financial assets during the effective period. However Cathay United Bank is still exposed to interest rate risk and credit risk, hence they are not removed.

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

Category of Financial Assets	June 30, 2019				
	Carrying Value of Transferred Financial Assets	Carrying Value of Related Financial Liabilities	Fair Value of Transferred Financial Assets	Fair Value of Related Financial Liabilities	Net Fair Value
Financial assets at fair value through other comprehensive income					
Repurchase agreements	\$ 1,206,421	\$ 1,142,058	\$ 1,206,421	\$ 1,142,058	\$ 64,363
Financial assets at amortized cost					
Repurchase agreements	31,994,030	30,230,138	31,994,030	30,230,138	1,763,892
Securities sold under agreements					
Repurchase agreements	1,931,521	1,644,192	1,881,941	1,644,192	237,749

December 31, 2018					
Category of Financial Assets	Carrying Value of Transferred Financial Assets	Carrying Value of Related Financial Liabilities	Fair Value of Transferred Financial Assets	Fair Value of Related Financial Liabilities	Net Fair Value
Financial assets at fair value through profit or loss					
Repurchase agreements	\$ 581,159	\$ 523,342	\$ 581,159	\$ 523,342	\$ 57,817
Available for sale financial assets					
Repurchase agreements	44,424,315	42,613,744	44,424,315	42,613,744	1,810,571
Held to maturity financial assets					
Repurchase agreements	14,649,885	11,447,258	13,056,317	11,447,258	1,609,059
Debt instrument investments for which no active market exists					
Repurchase agreements	1,493,132	1,390,165	1,493,132	1,390,165	102,967

June 30, 2018					
Category of Financial Assets	Carrying Value of Transferred Financial Assets	Carrying Value of Related Financial Liabilities	Fair Value of Transferred Financial Assets	Fair Value of Related Financial Liabilities	Net Fair Value
Financial assets at fair value through profit or loss					
Repurchase agreements	\$ 39,196,119	\$ 37,144,456	\$ 39,196,119	\$ 37,144,456	\$ 2,051,663
Financial assets at fair value through other comprehensive income					
Repurchase agreements	45,949,909	45,367,142	45,949,909	45,367,142	582,767
Financial assets at amortized cost					
Repurchase agreements	22,966,726	19,282,820	21,810,188	19,282,820	2,527,368
Securities sold under agreements					
Repurchase agreements	728,696	648,442	728,696	648,442	80,254

#### Cathay Securities and its subsidiaries

Transferred financial assets that are part of Cathay Securities and its subsidiaries' daily operations that do not meet the criteria for full derecognition are mostly made up of notes and bonds issued under repurchase agreements. 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 the 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 fully derecognized.

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

#### June 30, 2019

Categories of Financial Assets	Carrying Value of Transferred Financial Assets	Carrying Value of Related Financial Liabilities	Carrying Value of Related Financial Liabilities	Fair Value of Related Financial Liabilities	Net Fair Value
Financial assets at fair value through <u>other comprehensive income</u>					
Repurchase bonds	\$ 2,345,004	\$ 2,326,937	\$ 2,345,004	\$ 2,326,937	\$ 18,067

December 31, 2018

<b>Categories of Financial Assets</b>	<b>Carrying Value of Transferred Financial Assets</b>	<b>Carrying Value of Related Financial Liabilities</b>	<b>Carrying Value of Related Financial Liabilities</b>	<b>Fair Value of Related Financial Liabilities</b>	<b>Net Fair Value</b>
Financial assets at fair value through <u>other comprehensive income</u>					
Repurchase bonds	\$ 3,379,521	\$ 3,332,528	\$ 3,379,521	\$ 3,332,528	\$ 46,993

June 30, 2018

<b>Categories of Financial Assets</b>	<b>Carrying Value of Transferred Financial Assets</b>	<b>Carrying Value of Related Financial Liabilities</b>	<b>Carrying Value of Related Financial Liabilities</b>	<b>Fair Value of Related Financial Liabilities</b>	<b>Net Fair Value</b>
Financial assets at fair value through <u>other comprehensive income</u>					
Repurchase bonds	\$ 3,288,187	\$ 3,246,829	\$ 3,288,187	\$ 3,246,829	\$ 41,358

h. Financial risk management objectives and policies

Cathay Life and its subsidiaries

Cathay Life's major financial instruments include equity and debt investments, derivative instruments, receivables, payables and bonds payable. The main financial risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1) Credit risk analysis

a) Sources of credit risk

When engaged in financial transactions, Cathay life is exposed to credit risks, including issuer credit risk, counterparty credit risk and credit risk of underlying assets:

- i. Issuer credit risk is the risk that Cathay life may suffer financial losses on debt instruments or bank savings because the issuers (guarantors), borrowers or banks are not able to perform repayment obligations an agreed conditions due to default, bankruptcy or liquidation.
- ii. Counterparty credit risk is the risk that Cathay life may suffer financial losses because the counterparty does not perform its obligation to settle or pay at the appointed date.
- iii. Credit risk of underlying assets is the risk that Cathay life may suffer losses due to deterioration of the credit quality, increase of credit spread, downgrade or breach of any contract terms of underlying assets linked to financial instruments.

b) Concentration risk

i. Regional distribution of maximum risk exposure for Cathay Life's financial assets:

June 30, 2019

Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 195,533,442	\$ 7,331,966	\$ 113,516	\$ 81,168,881	\$ 6,620,186	\$ 290,767,991
Financial assets at FVTPL	33,644,548	31,573,274	101,246,825	42,922,734	88,946,941	298,334,322
Financial assets at FVTOCI	47,358,130	31,402,115	173,181,278	341,051,661	236,841,561	829,834,745
Financial assets for hedging	100,520	-	39,492	118,186	-	258,198
Financial assets measured at amortized cost	184,004,890	158,459,379	431,426,457	1,101,713,065	626,524,854	2,502,128,645
Other financial assets	-	-	1,999,333	-	-	1,999,333
	<u>\$ 460,641,530</u>	<u>\$ 228,766,734</u>	<u>\$ 708,006,901</u>	<u>\$ 1,566,974,527</u>	<u>\$ 958,933,542</u>	<u>\$ 3,923,323,234</u>
Proportion	11.7%	5.8%	18.1%	39.9%	24.5%	100%

December 31, 2018

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 FVTPL	36,221,083	26,691,362	86,749,425	34,116,884	82,160,244	265,938,998
Financial assets at FVTOCI	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
	<u>\$ 419,474,044</u>	<u>\$ 198,888,638</u>	<u>\$ 639,964,843</u>	<u>\$ 1,449,097,022</u>	<u>\$ 874,770,956</u>	<u>\$ 3,582,195,503</u>
Proportion	11.7%	5.5%	17.9%	40.5%	24.4%	100%

June 30, 2018

Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 134,185,857	\$ 76,547	\$ 126,979	\$ 80,830,618	\$ 4,712,630	\$ 219,932,631
Financial assets at FVTPL	36,777,971	21,185,748	62,129,830	18,828,923	80,907,652	219,830,124
Financial assets at FVTOCI	101,684,239	31,677,221	159,588,456	376,535,643	229,605,262	899,090,821
Financial assets for hedging	95,780	-	-	122,119	-	217,899
Financial assets measured at amortized cost	190,463,693	135,171,197	344,507,076	941,813,628	532,315,636	2,144,271,230
Other financial assets	-	-	3,497,769	-	-	3,497,769
	<u>\$ 463,207,540</u>	<u>\$ 188,110,713</u>	<u>\$ 569,850,110</u>	<u>\$ 1,418,130,931</u>	<u>\$ 847,541,180</u>	<u>\$ 3,486,840,474</u>
Proportion	13.3%	5.4%	16.3%	40.7%	24.3%	100%

ii. Regional distribution of maximum risk exposure for Cathay Life's secured loans:

June 30, 2019

Location of Collaterals	Northern and Eastern Areas	Central Area	Southern Area	Overseas	Total
Secured loans	\$ 256,204,669	\$ 43,902,906	\$ 68,758,809	\$ 7,501,329	\$ 376,367,713
Non-accrual receivables	<u>345,098</u>	<u>60,018</u>	<u>95,027</u>	<u>-</u>	<u>500,143</u>
	<u>\$ 256,549,767</u>	<u>\$ 43,962,924</u>	<u>\$ 68,853,836</u>	<u>\$ 7,501,329</u>	<u>\$ 376,867,856</u>
Proportion	68.1%	11.6%	18.3%	2.0%	100%

December 31, 2018

<b>Location of Collaterals</b>	<b>Northern and Eastern Areas</b>	<b>Central Area</b>	<b>Southern Area</b>	<b>Overseas</b>	<b>Total</b>
Secured loans	\$ 287,440,820	\$ 48,492,142	\$ 71,391,306	\$ 8,193,993	\$ 415,518,261
Non-accrual receivables	<u>878,642</u>	<u>36,044</u>	<u>54,067</u>	<u>-</u>	<u>968,753</u>
	<u>\$ 288,319,462</u>	<u>\$ 48,528,186</u>	<u>\$ 71,445,373</u>	<u>\$ 8,193,993</u>	<u>\$ 416,487,014</u>
Proportion	69.2%	11.6%	17.2%	2.0%	100%

June 30, 2018

<b>Location of Collaterals</b>	<b>Northern and Eastern Areas</b>	<b>Central Area</b>	<b>Southern Area</b>	<b>Overseas</b>	<b>Total</b>
Secured loans	\$ 311,341,704	\$ 47,835,454	\$ 76,404,917	\$ 5,135,544	\$ 440,717,619
Non-accrual receivables	<u>852,751</u>	<u>28,565</u>	<u>70,141</u>	<u>-</u>	<u>951,457</u>
	<u>\$ 312,194,455</u>	<u>\$ 47,864,019</u>	<u>\$ 76,475,058</u>	<u>\$ 5,135,544</u>	<u>\$ 441,669,076</u>
Proportion	70.7%	10.8%	17.3%	1.2%	100%

c) Categories for credit risk quality

Cathay Life classified credit risk into low credit risk, medium credit risk, high credit risk and credit impaired. The definitions of each category are as follows:

- i. Low credit risk indicates that an entity or a subject has a robust ability to fulfill its financial commitment obligations. Even though it encounters material uncertainty or exposure to unfavorable conditions, its ability to fulfill its financial commitment obligations will be kept and maintained.
- ii. 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 fulfill its financial commitment obligations.
- iii. High credit risk indicates that an entity or a subject has a fragile ability to fulfill its financial commitment obligations. The capability to fulfill its financial commitment obligations depends on the favorability of its business environment and financial conditions.
- iv. Credit impaired indicates that an entity or a subject fails to fulfill its obligations, and Cathay Life evaluates the potential losses and determines it as impaired.

d) Determination that credit risk has increased significantly since initial recognition

- i. Cathay life assesses whether there is a significant increase in credit risk of a financial instrument applicable for impairment requirements under IFRS 9 since initial recognition at each reporting date. To make this assessment, Cathay life considers 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.
- ii. If the credit risk of a financial instrument is determined to be low at the reporting date, it indicates that the credit risk of the financial instrument has not increased significantly since initial recognition.

e) The definition of default and credit-impaired financial assets

Cathay Life's definition of default on financial assets is the same as that of a credit-impaired financial asset. If one or more of the following criteria are met, a financial asset is considered defaulted and credit-impaired:

- i. Quantitative factor: When the contractual payments are overdue for more than 90 days, the financial asset is considered defaulted and credit-impaired.
- ii. Qualitative factor: Evidence that indicate that the issuers or borrowers cannot pay the contractual payments, or that they have significant financial difficulties, for example:
  - i) The issuers or borrowers have entered into bankruptcy or are probable to enter into bankruptcy or financial reorganization.
  - ii) The issuers fail to pay interest or principal according to the issue terms and conditions.
  - iii) The collateral of the borrowers are provisionally seized or enforced.
  - iv) The borrowers claim for a change of credit conditions due to financial difficulties.
- iii. The above mentioned definitions of default on a financial asset and a credit-impaired financial asset are applicable to all financial assets held by Cathay Life, and are aligned with those of relevant financial assets for internal credit risk management. The definitions are also applicable to the related impairment assessment model.

f) Measurement of expected credit loss

i. The methodology and assumptions applied

For financial instruments on which the credit risk has not increased significantly since initial recognition, Cathay life measures the loss allowance for financial instruments at an amount equal to 12-month expected credit losses; for financial instruments whose credit risk has increased significantly since initial recognition or those which have been credit-impaired, Cathay life measures the loss allowance for financial instruments at an amount equal to the lifetime expected credit losses.

In the measurement of expected credit losses, Cathay Life took into consideration the 12-month and lifetime probability of default ("PD") of issuers, guarantee agencies or borrowers, which is included in loss given default ("LGD") and multiplied by the exposure at default ("EAD"), at the same time taking into consideration the time value of money, when calculating the 12-month and lifetime expected credit losses.

PD is the rate that a default occurs on issuers, guarantee agencies or borrowers. LGD is the loss rate that results from the default of issuers, guarantee agencies or borrowers. 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 (for example, gross domestic product and economic growth rate) with adjustments of historical data. Exposure at default is measured at the amortized cost and interest receivables of financial assets.

ii. Consideration of forward-looking information

Cathay life takes forward-looking information into consideration while measuring expected credit losses of financial assets.



g) Gross carrying amount of maximum credit risk exposure and categories for credit quality

i. Financial assets of Cathay Life

	June 30, 2019						Gross Carrying Amount
	Stage 1	Stage 2	Stage 3		Loss Allowance		
	12-month Expected Credit Losses		Lifetime Expected Credit Losses	Lifetime Expected Credit Losses		Purchased or Originated Credit-impaired Financial Assets	
Investment grade							
Debt instruments at FVTOCI	\$ 814,202,195	\$ -	\$ -	\$ -	\$ -	\$ 814,202,195	
Financial assets measured at amortized cost	2,468,968,397	-	-	-	(1,003,660)	2,467,964,737	
Other financial assets	2,000,000	-	-	-	(667)	1,999,333	
Non-investment grade							
Debt instruments at FVTOCI	15,439,175	193,375	-	-	-	15,632,550	
Financial assets measured at amortized cost	26,447,134	7,000,491	1,402,847	-	(686,564)	34,163,908	
	December 31, 2018						
	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
Investment grade							
Debt instruments at FVTOCI	\$ 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 FVTOCI	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	
	June 30, 2018						
	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
Investment grade							
Debt instruments at FVTOCI	\$ 877,761,503	\$ -	\$ -	\$ -	\$ -	\$ 877,761,503	
Financial assets measured at amortized cost	2,106,226,021	-	-	-	(822,905)	2,105,403,116	
Other financial assets	3,500,000	-	-	-	(2,231)	3,497,769	
Non-investment grade							
Debt instruments at FVTOCI	20,945,343	383,975	-	-	-	21,329,318	
Financial assets measured at amortized cost	30,873,827	8,786,413	-	-	(792,126)	38,868,114	

Note: Investment grade assets refer to those with credit ratings of at least BBB-; non-investment grade assets are those with credit ratings lower than BBB-.

ii. Secured loans and overdue receivables of Cathay Life

	June 30, 2019						Difference from Impairment Charged in Accordance with Guidelines for Handling Assessment of Assets	Gross Carrying Amount
	Stage 1	Stage 2	Stage 3		Loss Allowance			
	12-month Expected Credit Losses		Lifetime Expected Credit Losses	Lifetime Expected Credit Losses		Purchased or Originated Credit-impaired Financial Assets		
Secured loans and non-accrual receivable	\$ 369,686,477	\$ 83,312	\$ 7,098,067	\$ -	\$ (1,126,075)	\$ (4,129,037)	\$ 371,612,744	
	December 31, 2018							
	Stage 1	Stage 2	Stage 3		Loss Allowance	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
Secured loans and non-accrual receivable	\$ 411,821,024	\$ 111,237	\$ 4,554,753	\$ -	\$ (682,254)	\$ (5,126,352)	\$ 410,678,408	

June 30, 2018

	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 and non-accrual receivable	\$ 437,273,256	\$ 552,499	\$ 3,843,321	\$ -	\$ (606,418)	\$ (5,550,986)	\$ 435,511,672	

h) Reconciliation for loss allowance is summarized below:

i. Debt instrument investments at FVTOCI

	Lifetime Expected Credit Losses				
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets	Total of Impairment Charged in Accordance with IFRS 9
January 1, 2019	\$ 468,280	\$ 17,049	\$ 12,339	\$ -	\$ 497,668
Changes due to financial instruments recognized as at January 1					
Transferred to lifetime expected credit losses	(99)	99	-	-	-
New financial assets originated or purchased	666,728	-	7	-	66,735
Financial assets that have been derecognized during the period	(160,277)	(17,387)	(12,462)	-	(190,126)
Changes in models/risk parameters	15,566	3,661	-	-	19,227
Foreign exchange and other movements	<u>5,169</u>	<u>115</u>	<u>116</u>	<u>-</u>	<u>5,400</u>
June 30, 2019	<u>\$ 395,367</u>	<u>\$ 3,537</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 398,904</u>
	Lifetime Expected Credit Losses				
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets	Total of Impairment Charged in Accordance with IFRS 9
January 1, 2018	\$ 455,064	\$ 96,965	\$ -	\$ -	\$ 552,029
Changes due to financial instruments recognized as at January 1					
Transferred to lifetime expected credit losses	(848)	848	-	-	-
New financial assets originated or purchased	157,837	-	-	-	157,837
Financial assets that have been derecognized during the period	(132,971)	(116,693)	-	-	(249,664)
Changes in models/risk parameters	3,972	53,201	-	-	57,173
Foreign exchange and other movements	<u>10,662</u>	<u>50</u>	<u>-</u>	<u>-</u>	<u>10,712</u>
June 30, 2018	<u>\$ 493,716</u>	<u>\$ 34,371</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 528,087</u>

ii. 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 Assets	Purchased or Originated Credit-impaired Financial Assets	
January 1, 2019	\$ 904,430	\$ 705,622	\$ 710,444	\$ -	\$ 2,320,496
Changes due to financial instruments recognized as at January 1					
Transferred to lifetime expected credit losses	(542)	542	-	-	-
New financial assets originated or purchased	146,677	-	-	-	146,677
Financial assets that have been derecognized during the period	(77,045)	(180,095)	(545,978)	-	(803,118)
Changes in models/risk parameters	78,587	(18,161)	(23,535)	-	36,891
Foreign exchange and other movements	9,639	7,997	(28,358)	-	(10,722)
June 30, 2019	<u>\$ 1,061,746</u>	<u>\$ 515,905</u>	<u>\$ 112,573</u>	<u>\$ -</u>	<u>\$ 1,690,224</u>

	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 Assets	Purchased or Originated Credit-impaired Financial Assets	
January 1, 2018	\$ 754,100	\$ 705,758	\$ -	\$ -	\$ 1,459,858
Changes due to financial instruments recognized as at January 1					
Transferred to lifetime expected credit losses	(4,597)	4,597	-	-	-
New financial assets originated or purchased	170,579	-	-	-	170,579
Financial assets that have been derecognized during the period	(51,881)	(346,614)	-	-	(398,495)
Changes in models/risk parameters	13,841	335,247	-	-	349,088
Foreign exchange and other movements	18,723	15,278	-	-	34,001
June 30, 2018	<u>\$ 900,765</u>	<u>\$ 714,266</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,615,031</u>

iii. 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 Assets	Purchased or Originated Credit-impaired Financial Assets	
January 1, 2019	\$ 594	\$ -	\$ -	\$ -	\$ 594
Foreign exchange and other movements	73	-	-	-	73
June 30, 2019	<u>\$ 667</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 667</u>

	<b>Lifetime Expected Credit Losses</b>				<b>Total of Impairment Charged in Accordance with IFRS 9</b>
	<b>12-month Expected Credit Losses</b>	<b>Collectively Assessed</b>	<b>Not Purchased or Originated Credit-impaired Financial Assets</b>	<b>Purchased or Originated Credit-impaired Financial Assets</b>	
January 1, 2018	\$ 901	\$ -	\$ -	\$ -	\$ 901
Foreign exchange and other movements	<u>1,330</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,330</u>
June 30, 2018	<u>\$ 2,231</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,231</u>

iv. Secured loans and non-accrual receivable

	<b>Lifetime Expected Credit Losses</b>				<b>Total of Impairment Charged in Accordance with IFRS 9</b>	<b>Difference from Impairment Charged in Accordance with Guidelines for Handling Assessment of Assets</b>	<b>Total</b>
	<b>12-month Expected Credit Losses</b>	<b>Collectively Assessed</b>	<b>Not Purchased or Originated Credit-impaired Financial Assets</b>	<b>Purchased or Originated Credit-impaired Financial Assets</b>			
January 1, 2019	\$ 90,567	\$ 201	\$ 591,486	\$ -	\$ 682,254	\$ 5,126,352	\$ 5,808,606
Changes due to financial instruments recognized as at January 1							
Transferred to lifetime expected credit losses	(11)	11	-	-	-	-	-
Transferred to credit-impaired financial assets	(1,281)	(74)	1,335	-	-	-	-
Transferred to 12-month expected credit losses	2,021	(85)	(1,936)	-	-	-	-
New financial assets originated or purchased	39	-	-	-	39	-	39
Financial assets that have been derecognized during the period	(7,862)	(26)	(46,301)	-	(54,189)	-	(54,189)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	(997,315)	(997,315)
Changes in models/risk parameters	<u>6,223</u>	<u>123</u>	<u>491,625</u>	<u>-</u>	<u>497,971</u>	<u>-</u>	<u>497,971</u>
June 30, 2019	<u>\$ 89,696</u>	<u>\$ 150</u>	<u>\$ 1,036,229</u>	<u>\$ -</u>	<u>\$ 1,126,075</u>	<u>\$ 4,129,037</u>	<u>\$ 5,255,112</u>

	<b>Lifetime Expected Credit Losses</b>				<b>Total of Impairment Charged in Accordance with IFRS 9</b>	<b>Difference from Impairment Charged in Accordance with Guidelines for Handling Assessment of Assets</b>	<b>Total</b>
	<b>12-month Expected Credit Losses</b>	<b>Collectively Assessed</b>	<b>Not Purchased or Originated Credit-impaired Financial Assets</b>	<b>Purchased or Originated Credit-impaired Financial Assets</b>			
January 1, 2018	\$ 108,879	\$ 1,211	\$ 601,271	\$ -	\$ 711,361	\$ 5,438,078	\$ 6,149,439
Changes due to financial instruments recognized as at January 1							
Transferred to lifetime expected credit losses	(194)	408	(214)	-	-	-	-
Transferred to credit-impaired financial assets	(31)	(34)	65	-	-	-	-
Transferred to 12-month expected credit losses	1,906	(1,087)	(819)	-	-	-	-
New financial assets originated or purchased	14,119	2	4,173	-	18,294	-	18,294
Financial assets that have been derecognized during the period	(4,970)	(37)	(36,895)	-	(41,902)	-	(41,902)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	112,908	112,908
Changes in models/risk parameters	<u>(8,448)</u>	<u>92</u>	<u>(72,979)</u>	<u>-</u>	<u>(81,335)</u>	<u>-</u>	<u>(81,335)</u>
June 30, 2018	<u>\$ 111,261</u>	<u>\$ 555</u>	<u>\$ 494,602</u>	<u>\$ -</u>	<u>\$ 606,418</u>	<u>\$ 5,550,986</u>	<u>\$ 6,157,404</u>

There were no significant changes in loss allowance due to significant changes in the gross carrying amounts of the financial instruments.

i) 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 are based upon the lifetime expected credit losses under the simplified approach. The loss allowance measured by a provision matrix under the simplified approach is as follows:

	<b>Recognition</b>				<b>Total</b>
	<b>Not Yet Due/within 1 Month</b>	<b>1-3 Months</b>	<b>3-6 Months</b>	<b>Over 6 Months</b>	
<u>June 30, 2019</u>					
Gross carrying amount	\$ 28,264,701	\$ 99,355	\$ 7,638	\$ -	\$ 28,371,694
Loss rate	0%	2%	10%	50%	
Lifetime expected credit losses	-	1,987	764	-	2,751

Cathay Life's receivables which are in the scope of the impairment requirements under IFRS 9 included notes receivable in the amount of \$90,054 thousand and other receivables in the amount of \$28,281,640 thousand.

	<b>Recognition</b>				<b>Total</b>
	<b>Not Yet Due/within 1 Month</b>	<b>1-3 Months</b>	<b>3-6 Months</b>	<b>Over 6 Months</b>	
<u>December 31, 2018</u>					
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

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.

	<b>Recognition</b>				<b>Total</b>
	<b>Not Yet Due/within 1 Month</b>	<b>1-3 Months</b>	<b>3-6 Months</b>	<b>Over 6 Months</b>	
<u>June 30, 2018</u>					
Gross carrying amount	\$ 34,306,007	\$ 97,122	\$ 1,766	\$ 6	\$ 34,404,901
Loss rate	0%	2%	10%	50%	
Lifetime expected credit losses	-	1,944	178	3	2,125

Cathay Life's receivables which are in the scope of the impairment requirements under IFRS 9 included notes receivable in the amount of \$71,255 thousand and other receivables in the amount of \$34,333,646 thousand.

The movements of loss allowance were as follows:

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 2,346	\$ 2,175
Provision (reversal) for the current period	<u>405</u>	<u>(50)</u>
Ending balance	<u>\$ 2,751</u>	<u>\$ 2,125</u>

## 2) Liquidity risk analysis

### a) Sources of liquidity risk

Liquidity risks of financial instruments are comprised of funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that Cathay Life is not capable of fulfilling its matured commitments because its fails to realize assets or obtain sufficient funds. Market liquidity risk is the risk of significant changes in fair value when Cathay Life sells or offsets its positions during a market disorder or a lack of sufficient market depth.

### b) Liquidity risk management

Cathay Life assesses the characteristics of the 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 symmetrically.

Cathay Life uses the cash flow model and stress testing to assess cash flow risk based on actual management needs or special situations. Also, for abnormal and urgent financing needs, management of Cathay life makes an emergency operating procedure to deal with significant liquidity risks.

The analysis of cash outflows to Cathay Life and its subsidiaries is listed below and based on the residual terms to maturity on the balance sheet date. The disclosed amounts are prepared in accordance with contract cash flows and, accordingly for certain line items, the disclosed amounts are different to the amounts on consolidated balance sheets.

The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

	<b>June 30, 2019</b>				
	<b>Less than 6 Months</b>	<b>Due in 6-12 Months</b>	<b>Due in 1-2 Years</b>	<b>Due in 2-5 Years</b>	<b>Over 5 Years</b>
<u>Non-derivative financial liabilities</u>					
Payables	\$ 25,295,338	\$ 449,205	\$ 320,417	\$ 1,294,005	\$ 34,743
Bonds payable (Note)	569,589	1,293,120	2,715,000	8,145,000	88,745,000
<u>Derivative financial liabilities</u>					
Foreign exchange forward contracts	27,127,830	9,895,786	-	-	-
Foreign currency swaps	3,259,246	281,111	-	-	-
Interest rate swaps	4,743	1,148	4,151	2,160	-
Options	111,046	-	-	-	-
	<b>December 31, 2018</b>				
	<b>Less than 6 Months</b>	<b>Due in 6-12 Months</b>	<b>Due in 1-2 Years</b>	<b>Due in 2-5 Years</b>	<b>Over 5 Years</b>
<u>Non-derivative financial liabilities</u>					
Payables	\$ 31,044,618	\$ 239,517	\$ 285,769	\$ 1,242,728	\$ 9,636
Bonds payable (Note)	414,540	1,194,411	2,415,000	7,245,000	78,400,000
<u>Derivative financial liabilities</u>					
Foreign currency swaps	23,555,917	10,107,225	-	-	-
Foreign exchange forward contracts	5,538,893	53,900	-	-	-
Interest rate swaps	14,230	3,686	3,978	2,587	-

	June 30, 2018				
	Less than 6 Months	Due in 6-12 Months	Due in 1-2 Years	Due in 2-5 Years	Over 5 Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 31,307,293	\$ 389,291	\$ 87,073	\$ 1,529,821	\$ 845,240
Bonds payable (Note)	569,589	996,765	2,415,000	7,245,000	79,660,000
Preferred stock liabilities	5,004,586	-	-	-	-
<u>Derivative financial liabilities</u>					
Foreign exchange forward contracts	42,960,741	11,849,140	-	-	-
Foreign currency swaps	10,896,002	1,395,150	-	-	-
Interest rate swaps	14,309	14,771	7,828	962	-

Note: For the bonds payable without maturity dates, the contract cash flows were determined for 10 years as remaining periods.

### 3) Market risk analysis

- Sources of market risk

Market risk is the risk that changes in market risk factors, such as exchange rate, product price, interest rate, credit spread and stock price, may decrease Cathay Life and its subsidiaries' income or value of investment portfolio.

Cathay Life and its subsidiaries assess, monitor, and manage market risks completely and effectively by applying Value at Risk ("VaR") and stress testing continuously.

#### a) Value at Risk

VaR is the maximum loss on the portfolio at a given confidence level and over a given period. Currently, Cathay Life and its subsidiaries adopts one-week VaR at 95% and 99% confidence level to measure market risk.

#### b) Stress testing

Cathay Life and its subsidiaries evaluates the potential risks occurred in extreme and abnormal events regularly in addition to the VaR model.

Cathay Life and its subsidiaries perform stress testing on positions regularly by carrying out simple sensitivity tests and scenario analyses. Such tests cover the losses on positions resulting from a change in specific risk factors in various kinds of historical scenarios:

##### i. Simple sensitivity test

The simple sensitivity test is used to measure the changes in the value of the investment portfolio caused by specific risk factors.

ii. Scenario analysis

The scenario analysis is used to measure the changes in the total value of investment positions caused by hypothetical stress events, including the following scenarios:

i) Historical scenario

By considering the fluctuations in risk factors during a specific historical event, Cathay Life and its subsidiaries evaluates that losses would be incurred for the current investment portfolio in the event.

ii) Hypothetical scenario

Cathay Life and its subsidiaries simulate rational expectations for possible extreme market changes to evaluate the losses incurred for the investment positions by considering the fluctuations in related risk factors and the relevance between the investment targets and the risk factors.

The risk management department performs stress testing with historical and hypothetical scenarios regularly. Cathay Life and its subsidiaries' risk analysis, early warning, and business management are in accordance with the stress testing report.

**Table of Stress Testing**

Risk Factors	Changes (+/-)	For the Six Months Ended June 30	
		2019	2018
Equity risk (price)	-10%	\$ (58,504,844)	\$ (68,281,809)
Interest rate risk (yield curve)	+100bps	(106,012,649)	(108,239,750)
Exchange risk (foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(12,561,108)	(9,711,395)

Note 1: Impacts of credit spread changes are not included.

Note 2: Effects of hedging are considered.

Note 3: Information of subsidiaries is not disclosed due to immaterial effects on disclosures for consolidation of subsidiaries.



c) Sensitivity analysis

**Summarization of Sensitivity Analysis**

**For the Six Months Ended June 30, 2019**

<b>Risk Factors</b>	<b>Variables (+/-)</b>	<b>Changes in Income</b>	<b>Changes in Equity</b>
Foreign currency risk	USD/NTD appreciates 1%	\$ 7,992,107	\$ 4,543,104
	CNY (CNH)/USD appreciates 1%	316,606	480,346
	HKD/USD appreciates 1%	719	489,784
	EUR/USD appreciates 1%	316,323	135,327
	GBP/USD appreciates 1%	176,177	283,826
Interest rate risk	Yield curve (USD) parallel shifts up 1bp	2,040	(886,613)
	Yield curve (CNY) parallel shifts up 1bp	-	(16,361)
	Yield curve (EUR) parallel shifts up 1bp	-	(6,520)
	Yield curve (GBP) parallel shifts up 1bp	-	(7,293)
	Yield curve (NTD) parallel shifts up 1bp	286	(90,897)
	Equity price risk	Equity price increases 1%	(64,204)

**For the Six Months Ended June 30, 2018**

<b>Risk Factors</b>	<b>Variables (+/-)</b>	<b>Changes in Income</b>	<b>Changes in Equity</b>
Foreign currency risk	USD/NTD appreciates 1%	\$ 4,709,329	\$ 5,099,180
	CNY (CNH)/USD appreciates 1%	858,591	547,713
	HKD/USD appreciates 1%	321	506,973
	EUR/USD appreciates 1%	(92,800)	202,049
	GBP/USD appreciates 1%	3,357	259,311
Interest rate risk	Yield curve (USD) parallel shifts up 1bp	7,198	(859,061)
	Yield curve (AUD) parallel shifts up 1bp	-	(55)
	Yield curve (EUR) parallel shifts up 1bp	3,877	(14,573)
	Yield curve (NTD) parallel shifts up 1bp	770	(183,713)
Equity price risk	Equity price increases 1%	28,788	6,809,220

Note 1: Impacts of credit spread changes are not included.

Note 2: Effects of hedging are considered.

Note 3: Impacts of changes in profit or loss are not included in those of changes in equity.

Note 4: Provision or reversal of reserve for foreign exchange valuation changes is not considered in profit or loss due to foreign currency risk.

Note 5: Information of subsidiaries is not disclosed due to immaterial effects on disclosures for consolidation of subsidiaries.

#### Cathay United Bank and its subsidiaries

Cathay United Bank's risk control and hedging strategy follows the requirements of the 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 setup the risk management committee, whose responsibilities are as follows:

- 1) To amend the risk management policies, risk appetite or risk tolerance and report the above issues to board of directors for approval.
- 2) To manage and decide the strategy about the Bank's credit risk, market risk and operational risk.
- 3) To report the significant risk management issues, such as credit ratings, market assessment and risk indicators.
- 4) To analyze the issues that the Bank's business unit brought up for discussion.
- 5) Other issues.

Cathay United Bank organized a risk management group to monitor, lead, develop, and establish the integral risk management framework.

#### 1) Credit risk

Credit risk represents the risk of loss that the Bank would incur if counterparty fails to perform its contractual obligations. Sources of credit risk cover both on and off balance sheet accounts.

#### a) Credit risk policy and implementation

#### i. Cathay United Bank, Indovina Bank and CUBCN Bank

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

Cathay United Bank, Indovina Bank and CUBCN Bank maintain a strict policy to evaluate customers' credit ratings when providing loan commitments and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loans, and Cathay United Bank, Indovina Bank and CUBCN 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.

ii. CUBC Bank

CUBC Bank's board of directors resolved that a risk management department would be established to manage the credit risk. CUBC Bank's 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 charge with approval of all credit in excess of CUBC Bank's 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.

b) Judgment that credit risk has increased significantly since initial recognition

i. Cathay United Bank and CUBCN Bank

Cathay United Bank and CUBCN Bank assess 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 CUBCN Bank 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:

i) Quantitative indicators

- Changes on credit rating

When 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, it is determined that the credit risk has increased significantly since the initial recognition.

- Information on the overdue status of the contract

When 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.

ii) Qualitative indicators

When 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.

- The refund records are reported.
- Accountants have expressed significant doubt on its ability to continue as a going concern.
- Other internal or external information on judging the credit quality changes.

ii. 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:

i) Notch downgrade

A notch downgrade of obligor's internal or external ratings between the current grade and the grade at initial recognition greater than specific threshold would be classified as a significant increase in credit risk since initial recognition.

ii) Low credit risk criteria

An exposure rated below Moody's investment grade (i.e. the credit rating is lower than the credit rating Baa3 of Moody's, an international credit rating agency) at the reporting date would be classified as a significant increase in credit risk since initial recognition.

iii) Past due information

The contract payment over 30 days past due would be classified as a significant increase in credit risk since initial recognition.

iv) 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.

iii. CUBC Bank

CUBC Bank observes the following indicators at each reporting date in order to determine if the financial asset is credit impaired:

i) Past due information

The contract payment over 30 days past due would be classified as a significant increase in credit risk since initial recognition.

ii) 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.

iii) 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.

c) Default and credit impairment of financial asset

i. Cathay United Bank and CUBCN Bank

Cathay United Bank and CUBCN Bank's definition of default on financial assets is the same with the one of judging 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.

i) Quantitative indicators

- Changes on credit rating

When the credit rating of the financial asset at the reporting date falls into the default level, it is determined to be credit impaired.

- Information on the overdue status of the contract

When the contract payment was overdue for more than 90 days as at the reporting date, it is determined as credit impairment.

ii) Qualitative indicator

When the information observed at the reporting date meets the following conditions, the financial asset is determined to be credit impaired.

- Bailout, reorganization, individual agreement due to debtor's financial difficulties.
- Lawsuit action has been taken
- Debt settlement, debt negotiation.
- 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.

ii. 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 subjected to default:

i) Notch downgrade

An obligor who has failed to pay one or more of its financial obligations or is rated as default at the reporting date is considered to be credit-impaired.

ii) Past due information

The contract payment over 90 days past due would be classified as a credit-impaired loan.

iii) 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.

iii. 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 subjected to default:

i) Past due information

The contract payment over 90 days past due would be classified as a credit-impaired loan.

ii) Loan classification from NBC

A loan contract with specific positions, such as substandard, doubtful and loss, at reporting date would be classified as a significant increase in credit risk since initial recognition.

iii) 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.

d) The measurement of expected credit loss

i. Cathay United Bank and CUBCN Bank

For the purpose of assessing the expected credit losses, the Bank and CUBCN Bank classify the credit assets into the following groups based on credit category, credit rating, risk characteristics, enterprise size, product category, and so on.

<b>Credit Category</b>	<b>Definition</b>
Enterprise loan	Grouped by risk characteristics, enterprise 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

When the credit risk of the financial instrument has not increased significantly after initial recognition (Stage 1), Cathay United Bank and CUBCN Bank should measure the allowance for losses using 12-month expected credit losses. When the credit risk of the financial instrument has increased significantly (Stage 2) or the financial instrument is credit impaired (Stage 3) after initial recognition, Cathay United Bank and CUBCN Bank should measure the allowance for losses based on lifetime expected credit losses.

For the measurement of the expected credit loss, Cathay United Bank and CUBCN Bank calculate its expected credit losses over 12 months and the life time respectively 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 life time, also considering the effect of the life time value of money.

The PD and LGD applied in the impairment assessment of the credit business of the Bank and CUBCN Bank are adjusted and calculated based on the internal and external information of each group as well as the currently observable data and the forward-looking macroeconomic information (such as economic growth rate, etc.).

Cathay United Bank and CUBCN Bank assessed the EAD of loans at the reporting date. According to internal and external information, Cathay United Bank considers the portion of the loan commitments that is expected to be drawn on over the next 12 months after the reporting date and the lifetime, to determine the EAD for calculating the expected credit losses.

The PD used in the impairment assessment of Cathay United Bank and CUBCN Bank's debt instruments 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 CUBCN Bank 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 looking-forward macroeconomic 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 2019.

ii. Indovina Bank

Indovina Bank has grouped their exposures on the basis of shared credit risk characteristic, including product and counterparty types as follows.

<b>Category</b>	<b>Description</b>
Loan portfolio	Grouped by product class, counterparty type and enterprise size
Bond portfolio	Grouped by product class, external credit rating and payment ranks

i) Loan portfolio

The segmentation of Indovina 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.

ii) Bond portfolio

The segmentation of Indovina 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.

iii. Cathay United Bank Cambodia (CUBC Bank)

CUBC Bank measures their expected credit losses by the following segments.

<b>Category</b>	<b>Description</b>
Loan	Grouped by product, counterparty types and loan classification by NBC
Credit Card	Grouped as a whole by product characteristic

The segmentation of CUBC Bank's loan portfolio is based on its risk characteristics, such as product class, counterparty type and loan classification by NBC. The measurement of expected credit loss is estimated by three main parameters, including probability of default, loss given default and exposure at default. The probability of default and loss given default were built by the internal and external historical delinquent information, default rates and written-off amounts and calibrated by selected macroeconomic factors for forward-looking adjustment. The estimated amounts of exposure at default were calculated by the amortized cost and interest receivable. At each financial reporting date, the above criteria for a significant increase in credit risk since initial recognition are not hit, the allowance loss shall be measured on the basis of the 12-month expected credit loss method. If financial assets meet the foregoing conditions of significant increases in credit risk or credit deterioration since initial recognition, the allowance losses shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

d) Write-off policy

Cathay United Bank and its subsidiaries write off all or part of their financial assets when all or part of their financial assets cannot reasonably be expected to be recovered.

Indicators that show that the financial assets cannot be reasonably collected are as follows:

- i. The recovery activity has stopped.
- ii. 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) Consideration of forward-looking information

Cathay United Bank and CUBCN Bank

Cathay United Bank and CUBCN Bank use 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 use 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 CUBCN Bank in 2019 are as follows:

Credit Category	Probability of Default (PD)	Loss Given Default (LGD)
Enterprise loan	Consumer Price Index Government Expenditures GDP % Proportion of investment in GDP (%)	GDP %
	Consumer loan	
Credit card	Price Index Proportion of government revenue in GDP (%)	

Indovina Bank

Indovina Bank carries out quantitative and qualitative analyses based on historical data in identifying the local and global economic factors impacting the credit risk and expected credit losses of different portfolios, and uses the regression model, interpolation adjustments and historical situation in analyzing and estimating the impairment parameters after forward-looking adjustments. The selected economic factors and their effects on PDs varied from different types of portfolios.

The macroeconomic factors selected by the bank for the forward-looking adjustments in 2019 are as follows:

Segment	Selected Factors
Loan portfolio	Vietnam GDP growth rate
Bond portfolio	Global GDP growth rate
	Global inflation index

Cathay United Bank Cambodia (CUBC Bank)

CUBC Bank builds the expected credit loss parameter model based on the historical default and loss data, taking into consideration the local risk distribution and borrower characteristics when using the local overall economic data in carrying out the forward looking adjustments of estimation parameters using the interpolation method.

The macroeconomic factors selected by CUBC Bank for the forward-looking adjustments in 2019 are as follows.

Segment	Selected Factors
Enterprise loan	Cambodia GDP growth rate
Consumer loan	
Credit card	

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

i. Categories 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.

ii. Grades 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 risk management.

In order to measure the credit risk of the clients, Cathay United Bank employs 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 conform to reality and revise 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 tests the model according to the actual default every year so that the calculated results will be close to actual default.

Cathay United Bank evaluates the counterparties’ credit quality before transactions and refers to the domestic and foreign credit rating agencies, when rendering different lines of credit based on the credit quality.

iii. Hedge of credit risk and easing policy

i) 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 collateral. To ensure the creditor's rights, Cathay United Bank sets the scope available as collateral and the procedures of appraising, managing, and disposing the collaterals. In addition, a credit contract is in place to provide the credit claim preservation, collateral, 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 saved in the Bank to offset the liabilities to lower the credit risk

Other non-credit business collateral 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.

ii) 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.

iii) 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, the Bank will terminate all transactions with the counterparty and settle by net balance in order to lower the credit risk.

iv. Cathay United Bank's maximum exposure to credit risk

Without taking into account the collateral or other credit enhancement instrument, the maximum credit risk exposure of on-balance-sheet financial assets equals their carrying values. The maximum credit risk exposure of off-balance-sheet items (without considering the collaterals or other credit enhancement is irrevocable) are as follows:

i) Cathay United Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk		
	June 30, 2019	December 31, 2018	June 30, 2018
Irrevocable loan commitments	\$ 188,404,566	\$ 154,605,389	\$ 217,327,593
Credit card commitments	688,834,673	669,232,204	648,674,248
Unused commercial letters of credit	5,556,329	4,217,682	4,670,912
Guarantees on duties and contracts	14,228,978	13,534,956	7,926,004

ii) Indovina Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk		
	June 30, 2019	December 31, 2018	June 30, 2018
Financial guarantee contracts	\$ 1,738,228	\$ 2,262,842	\$ 3,143,095
Unused commercial letters of credit	1,009,781	1,017,801	1,412,617
Irrevocable loan commitments	667	-	-

iii) CUBC Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk		
	June 30, 2019	December 31, 2018	June 30, 2018
Financial guarantee contracts	\$ 66,582	\$ 78,161	\$ 78,841
Credit card commitments	318,994	447,040	428,708

iv) CUBCN Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk		
	June 30, 2019	December 31, 2018	June 30, 2018
Financial guarantee contracts	\$ 456,369	\$ 170,835	\$ -
Unused commercial letters of credit	151,044	773,078	-
Irrevocable loan commitments	822,119	623,837	-

To reduce the risk from any businesses, Cathay United Bank conducts an overall assessment and takes appropriate risk reduction measures, such as obtaining collateral and guarantors. For obtaining of collateral, Cathay United Bank has collateral management guidelines, to ensure that collateral meet the specific criteria and has the effect of reducing the business risk.

The management deems Cathay United Bank and its subsidiaries are 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.

The carrying amount of the maximum credit risk exposure of on-balance-sheet financial assets are as follows:

Cathay United Bank and its subsidiaries' discounts and loans:

	June 30, 2019			Difference from Impairment Charged in Accordance with "Guidelines for Handling Assessment of Assets"	Total
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses		
Total carrying amount	\$ 1,522,690,950	\$ 53,642,589	\$ 13,026,556	\$ -	\$ 1,589,360,095
Less: Allowance impairment	(2,640,108)	(1,300,645)	(5,890,001)	-	(9,830,754)
Difference from impairment charged in accordance with "Guidelines for Handling Assessment of Assets"	-	-	-	(17,343,543)	(17,343,543)
	<u>\$ 1,520,050,842</u>	<u>\$ 52,341,944</u>	<u>\$ 7,136,555</u>	<u>\$ (17,343,543)</u>	<u>\$ 1,562,185,798</u>

Cathay United Bank and its subsidiaries' receivables:

	June 30, 2019			Difference from Impairment Charged in Accordance with "Guidelines for Handling Assessment of Assets"	Total
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses		
Total carrying amount	\$ 97,766,356	\$ 1,436,530	\$ 2,357,661	\$ -	\$ 101,560,547
Less: Allowance impairment	(140,034)	(147,544)	(1,708,425)	-	(1,996,003)
Difference from impairment charged in accordance with "Guidelines for Handling Assessment of Assets"	-	-	-	(41,401)	(41,401)
	<u>\$ 97,626,322</u>	<u>\$ 1,288,986</u>	<u>\$ 649,236</u>	<u>\$ (41,401)</u>	<u>\$ 99,523,143</u>

Cathay United Bank and its subsidiaries' discounts and loans:

	December 31, 2018			Difference from Impairment Charged in Accordance with "Guidelines for Handling Assessment of Assets"	Total
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses		
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)
	<u>\$ 1,545,790,600</u>	<u>\$ 57,608,413</u>	<u>\$ 6,857,092</u>	<u>\$ (14,932,854)</u>	<u>\$ 1,595,323,251</u>

Cathay United Bank and its subsidiaries' receivables:

	December 31, 2018			Difference from Impairment Charged in Accordance with "Guidelines for Handling Assessment of Assets"	Total
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses		
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)
	<u>\$ 83,830,791</u>	<u>\$ 1,544,024</u>	<u>\$ 654,381</u>	<u>\$ (50,470)</u>	<u>\$ 85,978,726</u>

Cathay United Bank and its subsidiaries' discounts and loans:

	June 30, 2018			Difference from Impairment Charged in Accordance with "Guidelines for Handling Assessment of Assets"	Total
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses		
Total carrying amount	\$ 1,478,328,435	\$ 51,290,972	\$ 11,024,528	\$ -	\$ 1,540,643,935
Less: Allowance impairment	(4,275,193)	(1,615,573)	(4,701,772)	-	(10,592,538)
Difference from impairment charged in accordance with "Guidelines for Handling Assessment of Assets"	-	-	-	(13,905,172)	(13,905,172)
	<u>\$ 1,474,053,242</u>	<u>\$ 49,675,399</u>	<u>\$ 6,322,756</u>	<u>\$ (13,905,172)</u>	<u>\$ 1,516,146,225</u>

Cathay United Bank and its subsidiaries' receivables:

	June 30, 2018				Difference from Impairment Charged in Accordance with "Guidelines for Handling Assessment of Assets"	Total
	Stage 1	Stage 2	Stage 3			
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses			
Total carrying amount	\$ 93,962,915	\$ 1,141,509	\$ 2,481,431	\$ -	\$ 97,585,855	
Less: Allowance impairment	(128,676)	(98,856)	(1,727,487)	-	(1,955,019)	
Difference from impairment charged in accordance with "Guidelines for Handling Assessment of Assets"	-	-	-	(36,813)	(36,813)	
	<u>\$ 93,834,239</u>	<u>\$ 1,042,653</u>	<u>\$ 753,944</u>	<u>\$ (36,813)</u>	<u>\$ 95,594,023</u>	

v. Credit risk concentration of Cathay United Bank and its subsidiaries

When the counterparties are obviously the same party, or there are several counterparties but engaging in similar business activities and sharing similar economic characteristics, and vulnerable to the same economic impacts or other changes, the credit concentration risk is apparent.

Credit concentration risk of Cathay United Bank is derived from the assets, liabilities and off-balance-sheet items, and arise 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 does 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 according to industry and country were listed below:

Industry Type Item	June 30, 2019		December 31, 2018		June 30, 2018	
	Amount	%	Amount	%	Amount	%
Manufacturing	\$ 105,599,076	6.58	\$ 117,141,000	7.16	\$ 104,537,124	6.75
Financial institutions and insurance	68,218,050	4.25	74,995,593	4.58	86,708,015	5.59
Leasing and real estate	131,822,481	8.21	140,808,012	8.60	129,033,672	8.33
Individuals	888,965,223	55.39	900,573,664	55.03	863,714,068	55.74
Others	410,330,345	25.57	403,005,618	24.63	365,584,996	23.59
	<u>\$ 1,604,935,175</u>	<u>100.00</u>	<u>\$ 1,636,523,887</u>	<u>100.00</u>	<u>\$ 1,549,577,875</u>	<u>100.00</u>
Geographic Region Item	June 30, 2019		December 31, 2018		June 30, 2018	
	Amount	%	Amount	%	Amount	%
Domestic	\$ 1,321,328,812	82.33	\$ 1,360,278,586	83.12	\$ 1,282,320,026	82.75
Asia	202,801,679	12.63	160,134,030	9.78	133,795,282	8.64
America	45,682,393	2.85	31,418,258	1.92	50,349,818	3.25
Others	35,122,291	2.19	84,693,013	5.18	83,112,749	5.36
	<u>\$ 1,604,935,175</u>	<u>100.00</u>	<u>\$ 1,636,523,887</u>	<u>100.00</u>	<u>\$ 1,549,577,875</u>	<u>100.00</u>

## 2) Liquidity risk

### a) Source and definition of liquidity risk

Liquidity risk means banks cannot provide sufficient funding for asset size growth and for meeting obligations on matured liabilities or have to make late payments to counterparties or raise emergency funding to cover funding gaps.

### b) Liquidity risk management strategy and principles

The purpose of liquidity risk management is to ensure the availability of funds to meet present and future financial obligations. Liquidity risk is also managed by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds Cathay United Bank believes it can generate within that period. As part of our liquidity risk management, Cathay United Bank focuses on a number of components, including tapping available sources of liquidity, preserving necessary funds at reasonable cost and continuous contingency planning.

### c) Analysis of financial assets and non-derivative financial liabilities by remaining contractual maturities

#### i. Financial assets held to manage liquidity risk

Cathay United Bank holds highly marketable and diverse financial assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The financial assets were held to manage liquidity risk including cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at fair value through profit and loss, discounts and loans, and investments in debt securities with no active market.

#### ii. 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.

	<b>June 30, 2019</b>				
	<b>0-30 Days</b>	<b>31-180 Days</b>	<b>181 Days-1 Year</b>	<b>Over 1 Year</b>	<b>Total</b>
Due to the Central Bank and call loans from banks	\$ 43,144,005	\$ 21,115,272	\$ 20,388,489	\$ 200,259	\$ 84,848,025
Non-derivative financial liabilities at fair value					
through profit or loss	1,045,883	299,638	-	53,000,351	54,345,872
Securities sold under repurchase agreements	16,722,207	3,329,915	-	13,195,368	33,247,490
Payables	25,964,574	2,245,495	4,508,438	387,641	33,106,148
Deposits and remittances	319,837,043	888,605,103	878,880,028	123,255,589	2,210,577,763
Financial debentures payable	1,500,000	-	231,897	53,889,589	55,621,486
Lease liabilities	98,519	498,113	535,316	2,959,540	4,091,488
Other capital outflow at maturity	23,246,636	37,996,265	7,439,586	1,015,628	69,698,115

#### Additional information about the maturity analysis for lease liabilities:

	<b>June 30, 2019</b>				<b>Total</b>
	<b>Less than 1 Year</b>	<b>1-5 Years</b>	<b>5-10 Years</b>	<b>10-15 Years</b>	
Lease liabilities	\$ 1,131,948	\$ 2,799,757	\$ 159,783	\$ -	\$ 4,091,488

	December 31, 2018				
	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 repurchase agreements	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

  

	June 30, 2018				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Due to the Central Bank and call loans from banks	\$ 49,180,594	\$ 16,742,014	\$ 17,470,153	\$ 124,240	\$ 83,517,001
Non-derivative financial liabilities at fair value through profit or loss	1,020,937	299,815	-	50,782,500	52,103,252
Securities sold under repurchase agreements	69,360,083	21,884,397	-	11,198,380	102,442,860
Payables	15,149,618	1,569,847	4,887,124	439,747	22,046,336
Deposits and remittances	299,994,115	883,504,842	812,005,832	110,598,298	2,106,103,087
Financial debentures payable	7,693	90,667	323,687	55,400,000	55,822,047
Other capital outflow at maturity	25,745,822	43,564,176	7,418,715	1,416,599	78,145,312

### iii. Maturity analysis of derivative financial liabilities

Net settled derivative financial instruments engaged by Cathay United Bank include:

- i) Foreign exchange derivative instruments: Foreign exchange options, non-delivery forwards;
- ii) Interest rate derivative instruments: Swaptions, 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:

	June 30, 2019				
	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	\$ 65,606	\$ 342,073	\$ 7,124	\$ 235	\$ 415,038
Interest rate derivative instruments	<u>149,267</u>	<u>408,225</u>	<u>343,931</u>	<u>21,539,628</u>	<u>22,441,051</u>
	<u>\$ 214,873</u>	<u>\$ 750,298</u>	<u>\$ 351,055</u>	<u>\$ 21,539,863</u>	<u>\$ 22,856,089</u>

  

	December 31, 2018				
	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	<u>21,092</u>	<u>285,082</u>	<u>543,248</u>	<u>23,522,719</u>	<u>24,372,141</u>
	<u>\$ 107,780</u>	<u>\$ 330,177</u>	<u>\$ 773,048</u>	<u>\$ 23,522,918</u>	<u>\$ 24,733,923</u>

  

	June 30, 2018				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss					
Foreign exchange derivative instruments	\$ 75,347	\$ 747,129	\$ 8,991	\$ 541	\$ 832,008
Interest rate derivative instruments	<u>3,294,893</u>	<u>57,205</u>	<u>441,592</u>	<u>19,893,790</u>	<u>23,687,480</u>
	<u>\$ 3,370,240</u>	<u>\$ 804,334</u>	<u>\$ 450,583</u>	<u>\$ 19,894,331</u>	<u>\$ 24,519,488</u>

Gross settled derivative financial instruments engaged by Cathay United Bank include:

- i) Foreign exchange derivative instruments: Currency futures and swaps;
- ii) Interest rate derivative instruments: Cross currency swaps;



- iii) 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 contract 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:

	<b>June 30, 2019</b>				
	<b>0-30 Days</b>	<b>31-180 Days</b>	<b>181 Days-1 Year</b>	<b>Over 1 Year</b>	<b>Total</b>
Derivative financial liabilities at fair value through profit or loss					
Foreign exchange derivative instruments					
Cash outflow	\$ (1,893,030)	\$ (4,033,363)	\$ (862,517)	\$ (99,692)	\$ (6,888,602)
Cash inflow	40,764	34,355	4,998	-	80,117
Interest rate derivative instruments					
Cash outflow	(55,667)	(153,647)	(17,470)	(596,550)	(823,334)
Cash inflow	-	-	-	-	-
Cash outflow subtotal	(1,948,697)	(4,187,010)	(879,987)	(696,242)	(7,711,936)
Cash inflow subtotal	40,764	34,355	4,998	-	80,117
Net cash flow	<u>\$ (1,907,933)</u>	<u>\$ (4,152,655)</u>	<u>\$ (874,989)</u>	<u>\$ (696,242)</u>	<u>\$ (7,631,819)</u>
	<b>December 31, 2018</b>				
	<b>0-30 Days</b>	<b>31-180 Days</b>	<b>181 Days-1 Year</b>	<b>Over 1 Year</b>	<b>Total</b>
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	<u>\$ (3,861,296)</u>	<u>\$ (4,757,386)</u>	<u>\$ (665,019)</u>	<u>\$ (720,715)</u>	<u>\$ (10,004,416)</u>
	<b>June 30, 2018</b>				
	<b>0-30 Days</b>	<b>31-180 Days</b>	<b>181 Days-1 Year</b>	<b>Over 1 Year</b>	<b>Total</b>
Derivative financial liabilities at fair value through profit or loss					
Foreign exchange derivative instruments					
Cash outflow	\$ (7,819,971)	\$ (11,273,190)	\$ (3,074,699)	\$ (276,464)	\$ (22,444,324)
Cash inflow	13,620	7	-	-	13,627
Interest rate derivative instruments					
Cash outflow	(26,124)	(98,050)	(59,210)	(328,312)	(511,696)
Cash inflow	-	-	-	-	-
Cash outflow subtotal	(7,846,095)	(11,371,240)	(3,133,909)	(604,776)	(22,956,020)
Cash inflow subtotal	13,620	7	-	-	13,627
Net cash flow	<u>\$ (7,832,475)</u>	<u>\$ (11,371,233)</u>	<u>\$ (3,133,909)</u>	<u>\$ (604,776)</u>	<u>\$ (22,942,393)</u>

iv. Maturity analysis of off-balance sheet items

- i) Irrevocable commitments: Include Cathay United Bank's irrevocable loan commitments and credit card commitments.
- ii) Financial guarantee contracts: Cathay United Bank acts as a guarantor or an issuer of credit lines in a financing guarantee agreement.

Maturity analysis of off-balance sheet items are shown as follows:

June 30, 2019

	<b>Not Later Than 1 Year</b>	<b>1-5 Years</b>	<b>Later Than 5 Years</b>	<b>Total</b>
Irrevocable loan commitments	\$ 136,173,125	\$ 40,595,596	\$ 11,635,845	\$ 188,404,566
Credit card commitments	25,421,014	238,879,325	424,534,334	688,834,673
Financial guarantee contracts	14,475,381	4,967,346	342,580	19,785,307

December 31, 2018

	<b>Not Later Than 1 Year</b>	<b>1-5 Years</b>	<b>Later Than 5 Years</b>	<b>Total</b>
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

June 30, 2018

	<b>Not Later Than 1 Year</b>	<b>1-5 Years</b>	<b>Later Than 5 Years</b>	<b>Total</b>
Irrevocable loan commitments	\$ 184,736,892	\$ 28,779,308	\$ 3,811,393	\$ 217,327,593
Credit card commitments	28,005,908	237,772,385	382,895,955	648,674,248
Financial guarantee contracts	11,345,387	1,204,277	47,251	12,596,915

3) Market risk

a) Source and definition of 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 a 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.

b) Market risk management strategy and process

Market risk management process

i. Identification and measurement

The operations 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.

ii. Monitoring and reporting

The risk management department periodically reports the execution of market risk management target, position and gain/loss control, sensitivity analysis, stress test, and VaR of equity securities to the board of directors, and helps the board of directors to fully understand the status of market risk management. Cathay United Bank also establishes a clear reporting process. Each transaction has the requirements about limitation and stop-loss points. If the transaction reaches its stop-loss limitation, stop-loss process will be implemented immediately. If the stop-loss process is not implemented, the transaction department should document the reason of non-implementing stop loss process and responding plan. Furthermore, the department shall report to the executive management for approval and report to the board of directors regularly.

c) 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.

i. 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.

ii. 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 the trading portfolio.

iii. 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 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.

iv. Method of measurement

i) The assumption and calculation of VaR: See the VaR section.

ii) 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.

d) Interest risk management of trading book

i. 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 fluctuations in interest rate. The main instruments include the securities and derivatives that relate to interest rates.

ii. Interest risk management procedure of the 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.

iii. Method of measurement

i) The assumptions and calculation of the VaR: See VaR section.

ii) Cathay United Bank measures the investment portfolio's interest risk exposure monthly.

e) Interest risk management of the banking book

The main objective of interest risk management of the banking book is to enhance the interest risk management, increase the operating efficiency of the fund and strengthen the business operation.

i. 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.

ii. Management procedure

When undertaking the operations relating to interest rate instruments, Cathay United Bank identifies the repricing risk of interest rate, yield curve risk, basis risk and options risk characteristics. In addition, Cathay United Bank also measures the potential impact of interest rate changes on the profit and economic value of the 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.

iii. Method of measurement

The interest risk of Cathay United Bank mainly measures the repricing risk that is caused by the difference between the maturity date and repricing date of the assets, liabilities, and off balance sheet items in the 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 the stress test. Each interest risk indicator and the results of the stress test are reported to the executive management regularly for review.

f) Foreign exchange risk management

i. Definition of foreign exchange risk

Foreign exchange risk is the gain/loss caused by two different currencies being exchanged at 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.

ii. 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 the VaR. The assumptions and calculation of VaR is described in the 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.

iii. The significant portfolio of foreign currency financial assets and liabilities are as follows:

	<b>June 30, 2019</b>		
	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 16,402,814	31.0720	\$ 509,668,237
CNY	6,404,588	4.5231	28,968,592
HKD	8,094,182	3.9794	32,209,988
<u>Financial liabilities</u>			
Monetary items			
USD	12,647,527	31.0720	392,983,959
CNY	8,095,923	4.5231	36,618,669
AUD	1,660,608	21.7986	36,198,930

	<b>December 31, 2018</b>		
	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 13,372,308	30.7330	\$ 410,971,142
CNY	5,166,157	4.4742	23,114,420
HKD	8,325,249	3.9240	32,668,277
<u>Financial liabilities</u>			
Monetary items			
USD	12,941,117	30.7330	397,719,349
CNY	8,476,523	4.4742	37,925,659
AUD	1,808,396	21.6775	39,201,504
	<b>June 30, 2018</b>		
	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 13,725,766	30.5000	\$ 418,635,863
CNY	13,683,185	4.6007	62,952,229
HKD	6,919,263	3.8865	26,891,716
<u>Financial liabilities</u>			
Monetary items			
USD	13,056,258	30.5000	398,215,869
CNY	8,951,924	4.6007	41,185,117
AUD	1,681,375	22.5227	37,869,105

As the Company has a large variety of foreign currencies, it is not possible to disclose foreign currency exchange gain or loss based on each foreign currency's exposure to major impact. The foreign currency exchange gains were \$643,772 thousand and \$814,233 thousand for the six months ended June 30, 2019 and 2018, respectively.

g) Risk management of equity securities price

i. 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.

ii. 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.

iii. Procedure of risk management of equity securities prices

Cathay United Bank sets an investment limit on industries, using the  $\beta$  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.

iv. Measurement methodology

The risk of equity securities prices in the trading book is mainly controlled by the 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 statistical confidence of 99% to extrapolate the VaR of one-year fluctuations. The following form indicates the VaR which is the estimation of the potential amount of loss within one day, while the statistical confidence of 99% represents the possible fluctuations that would be included in assumed adverse market changes. Based 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.

<b>June 30, 2019</b>			
<b>Factors of Market Risk</b>	<b>Average Balance</b>	<b>Maximum Balance</b>	<b>Minimum Balance</b>
Interest rate	\$ 100,245	\$ 254,960	\$ 40,550
Foreign exchange	145,203	202,948	97,511
Equity securities price	300,224	413,402	219,244

<b>December 31, 2018</b>			
<b>Factors of Market Risk</b>	<b>Average Balance</b>	<b>Maximum Balance</b>	<b>Minimum Balance</b>
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

<b>June 30, 2018</b>			
<b>Factors of Market Risk</b>	<b>Average Balance</b>	<b>Maximum Balance</b>	<b>Minimum Balance</b>
Interest rate	\$ 538,162	\$ 858,800	\$ 254,960
Foreign exchange	146,445	179,530	104,364
Equity securities price	271,714	424,067	165,345

Note: Above information about factors of market risks is defined by risk management of the trading book.

Cathay United Bank enters into a variety of derivative 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.

h) 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 reporting the results will be reported to the executive management.

<b>Stress Test</b>				
<b>Market/Product</b>	<b>Scenario</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Stock market	Major stock exchanges +15%	\$ 2,305,991	\$ 990,610	\$ 1,920,626
	Major stock exchanges -15%	(2,305,991)	(935,918)	(1,862,580)
Interest rate/bond market	Major interest rate + 100bp	(1,167,973)	(417,490)	(517,245)
	Major interest rate - (100bp)	1,777,109	701,613	252,592
Foreign exchange market	Major currencies +3%	123,303	245,686	177,044
	Major currencies - %	(113,652)	(233,535)	(157,675)
Composite	Major Stock Exchanges -15%	(3,350,661)	(1,107,722)	(2,202,781)
	Major Interest Rate +100bp			
	Major Currencies +3%			

Note: The information of stress test is defined by risk management policy of the trading book.

i) Sensitivity analysis

i. Interest rate risk

Interest rate factor sensitivities (the present value of one basis point, or "PVBP") represent the change in the net present value of the interest rate derivatives portfolios caused by a parallel unit shift of 0.01% (1 basis point) in the interest rates in various yield curves affecting the portfolio. Cathay United Bank's interest rate-sensitive portfolios include bonds, interest rate swaps and structured products composed of such products.

ii. Foreign exchange risk

Foreign exchange rate factor sensitivities ("FX delta") represent the change of the foreign exchange portfolios caused by the underlying currency exchange rate fluctuations.



iii. Equity securities price risk

Equity securities price factor sensitivities (“Equity delta”) represent the change in the equity of the securities price portfolio caused by a parallel unit shift of 1% (100 basis points) in the underlying share price fluctuation. Cathay United Bank’s equity portfolios include shares and equity index options.

		<b>June 30, 2019</b>	
		<b>Sensitivity of Profit or Loss</b>	<b>Sensitivity of Equity</b>
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	\$ 24,088	\$ -
	HKD+1%	(159)	-
	JPY+1%	(2,652)	-
	AUD+1%	(457)	-
	CNY+1%	6,400	-
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	(2,850)	-
	Yield curves (HKD) parallel shift+1bp	22	-
	Yield curves (JPY) parallel shift+1bp	(1)	-
	Yield curves (AUD) parallel shift+1bp	(36)	-
	Yield curves (CNY) parallel shift+1bp	(1,066)	-
Equity securities price factor sensitivity (Equity Delta)	Equity securities price +1bp	1,060	152,673
		<b>December 31, 2018</b>	
		<b>Sensitivity of Profit or Loss</b>	<b>Sensitivity of Equity</b>
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 +1bp	(1,011)	66,545

		<b>June 30, 2018</b>	
		<b>Sensitivity of Profit or Loss</b>	<b>Sensitivity of Equity</b>
Foreign exchange rate factor sensitivity	USD+1%	\$ (8,027)	\$ -
	HKD+1%	(11,136)	-
	JPY+1%	19,514	-
	AUD+1%	33,749	-
	CNY+1%	36,776	-
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	531	-
	Yield curves (HKD) parallel shift+1bp	8	-
	Yield curves (AUD) parallel shift+1bp	-	-
	Yield curves (AUD) parallel shift+1bp	(46)	-
	Yield curves (CNY) parallel shift+1bp	(165)	-
Equity securities price factor sensitivity (Equity Delta)	Equity securities price +1bp	7,505	119,725

#### Cathay Century and its subsidiaries

Cathay Century and its subsidiaries' major financial instruments include equity and debt investments, derivatives, receivables, payables and bonds payable. The major risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

#### 1) Market risk analysis

Market risk is the risk that changes in market risk factors, such as exchange rate, product price, interest rate, credit spread, and stock price, may decrease Cathay Century and its subsidiaries' income or value of investment portfolio.

Cathay Century and its subsidiaries continues to use market risk management tools such as value at risk ("VaR") and stress testing to completely and effectively measure, monitor and manage market risk.

##### a) Value at Risk

VaR is used to measure the maximum potential loss of a portfolio in a given period and confidence level when the market risk factors changes. Cathay Century and its subsidiaries calculates VaR on the next day (week or two weeks) at 99% confidence level.

##### b) Stress testing

In addition to the VaR model, Cathay Century and its subsidiaries periodically use stress testing to assess the potential risk of extreme and abnormal events.

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 test and scenario analysis. Such tests cover the losses on positions resulting from changes of various risk factors in various historical scenarios.

i. Simple sensitivity test

Simple sensitivity test measures the changes in the value of the investment portfolio caused by specific risk factors.

ii. Scenario analysis

Scenario analysis measures the changes in the total value of the investment portfolio under a stress event, including the follows scenarios:

i) Historical scenario

By considering the fluctuations in risk factors during a specific historical event, Cathay Century and its subsidiaries evaluate that losses would be incurred for the current investment portfolio in the event.

ii) Hypothetical scenario

The Group simulates rational expectations for possible extreme market changes to evaluate the losses incurred for the investment positions by considering the fluctuations in related risk factors and the relevance between the investment targets and the risk factors.

The risk management department performs stress testing with historical and hypothetical scenarios regularly. Cathay Century and its subsidiaries' risk analysis, early warning, and business management are in accordance with the stress testing report.

**Table of Stress Testing**

<b>Risk Factors</b>	<b>Changes (+/-)</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Equity risk (stock index)	-10%	\$ (411,370)	\$ (339,393)	\$ (609,900)
Interest rate risk (yield curve)	+20bps	(158,815)	(145,145)	(159,568)
Exchange risk (exchange rate)	USD depreciate against the NTD by 1 dollar	(85,204)	(109,381)	(108,015)

Note 1: Change in credit spread is not considered.

Note 2: The effect of hedging is considered.

Note 3: Information of subsidiaries is not disclosed due to immaterial effects on disclosures for consolidation of subsidiaries.

i) Foreign currency risk

Cathay Century and its subsidiaries has foreign currency-denominated assets and liabilities, which expose the Cathay Century and its subsidiaries to foreign currency risk.

The carrying amounts of Cathay Century and its subsidiaries' foreign currency-denominated monetary assets and monetary liabilities and of the derivatives exposed to foreign currency risk at the end of the reporting period are set out in Note 30.

ii) Interest rate risk

Cathay Century and its subsidiaries is exposed to interest rate risk because entities in the Cathay Century and its subsidiaries hold debt instrument at both fixed and floating interest rates. The risk is managed by the Cathay Century and its subsidiaries by maintaining an appropriate mix of fixed and floating rate debt instrument.

iii) Price risk

Cathay Century and its subsidiaries was exposed to equity price risk through its investments in listed shares and mutual funds. Equity price exposures were managed by utilizing futures. That positions of futures do not exceed the hedged positions.

c) Sensitivity analysis

<b>June 30, 2019</b>			
<b>Risk Factors</b>	<b>Variation (+/-)</b>	<b>Effect on Profit and Loss</b>	<b>Effect on Equity</b>
Foreign currency risk sensitivity	USD appreciates 1% against the NTD	\$ 21,137	\$ 946
	CNY appreciates 1% against the NTD	2,561	-
	HKD appreciates 1% against the NTD	2,298	4,066
	EUR appreciates 1% against the NTD	92	273
	VND appreciates 1% against the NTD	6,296	-
Interest rate risk sensitivity	Yield curve (USD): Upward parallel shift by 1bp	(5,463)	-
	Yield curve (CNY): Upward parallel shift by 1bp	(83)	-
	Yield curve (NTD): Upward parallel shift by 1bp	(1,516)	(952)
Equity securities price sensitivity	1% increase in equity security price	-	41,137

<b>December 31, 2018</b>			
<b>Risk Factors</b>	<b>Variation (+/-)</b>	<b>Effect on Profit and Loss</b>	<b>Effect on Equity</b>
Foreign currency risk sensitivity	USD appreciates 1% against the NTD	\$ 34,043	\$ 5,143
	CNY appreciates 1% against the NTD	8,888	-
	HKD appreciates 1% against the NTD	901	3,538
	EUR appreciates 1% against the NTD	318	295
	VND appreciates 1% against the NTD	6,138	-
	Interest rate risk sensitivity	Yield curve (USD): Upward parallel shift by 1bp	(4,935)
Yield curve (CNY): Upward parallel shift by 1bp		(92)	-
Yield curve (NTD): Upward parallel shift by 1bp		(1,354)	(946)
Equity securities price sensitivity	1% increase in equity security price	-	33,939
<b>June 30, 2018</b>			
<b>Risk Factors</b>	<b>Variation (+/-)</b>	<b>Effect on Profit and Loss</b>	<b>Effect on Equity</b>
Foreign currency risk sensitivity	USD appreciates 1% against the NTD	\$ 38,811	\$ 7,121
	CNY appreciates 1% against the NTD	15,366	-
	HKD appreciates 1% against the NTD	820	4,233
	EUR appreciates 1% against the NTD	209	550
	VND appreciates 1% against the NTD	5,965	-
Interest rate risk sensitivity	Yield curve (USD): Upward parallel shift by 1bp	(5,569)	-
	Yield curve (CNY): Upward parallel shift by 1bp	(105)	-
	Yield curve (NTD): Upward parallel shift by 1bp	(1,198)	(1,032)
Equity securities price sensitivity	1% increase in equity security price	-	60,990

Note 1: Change in credit spread is not considered.

Note 2: The effect of hedging is considered.

Note 3: Impacts of changes in profit or loss are not included in those of changes in equity.

Note 4: Provision or reversal of reserve for foreign exchange valuation changes is not considered in profit or loss due to foreign currency risk.

Note 5: Information of subsidiaries is not disclosed due to immaterial effects on disclosures for consolidation of subsidiaries.

2) Credit risk

a) Cathay Century and its subsidiaries' credit risk exposure of financial transactions include issuer credit risk, counterparty credit risk and credit risk of underlying assets.

i. Issuer credit risk is the risk that Cathay Century and its subsidiaries or banks may suffer financial losses on debt instruments or bank savings because the issuers (guarantors), borrowers or banks are not able to perform repayment obligations an agreed conditions due to default, bankruptcy or liquidation.

ii. Counterparty credit risk is the risk that Cathay Century and its subsidiaries may suffer financial losses because the counterparty does not perform its obligation to settle or pay at the appointed date.

iii. Credit risk of the underlying assets is the risk that Cathay Century may suffer losses due to deterioration of the credit quality, increase of credit spread, downgrade or breach of any contract terms of underlying assets linked to financial instruments.

b) Credit risk concentration analysis

i. Regional distribution of maximum risk exposure for Cathay Century's financial assets:

June 30, 2019

Financial Assets	Taiwan	Asia	Europe	North Americas	Emerging Market and Others	Total
Cash and cash equivalents	\$ 10,944,858	\$ -	\$ -	\$ -	\$ 228,550	\$ 11,173,408
Financial assets at FVTPL	781,810	-	-	-	-	781,810
Financial assets at FVTOCI	758,078	-	-	-	-	758,078
Financial assets at amortized cost	1,914,874	359,954	1,508,706	3,293,061	1,818,836	8,895,431
Total	\$ 14,399,620	\$ 359,954	\$ 1,508,706	\$ 3,293,061	\$ 2,047,386	\$ 21,608,727
Proportion of each region to total	66.64%	1.67%	6.98%	15.24%	9.47%	100.00%

December 31, 2018

Financial Assets	Taiwan	Asia	Europe	North Americas	Emerging Market and Others	Total
Cash and cash equivalents	\$ 10,026,154	\$ -	\$ -	\$ -	\$ 140,839	\$ 10,166,993
Financial assets at FVTPL	785,960	-	-	-	-	785,960
Financial assets at FVTOCI	1,045,844	-	-	-	-	1,045,844
Financial assets at amortized cost	2,118,265	356,861	1,493,025	3,275,261	1,802,130	9,045,542
Total	\$ 13,976,223	\$ 356,861	\$ 1,493,025	\$ 3,275,261	\$ 1,942,969	\$ 21,044,339
Proportion of each region to total	66.41%	1.70%	7.10%	15.56%	9.23%	100.00%

June 30, 2018

Financial Assets	Taiwan	Asia	Europe	North Americas	Emerging Market and Others	Total
Cash and cash equivalents	\$ 9,059,658	\$ -	\$ -	\$ -	\$ 152,786	\$ 9,212,444
Financial assets at FVTPL	778,105	-	-	-	-	778,105
Financial assets at FVTOCI	1,046,349	-	-	-	-	1,046,349
Financial assets at amortized cost	2,620,573	354,966	1,482,205	3,282,406	1,824,839	9,564,989
Total	\$ 13,504,685	\$ 354,966	\$ 1,482,205	\$ 3,282,406	\$ 1,977,625	\$ 20,601,887
Proportion of each region to total	65.56%	1.72%	7.19%	15.93%	9.6%	100.00%

- c) Determinants for whether the credit risk has increased significantly since initial recognition
- i. Cathay Century 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 Century 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 ratings, past due information, credit spread and other market information which shows that the credit risk related to borrowers and issuers has increased significantly.
  - ii. If the credit risk at the reporting date is determined to be low, an entity can assume that the credit risk of the financial instrument has not increased significantly since initial recognition.

d) Definitions of a default occurring on a financial asset and a credit-impaired financial asset

The definition of a default occurring on financial assets of Cathay Century and its subsidiaries is the same as a credit-impaired financial asset. If one or more of the criteria below are met, a default occurs and a financial asset is credit-impaired:

- i. Quantitative factors: When contractual payments are more than 90 days past due, a default occurs and a financial asset is credit-impaired.
- ii. Qualitative factors: An evidence indicates that the issuers or borrowers cannot pay the contractual payments or that they have significant financial difficulties, for example:
  - i) The issuers and borrowers have entered bankruptcy or are probable to enter bankruptcy or financial reorganization.
  - ii) The borrowers fail to make interest or principal payments based on original terms and conditions.
  - iii) The collateral of the borrowers are seized provisionally or enforced.
  - iv) The borrowers apply for a change of credit conditions due to financial difficulties.
- iii. The above-mentioned definitions of a default occurring on a financial asset and a credit impairment are applicable to all financial assets held by Cathay Century and its subsidiaries, and are aligned with those of relevant financial assets for internal credit risk management. The definitions are also applicable to the related impairment assessment model.

e) Measurement of expected credit losses

- i. Methods and assumptions adopted

For financial instruments on which the credit risk has not increased significantly since initial recognition, Cathay Century measures the 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 measures the loss allowance for financial instruments at an amount equal to the lifetime expected credit losses.

In the measurement of expected credit losses, Cathay Century took into consideration the 12-month and lifetime probability of default (“PD”) of issuers, guarantee agencies or borrowers, which is included in loss given default (“LGD”) and multiplied by the exposure at default (“EAD”), at the same time taking into consideration the time value of money, when calculating the 12-month and lifetime expected credit losses.

Default rate is the rate that a default occurs on issuers, guarantee agencies and borrowers. Loss given default is the loss rate resulted from the default of issuers, guarantee agencies and borrowers. Loss given default used by Cathay Century 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.

ii. Consideration of forward-looking information

Cathay Century and its subsidiaries take forward-looking information into consideration while measuring expected credit losses of the financial assets.

f) Gross carrying amount of maximum credit risk exposure and category of credit quality

i. Financial assets of Cathay Century and its subsidiaries

	June 30, 2019					
	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		
<u>Investment grade</u>						
Debt instruments at FVOCI	\$ 758,078	\$ -	\$ -	\$ -	\$ -	\$ 758,078
Financial assets measured at amortized cost	8,899,544	-	-	-	(4,113)	8,895,431
	December 31, 2018					
	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		
	<u>Investment grade</u>					
Debt instruments at FVOCI	\$ 1,045,844	\$ -	\$ -	\$ -	\$ -	\$ 1,045,844
Financial assets measured at amortized cost	8,539,903	-	-	-	(3,587)	8,536,316
	June 30, 2018					
	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		
	<u>Investment grade</u>					
Debt instruments at FVOCI	\$ 1,046,349	\$ -	\$ -	\$ -	\$ -	\$ 1,046,349
Financial assets measured at amortized cost	9,419,414	-	-	-	(3,390)	9,416,024
<u>Non-investment grade</u>						
Financial assets measured at amortized cost	150,000	-	-	-	(1,035)	148,965



Note: Investment grade assets refer to those with credit ratings of at least BBB-; non-investment grade assets are those with credit rating lower than BBB-.

ii. Secured Loans

June 30, 2019							
	Stage 1	Stage 2	Stage 3		Loss Allowance	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			
Secured Loans	\$ 228,066	\$ -	\$ -	\$ -	\$ (2,722)	\$ -	\$ 225,344
December 31, 2018							
	Stage 1	Stage 2	Stage 3		Loss Allowance	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			
Secured Loans	\$ 239,701	\$ -	\$ -	\$ -	\$ (2,885)	\$ -	\$ 236,816
June 30, 2018							
	Stage 1	Stage 2	Stage 3		Loss Allowance	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			
Secured Loans	\$ 231,103	\$ -	\$ -	\$ -	\$ (2,773)	\$ -	\$ 228,330

g) Reconciliation for loss allowance is summarized below:

i. Debt instrument investments at FVTOCI

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Charged in Accordance with IFRS 9
		Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets	
January 1, 2019	\$ 148	\$ -	\$ -	\$ -	\$ 148
Changes in models/risk parameters	(78)	-	-	-	(78)
June 30, 2019	<u>\$ 70</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70</u>
January 1, 2018	\$ 150	\$ -	\$ -	\$ -	\$ 150
Changes in models/risk parameters	26	-	-	-	26
June 30, 2018	<u>\$ 176</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 176</u>

ii. Financial assets measured at amortized cost

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Charged in Accordance with IFRS 9
		Collectively Assessed	Not Purchased or Originated Credit- impaired Financial Assets	Purchased or Originated Credit- impaired Financial Assets	
January 1, 2019	\$ 3,542	\$ -	\$ -	\$ -	\$ 3,542
Changes in models/risk parameters	518	-	-	-	518
June 30, 2019	<u>\$ 4,060</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,060</u>
January 1, 2018	\$ 3,571	\$ -	\$ -	\$ -	\$ 3,571
Changes in models/risk parameters	778	-	-	-	778
June 30, 2018	<u>\$ 4,349</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,349</u>

iii. Other financial assets

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Charged in Accordance with IFRS 9
		Collectively Assessed	Not Purchased or Originated Credit- impaired Financial Assets	Purchased or Originated Credit- impaired Financial Assets	
January 1, 2019	\$ 45	\$ -	\$ -	\$ -	\$ 45
Changes in models/risk parameters	8	-	-	-	8
June 30, 2019	<u>\$ 53</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53</u>
January 1, 2018	\$ 68	\$ -	\$ -	\$ -	\$ 68
Changes in models/risk parameters	8	-	-	-	8
June 30, 2018	<u>\$ 76</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76</u>

iv. Secured Loans

	12-month Expected Credit Losses	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	Total
		Collectively Assessed	Not Purchased or Originated Credit- impaired Financial Assets	Purchased or Originated Credit- impaired Financial Assets			
January 1, 2019	\$ 53	\$ -	\$ -	\$ -	\$ 53	\$ 2,832	\$ 2,885
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	3	-	-	-	3	(166)	(163)
June 30, 2019	<u>\$ 56</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56</u>	<u>\$ 2,666</u>	<u>\$ 2,722</u>
January 1, 2018	\$ 45	\$ -	\$ -	\$ -	\$ 45	\$ 3,079	\$ 3,124
Financial assets that have been derecognized during the period	6	-	-	-	6	-	6
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	(357)	(357)
June 30, 2018	<u>\$ 51</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51</u>	<u>\$ 2,722</u>	<u>\$ 2,773</u>

There were no significant changes in loss allowance due to significant changes in the gross carrying amounts of the financial instruments.

h) Exposure to credit risk and loss allowance of receivables

The Company applies the simplified approach to providing for expected credit loss prescribed by IFRS 9, and the estimation of lifetime credit loss was as follows:

June 30, 2019

<b>June 30, 2019</b>	<b>Not Overdue</b>	<b>Overdue</b>	<b>Total</b>
Carrying amount	\$ 2,139,244	\$ 231,602	\$ 2,370,846
Expected credit loss rate	1.00%	15.48%	
Lifetime expected credit losses	\$ 21,326	\$ 35,840	57,166

December 31, 2018

<b>December 31, 2018</b>	<b>Not Overdue</b>	<b>Overdue</b>	<b>Total</b>
Carrying amount	\$ 1,766,984	\$ 228,874	\$ 1,995,858
Expected credit loss rate	1.00%	26.95%	
Lifetime expected credit losses	\$ 17,640	\$ 61,684	79,324

June 30, 2018

<b>June 30, 2018</b>	<b>Not Overdue</b>	<b>Overdue</b>	<b>Total</b>
Carrying amount	\$ 1,902,362	\$ 223,577	\$ 2,125,939
Expected credit loss rate	1.00%	27.10%	
Lifetime expected credit losses	\$ 18,953	\$ 60,589	79,542

3) Liquidity risk

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 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 established a completed capital liquidity management by assessing the business features and monitoring short-term cash flow. Considering the trading volume and holding position, Cathay Century carefully manage the market liquidity risk.

According to the actual management need or special situations, Cathay Century uses cash flow model and stress testing to assess cash flow risk. Moreover, Cathay Century has drawn up a plan for capital requirements with respect to abnormal and emergency conditions to deal with significant liquidity risk.

The analysis of cash outflows to Cathay Century and its subsidiaries is listed below and based on the residual terms to maturity on the balance sheet date. The disclosed amounts are prepared in accordance with contract cash flows and, accordingly for certain line items, the disclosed amounts are different to the amounts on consolidated balance sheets.

The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

#### June 30, 2019

	<b>Less than 6 Months</b>	<b>6-12 Months</b>	<b>1-2 Years</b>	<b>2-5 Years</b>	<b>5+ Years</b>
<u>Non-derivative financial liabilities</u>					
Payables	\$ 3,072,475	\$ 45,130	\$ 3,483	\$ 7,050	\$ -
Lease liabilities	33,970	15,918	12,176	4,726	-
<u>Derivative financial liabilities</u>					
SWAP	77,241	-	-	-	-

#### December 31, 2018

	<b>Less than 6 Months</b>	<b>6-12 Months</b>	<b>1-2 Years</b>	<b>2-5 Years</b>	<b>5+ Years</b>
<u>Non-derivative financial liabilities</u>					
Payables	\$ 2,607,649	\$ 5,053	\$ 4,379	\$ 5,696	\$ -
<u>Derivative financial liabilities</u>					
SWAP	50,041	-	-	-	-

#### June 30, 2018

	<b>Less than 6 Months</b>	<b>6-12 Months</b>	<b>1-2 Years</b>	<b>2-5 Years</b>	<b>5+ Years</b>
<u>Non-derivative financial liabilities</u>					
Payables	\$ 3,828,113	\$ 9,276	\$ 5,548	\$ 5,314	\$ -
Preferred stock liabilities	1,000,000	-	-	-	-
<u>Derivative financial liabilities</u>					
SWAP	186,186	21,232	-	-	-

### Cathay Securities and its subsidiaries

#### 1) Risk management system

##### a) Risk management objectives

Adhering to the risk management policies of the Company, Cathay Securities and its subsidiaries manage the risks during its operating activities in compliance with domestic and foreign regulations as well as in an efficient and flexible manner to maximize the profit.

##### b) Risk management policies

Cathay Securities complies with the risk management policies as a guiding principle to establish significant risk management matters such as objectives, coverage, organization duties and operating, management principles and reports.

The management policies of Cathay Securities and its subsidiaries cover different types of risk including market risk, credit risk, operating risk, liquidity risk, capital adequacy management, regulation risk and other risks related to operating activities. Before initiating a business, Cathay Securities and its subsidiaries identify relevant risks and have integrated planning of risk management mechanism and methods to ensure that such business is compliant with the management policies.

c) Risk management organization

i. Board of directors

The board of directors takes the ultimate responsibilities for risk management. The board of directors approves the risk management policy, ensures that approved risk management policies are in accordance with the nature of operating activities and types of business and they cover different types of risk and monitors the effective implementation of risk management policies.

ii. Risk management committee

The risk management committee is responsible for reviewing risk management policies, principles, and rules of trading transactions, and for determining the appropriate degree of risk exposure and monitoring the implementation of the risk management policies. The risk management committee is under the board of directors and the chairman of board of directors takes chair of the committee, and the members include the general manager, finance supervisor, accounting manager, risk management supervisor, and the relevant trading department supervisor. The committee meetings are typically held quarterly and provisional meetings are called by the chairman of the board.

iii. Risk management department

The risk management department is under the board of directors. The supervisor and staff of the department are prohibited from holding positions at the trading or settlement department. Their responsibilities are to plan and implement risk management policies, principles and directions, review policies regularly to ensure that those policies are suitable for business development. The risk management department also establishes online monitoring and prevention systems and reaction mechanisms, according to the development of Cathay Securities and its subsidiaries.

iv. Business unit

Each business unit participates in the setting of the risk management mechanism and executes daily risk management and reporting to ensure that the risk model used by the business unit is implemented with the consistent credibility and is in accordance with the internal control procedures to comply with the regulations and risk management policies.

v. Auditing office

The auditing office executes risk management and internal control procedures regularly, and traces and documents findings and deviations of internal control procedures periodically to ensure that the appropriate actions of improvement have been taken in time.

vi. Finance department

The finance department participates in the setting of the risk management mechanism. The department is responsible for executing liquidity risk management and providing the liquidity risk report to the risk management department regularly.

vii. Accounting department

The accounting department participates in the setting of the risk management mechanism and provides the form of capital adequacy to the risk management department monthly.

viii. Legal affairs office

The legal affairs office executes legal risk management to ensure that business operations and risk management procedures are all in compliance with the regulations.

d) Risk management workflows

Risk management workflows for Cathay Securities includes risk identification, risk measurement, risk management mechanism, and risk reporting. Risk assessment and response strategies to each risk are addressed as follows:

i. Market risk

i) Definition

Market risk is the risk of losses in Cathay Securities and its subsidiaries' investment positions, including shares, bonds, and derivatives etc. arising from changes in the market prices of financial instruments.

ii) Controls:

Cathay Securities and its subsidiaries set up rules of trading transactions including the limits of authorization, risk limitation, stop-loss rules, and responses to the exceeded limits by each product or service line and implement those control procedures efficiently through the front desk risk control staff and on-line monitoring system. Furthermore, Cathay Securities and its subsidiaries provide the market risk management report regularly that includes market price assessments, the dollar amounts of surplus/shortfall and arbitrage, Value at Risk, and back-testing model and perform stress testing by each extreme scenario to control the risks that Cathay Securities and its subsidiaries face and manage all risks as a whole efficiently.

ii. Credit risk

i) Definition

Credit risk is the risk of loss incurred by Cathay Securities and its subsidiaries as a result of a counterparty or debtor not being able to perform its contract obligations due to deterioration of financial conditions or other factors.

ii) Controls

Cathay Securities and its subsidiaries check and review the credit position of 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 regularly. 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.

iii. Operational risk

i) 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 legal risk, but excludes strategy risk and credit risk.

ii) 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 documents are archived 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 the causes of the loss.

In addition, the auditing office is established under the board of directors. The functions of the office are to implement daily process checks to establish completed internal audit control and provide internal review reports periodically to lower the loss arising from the operational failures.

iv. Liquidity risk

i) Definition

Fund liquidity refers to Cathay Securities and its subsidiaries' acquisition of funds to maintain its needed flexibility to support asset growth or to repay liabilities; market liquidity refers to the managing and avoidance of risk of loss resulting from significant changes in the market price of held positions due to the lack of market depth or market disruption.

ii) Controls

The measurement index for liquidity risk is established and Cathay Securities compiles the liquidity risk management report regularly to review the capital conditions and cash flow gap as of the balance sheet dates. Capital allocation planning is based on the compiled structure analysis as of the balance sheet dates. Meanwhile, credit lines of short-term financing are acquired from other financial institutions and receipts and payments are managed properly to sustain appropriate liquidity and ensure payment ability.

v. Legal risk

i) Definition

Legal risk is the risk of loss that results from a counterparty being unable to legally enter into a contract due to the contract being defective or eligibility of the counterparty.

ii) Controls

The procedures of making and reviewing legal documentation are established. All the documents related to the contracts are required to be reviewed and approved by the legal office and may be reviewed with reference to external lawyers' opinions if needed.

vi. Capital adequacy management

i) Definition

Cathay Securities and its subsidiaries implement capital management to maintain an appropriate capital adequacy ratio, promote business growth and ensure a robust capital structure.

ii) Controls

Cathay Securities established the capital adequacy index and compiles the capital adequacy management report regularly to evaluate the appropriateness of the capital adequacy ratio and the robustness of the capital structure.

vii. Reputation risk and strategy risk

i) Definition

Reputation risk is the risk of loss resulting from negative aspects of Cathay Securities and its subsidiaries' operations, leading to the loss of customers or revenue, and the need for Cathay Securities and its subsidiaries to bear large amounts 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.

ii) Controls

In response to significant events related to reputation and strategy risk, Cathay Securities and its subsidiaries establish internal regulations to mitigate the risk of losses when significant events occur.

Risk management policies and principles are established based on the above-mentioned risks and management mechanisms from each risk source are set out specifically. Cathay Securities and its subsidiaries also establish the constraints for each risk and review the appropriateness of each constraint regularly. 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 the current risk management scheme.



e) Hedging and mitigation of risk strategies

The hedging and mitigation risk strategies for Cathay Securities refer to the implementation of dynamic hedging through the purchase and sale of target investment products to duplicate the same cash flows when derivatives mature. The hedging for outstanding stock warrants and structured products is based on the principle of Delta Neutral. If the prices of those investment positions fluctuate significantly in the financial markets, when the regulations for hedging operations are breached due to the impact from significant events, or when the risk personnel's implementation of hedging strategies are in violation of the regulations of hedging operations, the business department is required to explain in writing and report to the risk management department.

Cathay Securities establishes the approval limit and stop-loss mechanism based on the attributes of each 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 in the position. In addition, the business department should operate in accordance with the approval limits. If the stop-loss point is met, the investment should be sold or the business department is required to provide an exception report detailing the reason and specific response measures.

2) Market risk analysis

Cathay Securities and its subsidiaries assess, monitor, and manage market risks completely and effectively by applying market risk management tools such as sensitivity analysis, Value at Risk ("VaR") and stress testing continuously.

a) Sensitivity analysis

Sensitivity analysis is used to measure the degree of impact on each product and investment portfolio due to fluctuations in specific market factors. The relevant monitoring and control regulations are set based on the differences in the types of risk and business attributes of Cathay Securities and its subsidiaries. The degree of risk exposure is monitored and measured by the following sensitivities:

- i. Price value of basis point (PVBP): Denoting the change in the value of a position given a 1 basis point change in the yield curve.
- ii. Delta: Measuring the change in the value of a position given a 1% price change of a certain underlying asset.
- iii. Gamma: Measuring the dollar amount of change in Delta of a position given a 1% price change of a certain underlying asset.
- iv. Vega: Denoting the change in the value of a position given a 1% price change of a certain underlying asset.

b) VaR

VaR is used to measure the risk of the largest potential loss of the investment portfolio arising from movements in market risk factors over a specific time frame and at a certain confidence level. Cathay Securities and its subsidiaries currently measure the VaR of an investment portfolio for the next day at a 99% confidence level. Also, back testing of the VaR model is performed each year to ensure the accuracy of this model.

VaR on one single trading day within the 99% confidence level

	<b>For the Six Months Ended June 30, 2019</b>			
	<b>Average</b>	<b>Highest</b>	<b>Lowest</b>	<b>End of Period</b>
VaR	\$ 15,071	\$ 20,355	\$ 9,609	\$ 19,044
	<b>For the Six Months Ended June 30, 2018</b>			
	<b>Average</b>	<b>Highest</b>	<b>Lowest</b>	<b>End of Period</b>
VaR	\$ 50,109	\$ 154,268	\$ 12,016	\$ 14,896

c) Stress testing

Cathay Securities and its subsidiaries perform stress testing on a monthly basis to assess the degree of impact on the asset portfolio arising from foreign and domestic significant events and find the risk factors which exert greater significant influence on the asset portfolio, follow up review and report such factors according to the market conditions and customized or extreme scenarios which take rapid changes in foreign and domestic financial environments into consideration are also performed periodically and the maximum losses arising from these scenarios are measured to ensure that Cathay Securities and its subsidiaries manage the risk from each potential scenario effectively.

Stress testing scenarios, which include the historical scenario and hypothesis scenario, are described as follows:

i. 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 events and taking the fluctuations of risk factors into the consideration such as the immediate, significant, and comprehensive impact on financial markets from the bankruptcy of Lehman Brothers in 2008 and the Great East Japan earthquake in 2011.

ii. Hypothesis Scenario

Cathay Securities and its subsidiaries make reasonable expected hypotheses on possible future extreme market fluctuations, include movements of the related risk factors in the current investment portfolio, and measure the loss amount generated from such events on the investment position, including the 10% drop in the total stock market value arising from the breakdown of the global system.

**For the Six Months Ended June 30, 2019**  
**Stress Test Table**

<b>Risk Factor</b>	<b>Changes (+/-)</b>	<b>Changes in Profit and Loss</b>
Equity risk (stock index)	-10%	\$ (13,963)
Interest rate risk (yield curve)	+100bps	(92,661)
Exchange rate risk (exchange rate)	-3%	(6,141)
Product risk (price)	-10%	-

**For the Six Months Ended June 30, 2018**  
**Stress Test Table**

Risk Factor	Changes (+/-)	Changes in Profit and Loss
Equity risk (stock index)	-10%	\$ (16,017)
Interest rate risk (yield curve)	+100bps	(159,247)
Exchange rate risk (exchange rate)	3%	(1,551)
Product risk (price)	-10%	-

3) Credit risk analysis

a) Source of credit risk

Issuer credit risk refers to the credit risk that Cathay Securities and its subsidiaries may encounter due to engagement in financial transactions which include the credit risks from issuers, counterparties, and underlying assets:

- i. Issuer credit risk refers to the risk of financial loss that Cathay Securities and its subsidiaries may incur as a result of issuers, guarantors or banks not fulfilling their payment obligations due to default, bankruptcy or liquidation.
- ii. Counterparty credit risk is the risk of financial loss that Cathay Securities and its subsidiaries may incur when a counterparty does not fulfill its settlement or payment obligations on the designated date.
- iii. Underlying asset credit risk refers to the risk of loss that Cathay Securities and its subsidiaries may encounter when the credit quality of the target financial instrument turns weak, credit charges increase, credit rating reduces or when the terms of the contracts are violated.

Financial assets that expose Cathay Securities and its subsidiaries to credit risk include bank accounts, debt securities, trading of over-the-counter derivatives, repurchase and resale of debts, trading from the securities lending, refundable deposits, futures deposits in banks, other refundable deposits and accounts receivable etc.

b) Determinants for whether the credit risk has increased significantly since initial recognition

- i. 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.
- ii. 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 that of 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:

- i. Qualitative factor: An evidence indicates that the issuers or borrowers cannot pay the contractual payments or that they have significant financial difficulties, for example:
  - i) The issuers and borrowers have entered bankruptcy or are probable to file bankruptcy or undergo financial reorganization.
  - ii) The borrowers fail to make interest or principal payments based on original terms and conditions.
- ii. 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 aligned with those of relevant financial assets for internal credit risk management. The definitions are also applicable to the related impairment assessment model.

d) Measurement of expected credit losses

i. 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 the 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 the 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 when calculating the 12-month expected credit losses and the lifetime expected credit losses.

Default rate is the rate that an issuer, guarantee agency and a borrower defaults. Loss given default is the loss rate that results 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) after adjustments of historical data. Exposure at default is measured at the amortized cost and interest receivables of the financial assets.

ii. 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.

e) Loss allowance of accounts receivables

The movements of the loss allowance of accounts receivables were as follows:

	Receivable	Other Receivables	Overdue Receivables	Securities Financing Receivables	Security Lending Receivable	Total
Balance at January 1, 2019	\$ 88	\$ 12	\$ 95,047	\$ 132	\$ 7	\$ 95,286
Increase (decrease)	<u>9</u>	<u>(1)</u>	<u>(75)</u>	<u>1</u>	<u>6</u>	<u>(60)</u>
Balance at June 30, 2019	<u>\$ 97</u>	<u>\$ 11</u>	<u>\$ 94,972</u>	<u>\$ 133</u>	<u>\$ 13</u>	<u>\$ 95,226</u>
Balance at January 1, 2018	\$ 69	\$ 9	\$ 93,966	\$ 186	\$ -	\$ 94,230
Increase	<u>48</u>	<u>6</u>	<u>1,086</u>	<u>20</u>	<u>1</u>	<u>1,161</u>
Balance at June 30, 2018	<u>\$ 117</u>	<u>\$ 15</u>	<u>\$ 95,052</u>	<u>\$ 206</u>	<u>\$ 1</u>	<u>\$ 95,391</u>

4) Capital liquidity risk analysis:

Bank loans are important liquidity resource for Cathay Securities and its subsidiaries. As of June 30, 2019, December 31, 2018 and June 30, 2018, the unused credits of short-term bank loans of Cathay Securities and its subsidiaries amounted to \$7,349,536 thousand, \$9,901,801 thousand and \$8,501,561 thousand, respectively.

a) Cash flow analysis

Capital liquidity risk is the risk that Cathay Securities and its subsidiaries are unable to acquire sufficient capital at a reasonable cost within a reasonable time frame and which results in a cash flow gap, or the risk that Cathay Securities and its subsidiaries sell assets at a loss to meet the cash flow requirements.

June 30, 2019

Cash Flows Analysis of Financial Liabilities

	Payment Period				Total
	Less than 1 Month	1 to 3 Months	3 to 6 Months	More than 6 Months	
<u>Financial liabilities</u>					
Short-term borrowings	\$ 165,942	\$ -	\$ -	\$ -	\$ 165,942
Commercial paper payable	7,088,506	-	-	-	7,088,506
Financial liabilities at FVTPL	2,055,872	-	-	-	2,055,872
Liabilities for bonds with repurchase agreements	2,326,937	-	-	-	2,326,937
Deposits for securities borrowed	32,493	64,986	97,479	389,915	584,873
Securities lending margin - deposits received	2,313	4,626	6,939	27,758	41,636
Futures trader's equity	6,094,733	-	-	-	6,094,733
Ledgers of securities firms' settlement accounts customer's equity	6,214	-	-	-	6,214
Payables	7,032,437	-	-	394,491	7,426,928
Other financial liabilities	242,897	-	-	-	242,897
Lease liabilities - current	6,306	12,883	18,827	37,131	75,147
Others	<u>107,652</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,652</u>
Total	<u>\$ 25,162,302</u>	<u>\$ 82,495</u>	<u>\$ 123,245</u>	<u>\$ 849,295</u>	<u>\$ 26,217,337</u>
% to the total	<u>95.98%</u>	<u>0.31%</u>	<u>0.47%</u>	<u>3.24%</u>	<u>100.00%</u>

Short-term borrowings, commercial paper payable and repurchase bonds are fund procurement instruments of Cathay Securities and its subsidiaries with maturities within three months.

June 30, 2019

Cash Flow Gap

	Fund Receipt Period				Total
	Less than 1 Month	1 to 3 Months	3 to 6 Months	More than 6 Months	
<u>Financial assets</u>					
Cash and cash equivalents	\$ 2,832,066	\$ -	\$ -	\$ -	\$ 2,832,066
Financial assets at FVTPL					
Operation securities	8,143,860	-	-	-	8,143,860
Call option-futures	51,503	-	-	-	51,503
Futures trading margin	1,005,851	-	-	-	1,005,851
Structured products	62,354	-	-	-	62,354
Financial assets at fair value through other comprehensive income - current	2,345,004	-	-	-	2,345,004
Securities financing receivables	152,006	299,342	449,013	1,796,054	2,696,415
Refinancing margin and refinancing deposits receivable	442	884	1,326	5,312	7,964
Security lending receivable	121,773	-	-	-	121,773
Customer's margin accounts	6,101,389	-	-	-	6,101,389
Security lending deposits price and security lending margin deposits paid	55,383	110,766	166,149	664,588	996,886
Receivables	6,064,752	-	-	11,742	6,076,494
Others	1,010,546	-	-	900,000	1,910,546
	<u>27,946,929</u>	<u>410,992</u>	<u>616,488</u>	<u>3,377,696</u>	<u>32,352,105</u>
Residual cash	<u>\$ 2,784,627</u>	<u>\$ 328,497</u>	<u>\$ 493,243</u>	<u>\$ 2,528,401</u>	<u>\$ 6,134,768</u>

December 31, 2018

Cash Flows Analysis of Financial Liabilities

	Payment Period				Total
	Less than 1 Month	1 to 3 Months	3 to 6 Months	More than 6 Months	
<u>Financial liabilities</u>					
Short-term borrowings	\$ 336,381	\$ -	\$ -	\$ -	\$ 336,381
Commercial paper payable	3,729,367	-	-	-	3,729,367
Financial liabilities at FVTPL	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
Payables	4,863,717	-	-	345,795	5,209,512
Other financial liabilities	105,870	-	-	-	105,870
Others	44,731	647	-	-	45,378
Total	<u>\$ 21,015,019</u>	<u>\$ 86,455</u>	<u>\$ 128,712</u>	<u>\$ 860,641</u>	<u>\$ 22,090,827</u>
% to the total	<u>95.13%</u>	<u>0.39%</u>	<u>0.58%</u>	<u>3.90%</u>	<u>100.00%</u>

Short-term borrowings, commercial paper payable and repurchase bonds are fund procurement instruments of Cathay Securities and its subsidiaries with maturities within three months.

December 31, 2018

Cash Flow Gap

	Fund Receipt Period				Total
	Less than 1 Month	1 to 3 Months	3 to 6 Months	More than 6 Months	
<u>Financial assets</u>					
Cash and cash equivalents	\$ 3,158,088	\$ -	\$ -	\$ -	\$ 3,158,088
Financial assets at FVTPL					
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
Customer's 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
Receivables	4,721,054	-	-	25,942	4,746,996
Others	381,826	-	-	900,000	1,281,826
	<u>22,892,562</u>	<u>500,066</u>	<u>750,099</u>	<u>3,926,344</u>	<u>28,069,071</u>
Residual cash	<u>\$ 1,877,543</u>	<u>\$ 413,611</u>	<u>\$ 621,387</u>	<u>\$ 3,065,703</u>	<u>\$ 5,978,244</u>

June 30, 2018

Cash Flows Analysis of Financial Liabilities

	Payment Period				Total
	Less than 1 Month	1 to 3 Months	3 to 6 Months	More than 6 Months	
<u>Financial liabilities</u>					
Short-term borrowings	\$ 218,389	\$ -	\$ -	\$ -	\$ 218,389
Commercial paper payable	9,507,245	-	-	-	9,507,245
Financial liabilities at FVTPL	2,170,142	-	-	-	2,170,142
Liabilities for bonds with repurchase agreements	3,246,829	-	-	-	3,246,829
Deposits for securities borrowed	26,172	52,344	78,516	314,058	471,090
Securities lending margin - deposit received	330	660	990	3,954	5,934
Futures trader's equity	5,405,702	-	-	-	5,405,702
Payables	7,473,171	-	-	396,857	7,870,028
Others	116,130	-	-	-	116,130
Total	<u>\$ 28,164,110</u>	<u>\$ 53,004</u>	<u>\$ 79,506</u>	<u>\$ 714,869</u>	<u>\$ 29,011,489</u>
% to the total	<u>97.08%</u>	<u>0.18%</u>	<u>0.27%</u>	<u>2.47%</u>	<u>100.00%</u>

Short-term borrowings, commercial paper payable and repurchase bonds are fund procurement instruments of Cathay Securities and its subsidiaries with maturities within three months.

June 30, 2018

Cash Flow Gap

	Fund Receipt Period				Total
	Less than 1 Month	1 to 3 Months	3 to 6 Months	More than 6 Months	
<u>Financial assets</u>					
Cash and cash equivalents	\$ 2,814,073	\$ -	\$ -	\$ -	\$ 2,814,073
Financial assets at FVTPL					
Operation securities	8,417,192	-	-	-	8,417,192
Call option-futures	18,953	-	-	-	18,953
Futures trading margin	838,062	-	-	-	838,062
Financial assets at fair value through other comprehensive income - current	3,288,187	-	-	-	3,288,187
Securities financing receivables	256,279	512,558	768,837	3,075,352	4,613,026
Refinancing margin and refinancing deposits receivable	866	1,732	2,598	10,386	15,582
Security lending receivable	14,606	-	-	-	14,606
Customer's margin accounts	5,412,119	-	-	-	5,412,119
Security lending deposits price and security lending margin deposits paid	83,985	167,970	251,955	1,007,820	1,511,730
Receivables	6,372,336	-	-	22,554	6,394,890
Others	555,270	-	-	903,178	1,458,448
	<u>28,071,928</u>	<u>682,260</u>	<u>1,023,390</u>	<u>5,019,290</u>	<u>34,796,868</u>
Residual cash	<u>\$ (92,182)</u>	<u>\$ 629,256</u>	<u>\$ 943,884</u>	<u>\$ 4,304,421</u>	<u>\$ 5,785,379</u>

b) Capital liquidity risk stress testing

Cathay Securities and its subsidiaries perform stress testing regularly to measure and evaluate the changes of capital liquidity under extreme and abnormal events to ensure that Cathay Securities and its subsidiaries maintain capital liquidity. Stress scenarios include significant fluctuations in the financial markets, the occurrence of various credit events, the unexpected tightening of capital liquidity in the financial markets and other assumptions that may cause financial liquidity stress, and are used to measure Cathay Securities and its subsidiaries' abilities to meet the demand for cash and the changes in cash flow gap.

If the cash flow gap arises under the specific stress scenario, the following procedures are performed to prevent the occurrence of the stress events:

- i. Cathay Securities and its subsidiaries make fund raising and balance sheet adjustments in accordance with the Crisis Management Principles and Regulations of Emergency Management.
- ii. Financing: (i) short-term loan credit line (ii) collateralized time deposits (iii) issuance of commercial paper
- iii. Balance sheet adjustments: (i) sale of securities (ii) recovery of short-term capital invested in the currency market.

i. Structured entities

1) Consolidated structured entities

The consolidated structured entities in Cathay Life and its subsidiaries' consolidated financial statements are the real estate investment management organizations. As of June 30, 2019, December 31, 2018 and June 30, 2018, Cathay Life and its subsidiaries provided loans amounting to GBP345,000 thousand as financial support to the entities for operational and investment needs.

2) Unconsolidated structured entities

- a) Cathay Life and its subsidiaries hold interests in structured entities which are not included in Cathay Life and its subsidiaries' consolidated financial statements. Cathay Life and its subsidiaries do not provide financial support or other support to these structured entities. The maximum exposure to these structured entities is the carrying amount of the related assets held by Cathay Life and its subsidiaries. The information of these unconsolidated structured entities is disclosed as follows:

<b>Type of Structured Entity</b>	<b>Nature and Purpose</b>	<b>Interests Owned</b>
Private equity fund	Investment in private equity funds issued by external third parties to receive returns	Investment in units or limited partnership interests issued by the funds
Asset-backed securities	Investment in asset-backed securities to receive returns	Investment in asset-backed securities issued by the entities



- b) As of June 30, 2019, December 31, 2018 and June 30, 2018, the carrying amounts of Cathay Life and its subsidiaries' assets related to its interests in unconsolidated structured entities are disclosed as follows:

	<b>June 30, 2019</b>	
	<b>Private Equity Funds</b>	<b>Asset-backed Securities</b>
Financial assets at FVTPL	\$ 86,235,193	\$ 32,004,612
Financial assets at FVTOCI	-	33,249,074
Financial assets measured at amortized cost	<u>-</u>	<u>181,855,837</u>
	<u>\$ 86,235,193</u>	<u>\$ 247,109,523</u>
	<b>December 31, 2018</b>	
	<b>Private Equity Funds</b>	<b>Asset-backed Securities</b>
Financial assets at FVTPL	\$ 77,198,514	\$ 29,059,383
Financial assets at FVTOCI	-	53,974,279
Financial assets measured at amortized cost	<u>-</u>	<u>152,673,283</u>
	<u>\$ 77,198,514</u>	<u>\$ 235,706,945</u>
	<b>June 30, 2018</b>	
	<b>Private Equity Funds</b>	<b>Asset-backed Securities</b>
Financial assets at FVTPL	\$ 66,519,481	\$ 25,676,203
Financial assets at FVTOCI	-	70,788,730
Financial assets measured at amortized cost	<u>-</u>	<u>141,897,214</u>
	<u>\$ 66,519,481</u>	<u>\$ 238,362,147</u>

- c) Cathay United Bank and its subsidiaries hold interests in structured entities which are not included in Cathay United Bank and its subsidiaries' consolidated financial statements. Cathay United Bank and its subsidiaries does not provide financial support or other support to the unconsolidated structured entities. Cathay United Bank's maximum exposure to loss from its interests in these structured entities is limited to the carrying amount of assets Cathay United Bank recognized. The information of the recognized unconsolidated structured entities is disclosed as follows:

<u>Type of Structured Entity</u>	<u>Nature and Purpose</u>	<u>Interests Owned</u>
Asset-backed securities	Investment in asset-backed securities to receive returns	Investment in asset-backed securities issued by the entity

As of June 30, 2019, December 31, 2018 and June 30, 2018, the carrying amounts of assets recognized by Cathay United Bank and its subsidiaries' asset relating to its interests in unconsolidated structured entities are disclosed as follows:

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Financial assets at FVTOCI	\$ 19,484,368	\$ 3,191,683	\$ 2,714,099
Investments in debt instruments measured at amortized cost	<u>49,127,198</u>	<u>47,970,374</u>	<u>42,034,161</u>
	<u>\$ 68,611,566</u>	<u>\$ 51,162,057</u>	<u>\$ 44,748,260</u>

- d) Cathay Century and its subsidiaries hold interests in structured entities which are not included in Cathay Century and its subsidiaries' consolidated financial statements. Cathay Century and its subsidiaries' does not provide financial support or other support to the unconsolidated structured entities. Cathay Century's maximum exposure to loss from its interests in these structured entities is limited to the carrying amount of assets Cathay Century recognized. The information of the recognized unconsolidated structured entities is disclosed as follows:

<u>Type of Structured Entity</u>	<u>Nature and Purpose</u>	<u>Interests Owned</u>
Asset-backed securities	Investment in asset-backed securities to receive returns	Investment in asset-backed securities issued by the entity

As of June 30, 2019, December 31, 2018 and June 30, 2018, the carrying amounts of assets recognized by Cathay Century relating to its interests in unconsolidated structured entities are disclosed as follows:

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Financial assets at FVTPL	\$ 70,097	\$ 96,907	\$ 148,772
Investments assets measured at amortized cost	<u>628,838</u>	<u>640,847</u>	<u>662,635</u>
	<u>\$ 698,935</u>	<u>\$ 737,754</u>	<u>\$ 811,407</u>

### 37. CAPITAL MANAGEMENT

The Group's capital adequacy ratios meet the statutory requirements currently. Under the pretext that the Group meets the statutory capital adequacy requirements, dynamic capital management mechanism is utilized to increase the capital efficiency of the subsidiaries. After reallocation of capital, the subsidiaries' capabilities of risk-taking are not affected due to lower level of retained core capital. Accordingly, the Company conducts overall planning based on the status of the subsidiaries' capital in order to improve the capital efficiency of the Group.

a. Capital adequacy ratio of the Group

Items	June 30, 2019		
	Ownership Interest by the Company	Eligible Capital	Statutory Requirement of Capital
The Company	100.00%	\$ 688,204,856	\$ 776,273,654
Cathay United Bank	100.00%	248,548,081	182,215,407
Cathay Securities	100.00%	5,580,766	1,982,452
Cathay Life	100.00%	534,981,842	321,630,431
Cathay Century	100.00%	10,889,230	5,926,867
Cathay Venture	100.00%	5,593,379	2,865,021
Cathay Securities Investment Trust	100.00%	2,336,644	1,700,800
Less: Deduction items	100.00%	<u>(811,842,900)</u>	<u>(763,971,818)</u>
		<u>\$ 684,291,898</u>	<u>\$ 528,622,814</u>
Capital adequacy ratio of the Group			129.45%

Items	June 30, 2018		
	Ownership Interest by the Company	Eligible Capital	Statutory Requirement of Capital
The Company	100.00%	\$ 590,119,717	\$ 668,310,019
Cathay United Bank	100.00%	253,034,049	169,270,925
Cathay Securities	100.00%	4,973,278	2,262,981
Cathay Life	100.00%	503,178,974	309,452,625
Cathay Century	100.00%	9,906,805	5,228,348
Cathay Venture	100.00%	3,597,119	1,813,677
Cathay Securities Investment Trust	100.00%	2,301,378	1,570,737
Less: Deduction items	100.00%	<u>(700,393,950)</u>	<u>(654,877,367)</u>
		<u>\$ 666,717,370</u>	<u>\$ 503,031,945</u>
Capital adequacy ratio of the Group			132.54%

b. Eligible capital

Items	June 30, 2019 Amount
Ordinary shares	\$ 125,632,102
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	15,333,000
Other preferred stocks and subordinated financial debenture	-
Capital received in advance	-
Capital surplus	161,689,209
Legal reserve	46,122,845
Special reserve	221,977,672
Retained earnings	30,933,430

(Continued)

<b>Items</b>	<b>June 30, 2019</b>
	<b>Amount</b>
Equity adjustments	\$ 86,883,887
Less: Goodwill	-
Less: Deferred assets	(367,289)
Less: Treasury stock	<u>-</u>
Consolidated eligible capital	<u>\$ 688,204,856</u> (Concluded)

  

<b>Items</b>	<b>June 30, 2018</b>
	<b>Amount</b>
Ordinary shares	\$ 125,632,102
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	15,333,000
Other preferred stocks and subordinated financial debenture	-
Capital received in advance	-
Capital surplus	165,452,143
Legal reserve	40,976,121
Special reserve	149,346,119
Retained earnings	86,636,398
Equity adjustments	7,114,564
Less: Goodwill	(3,989)
Less: Deferred assets	(366,741)
Less: Treasury stock	<u>-</u>
Consolidated eligible capital	<u>\$ 590,119,717</u>

### 38. OTHERS

#### a. Significant assets and liabilities denominated in foreign currencies

The group entities' significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than the functional currencies and the related exchange rates between the foreign currencies and the respective functional currencies were as follows:

	<b>June 30, 2019</b>		
	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 124,722,837	31.0720	\$ 3,875,387,895
CNY	24,551,592	4.5232	111,051,003
AUD	3,245,236	21.7986	70,741,473
HKD	8,097,763	3.9794	32,224,251
Non-monetary items			
USD	8,276,510	31.0720	257,167,714
HKD	12,459,787	3.9794	49,582,962

(Continued)

	<b>June 30, 2019</b>		
	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial liabilities</u>			
Monetary items			
USD	\$ 13,591,371	31.0720	\$ 422,312,631
CNY	8,097,690	4.5232	36,626,598
HKD	1,660,608	21.7986	36,198,930 (Concluded)

	<b>December 31, 2018</b>		
	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 116,959,170	30.7330	\$ 3,594,506,172
CNY	21,336,505	4.4762	95,506,464
Non-monetary items			
USD	9,875,093	30.7330	303,491,233

<u>Financial liabilities</u>			
Monetary items			
USD	13,039,573	30.7330	400,745,197

	<b>June 30, 2018</b>		
	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 112,476,873	30.5000	\$ 3,430,544,627
CNY	35,795,267	4.6005	164,676,126
Non-monetary items			
USD	9,835,230	30.5000	299,974,515

<u>Financial liabilities</u>			
Monetary items			
USD	14,417,421	30.5000	439,731,341

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 (losses) for the three months ended June 30, 2019 and 2018 and for the six months ended June 30, 2019 and 2018 were a gain of \$16,893,893 thousand, \$84,263,348 thousand, \$25,713,576 thousand and \$45,566,290 thousand, respectively.

b. Discretionary investment management

1) Cathay Life and its subsidiaries

- a) As of June 30, 2019, December 31, 2018 and June 30, 2018, Cathay life contracts with securities investment trust companies for discretionary investment services and the related investments are as follows:

Items	June 30, 2019	
	Carrying Amount	Fair Value
Domestic shares	\$ 130,231,044	\$ 130,231,044
Overseas shares	49,371,682	49,371,682
Reverse repurchase bonds	13,935,000	13,935,000
Cash in banks	42,811,331	42,811,331
Beneficiary certificates	112,793	112,793
Futures and options	481,131	481,131
	<u>\$ 236,942,981</u>	<u>\$ 236,942,981</u>

Items	December 31, 2018	
	Carrying Amount	Fair Value
Domestic shares	\$ 118,377,980	\$ 118,377,980
Overseas shares	60,215,861	60,215,861
Reverse repurchase bonds	12,410,000	12,410,000
Cash in banks	17,914,307	17,914,307
Beneficiary certificates	1,830,959	1,830,959
Futures and options	216,603	216,603
	<u>\$ 210,965,710</u>	<u>\$ 210,965,710</u>

Items	June 30, 2018	
	Carrying Amount	Fair Value
Domestic shares	\$ 135,043,322	\$ 135,043,322
Overseas shares	56,245,889	56,245,889
Reverse repurchase bonds	16,452,000	16,452,000
Cash in banks	36,644,877	36,644,877
Beneficiary certificates	992,017	992,017
Futures and options	116,568	116,568
	<u>\$ 245,494,673</u>	<u>\$ 245,494,673</u>

- b) As of June 30, 2019, the discretionary investments limits were NT\$102,872,589 thousand, US\$1,238,500 thousand and HK\$1,351,384 thousand. As of December 31, 2018, the discretionary investments limits were NT\$97,872,589 thousand, US\$1,417,500 thousand and HK\$2,023,000 thousand. As of June 30, 2018, the discretionary investments were NT\$111,612,149 thousand, US\$1,540,000 thousand and HK\$2,395,000 thousand.

2) Cathay Century and its subsidiaries

- a) Cathay Century contracts with securities investment trust companies for discretionary investment management. The investment details are disclosed as follows:

	<b>June 30, 2019</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>
Listed shares	\$ 793,698	\$ 793,698
Repurchase agreements collateralized by bonds	500,000	500,000
Cash in banks	346,837	346,837
Future margins	<u>2,010</u>	<u>2,010</u>
	<u>\$ 1,642,545</u>	<u>\$ 1,642,545</u>

	<b>December 31, 2018</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>
Listed shares	\$ 736,041	\$ 736,041
Repurchase agreements collateralized by bonds	150,000	150,000
Cash in banks	640,437	640,437
Future margins	<u>2,009</u>	<u>2,009</u>
	<u>\$ 1,528,487</u>	<u>\$ 1,528,487</u>

	<b>June 30, 2018</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>
Listed shares	\$ 1,265,961	\$ 1,265,961
Repurchase agreements collateralized by bonds	380,115	380,115
Cash in banks	231,444	231,444
Future margins	<u>2,009</u>	<u>2,009</u>
	<u>\$ 1,879,529</u>	<u>\$ 1,879,529</u>

- b) As of June 30, 2019, December 31, 2018 and June 30, 2018, Cathay Century and its subsidiaries entered into discretionary account management contracts which all amounted to \$1,200,000 thousand.

c. Disclosure information as required by the Regulations Governing the Preparation of Financial Reports by Public Banks

1) Asset quality - loans

(In Thousands of New Taiwan Dollars, %)

Period		June 30, 2019					December 31, 2018				
Item		Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Credit Losses	Coverage Ratio (Note 3)
Corporate banking	Secured	\$ 573,867	\$ 222,983,336	0.26%	\$ 3,164,256	551.39%	\$ 592,658	\$ 233,463,729	0.25%	\$ 3,600,918	607.59%
	Unsecured	444,060	352,609,924	0.13%	7,448,348	1677.33%	321,166	372,650,615	0.09%	6,367,224	1,982.53%
Consumer banking	Residential mortgage (Note 4)	746,135	348,341,509	0.21%	5,576,481	747.38%	594,249	358,859,786	0.17%	5,649,230	950.65%
	Cash card	-	-	-	-	-	-	-	-	-	-
	Small-scale credit loans (Note 5)	178,086	75,995,891	0.23%	2,532,675	1422.16%	164,226	71,310,220	0.23%	1,876,794	1,142.81%
	Other (Note 6)	Secured	1,083,104	500,767,362	0.22%	6,383,171	589.34%	780,457	498,067,264	0.16%	5,946,347
Unsecured		129,265	24,966,847	0.52%	445,102	344.33%	110,551	23,068,954	0.48%	438,172	396.35%
Loan		3,154,517	1,525,664,869	0.21%	25,550,033	809.95%	2,563,307	1,557,420,568	0.16%	23,878,685	931.56%
		<b>Nonperforming Receivables (Note 1)</b>	<b>Receivables</b>	<b>Ratio of Nonperforming Receivables (Note 2)</b>	<b>Allowance for Credit Losses</b>	<b>Coverage Ratio (Note 3)</b>	<b>Nonperforming Receivables (Note 1)</b>	<b>Receivables</b>	<b>Ratio of Nonperforming Receivables (Note 2)</b>	<b>Allowance for Credit Losses</b>	<b>Coverage Ratio (Note 3)</b>
Credit cards		\$ 107,757	\$ 80,431,523	0.13%	\$ 1,476,612	1370.32%	\$ 107,314	\$ 71,887,117	0.15%	\$ 1,466,464	1,366.52%
Accounts receivable factored without recourse (Note 7)		-	2,634,690	-	58,676	-	-	2,607,455	-	47,734	-

Period		June 30, 2018				
Item		Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Corporate banking	Secured	\$ 1,335,918	\$ 237,356,090	0.56%	\$ 3,942,430	295.11%
	Unsecured	166,789	348,278,464	0.05%	6,303,111	3,779.09%
Consumer banking	Residential mortgage (Note 4)	588,950	359,103,785	0.16%	5,649,010	959.17%
	Cash card	-	-	-	-	-
	Small-scale credit loans (Note 5)	137,067	64,633,284	0.21%	1,679,157	1,225.06%
	Other (Note 6)	Secured	638,925	469,535,217	0.14%	5,275,037
Unsecured		81,198	22,201,536	0.37%	408,608	503.22%
Loan		2,948,847	1,501,108,376	0.20%	23,257,353	788.69%
		<b>Nonperforming Receivables (Note 1)</b>	<b>Receivables</b>	<b>Ratio of Nonperforming Receivables (Note 2)</b>	<b>Allowance for Credit Losses</b>	<b>Coverage Ratio (Note 3)</b>
Credit cards		\$ 98,640	\$ 72,963,098	0.14%	\$ 1,391,251	1,410.43%
Accounts receivable factored without recourse (Note 7)		-	4,317,351	-	44,906	-

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-accrual Loans."

Nonperforming credit card receivables 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: Ratio of nonperforming loans: Nonperforming loans ÷ Outstanding loan balance.

Ratio of nonperforming credit card receivables: Nonperforming credit card receivables ÷ Outstanding credit card receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans.

Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Nonperforming credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower, the spouse or the children of the borrowers who are still minors.

Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts and exclude credit cards and cash cards.



Note 6: Other consumer banking loans refer to secured or unsecured loans that exclude housing mortgage, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 094000494), accounts receivable factored without recourse are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

Not reported as nonperforming loans or nonperforming receivables

Type	Items	June 30, 2019		December 31, 2018		June 30, 2018	
		Not Reported as Nonperforming Loans	Not Reported as Nonperforming Receivables	Not Reported as Nonperforming Loans	Not Reported as Nonperforming Receivables	Not Reported as Nonperforming Loans	Not Reported as Nonperforming Receivables
	Amounts of executed contracts on negotiated debts not reported as nonperforming loans and receivables (Note 1)	\$ 2,361	\$ 86,404	\$ 2,721	\$ 102,330	\$ 3,158	\$ 119,567
	Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2)	45,633	1,182,801	37,404	1,182,172	34,214	1,179,386
	Total	\$ 47,994	\$ 1,269,205	\$ 40,125	\$ 1,284,502	\$ 37,372	\$ 1,298,953

Note 1: Amounts of executed contracts on negotiated debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated April 25, 2006 (Ref. No. 09510001270).

Note 2: Amounts of discharged and executed contracts on clearance of consumer debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated September 15, 2008 and September 20, 2016 (Ref. No. 09700318940 and No. 10500134790).

## 2) Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

<b>June 30, 2019</b>			
<b>Rank</b>	<b>Company Name</b>	<b>Credit Extension Balance</b>	<b>% to Net Asset Value</b>
1	Group A - real estate development	\$ 27,343,449	12.93
2	Group B - packaging and testing of semi-conductors	18,509,488	8.75
3	Group C - air transport	9,501,427	4.49
4	Group D - other financial intermediation	9,461,699	4.47
5	Group E - other	8,959,094	4.24
6	Group F - wired telecommunications activities	6,506,323	3.08
7	Group G - real estate development	6,400,000	3.03
8	Group H - other financial intermediation	5,110,397	2.42
9	Group I - other financial intermediation	4,902,003	2.32
10	Group J - activities of head offices	4,238,041	2.00

<b>December 31, 2018</b>			
<b>Rank</b>	<b>Company Name</b>	<b>Credit Extension Balance</b>	<b>% to Net Asset Value</b>
1	Group A - real estate development activities	\$ 25,830,822	12.80
2	Group B - packaging and testing of semi-conductors	13,815,191	6.85
3	Group C - air transport	9,874,541	4.89
4	Group D - other	9,386,625	4.65
5	Group E - other financial intermediation	8,282,950	4.11
6	Group F - real estate development activities	6,600,000	3.27
7	Group G - manufacture of computers	5,006,283	2.48
8	Group H - wired telecommunications activities	4,668,713	2.31
9	Group I - other financial intermediation	4,497,900	2.23
10	Group J - others	3,963,056	1.96

<b>June 30, 2018</b>			
<b>Rank</b>	<b>Company Name</b>	<b>Credit Extension Balance</b>	<b>% to Net Asset Value</b>
1	Group A - real estate development activities	\$ 31,838,351	16.66
2	Group B - other financial intermediation	8,957,715	4.69
3	Group C - air transport	8,046,981	4.21
4	Group D - wired telecommunications activities	7,325,103	3.83
5	Group E - real estate development activities	6,535,000	3.42
6	Group F - activities of other holding companies	6,388,046	3.34
7	Group G - real estate development activities	3,812,025	2.00
8	Group H - securities, finance service activities	3,782,300	1.98
9	Group I - manufacture of liquid crystal panel and components	3,599,943	1.88
10	Group J - smelting and refining of iron and steel	3,431,058	1.80

3) Information on interest rate sensitivity

**Interest Rate Sensitivity  
June 30, 2019**

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 1,828,123,845	\$ 17,762,150	\$ 22,331,206	\$ 103,152,298	\$ 1,971,369,499
Interest rate-sensitive liabilities	192,685,888	1,263,535,468	255,965,396	99,909,442	1,812,096,194
Interest rate-sensitive gap	1,635,437,957	(1,245,773,318)	(233,634,190)	3,242,856	159,273,305
Net worth					211,442,698
Ratio of interest rate-sensitive assets to liabilities					108.79%
Ratio of interest rate sensitivity gap to net worth					75.33%

**December 31, 2018**

(In Thousands of New Taiwan Dollars, %)

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-sensitive 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%

**June 30, 2018**

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 1,787,338,204	\$ 8,757,156	\$ 20,008,912	\$ 102,024,679	\$ 1,918,128,951
Interest rate-sensitive liabilities	210,493,717	1,164,579,307	244,257,059	94,006,838	1,713,336,921
Interest rate-sensitive gap	1,576,844,487	(1,155,822,151)	(224,248,147)	8,017,841	204,792,030
Net worth					191,055,581
Ratio of interest rate-sensitive assets to liabilities					111.95%
Ratio of interest rate sensitivity gap to net worth					107.19%

Note 1: The above amounts included only New Taiwan dollar amounts held by Cathay United Bank (i.e., excluding foreign currencies).

Note 2: Interest rate-sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities are affected by interest rate changes.

Note 3: Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets ÷ Interest rate-sensitive liabilities (in New Taiwan dollars).

**Interest Rate Sensitivity  
June 30, 2019**

(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	\$ 9,278,695	\$ 755,362	\$ 476,972	\$ 7,897,222	\$ 18,408,251
Interest rate-sensitive liabilities	9,836,120	2,370,731	3,257,584	3,899,290	19,363,725
Interest rate-sensitive gap	(557,425)	(1,615,369)	(2,780,612)	3,997,932	(955,474)
Net worth					6,804,927
Ratio of interest rate-sensitive assets to liabilities					95.07%
Ratio of interest rate sensitivity gap to net worth					(14.04%)

December 31, 2018

(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-sensitive 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%)

June 30, 2018

(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	\$ 7,434,950	\$ 935,053	\$ 764,662	\$ 7,821,868	\$ 16,956,533
Interest rate-sensitive liabilities	11,466,681	2,784,292	3,464,855	4,127,862	21,843,690
Interest rate-sensitive gap	(4,031,731)	(1,849,239)	(2,700,193)	3,694,006	(4,887,157)
Net worth					6,264,117
Ratio of interest rate-sensitive assets to liabilities					77.63%
Ratio of interest rate sensitivity gap to net worth					(78.02%)

Note 1: The above amounts included only U.S. dollar amounts held by the Bank and excluded contingent assets and contingent liabilities.

Note 2: Interest rate-sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities are affected by interest rate changes.

Note 3: Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets ÷ Interest rate-sensitive liabilities (in U.S. dollars)

4) Maturity analysis of assets and liabilities

Maturity Analysis of Assets and Liabilities  
June 30, 2019

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 2,688,636,528	\$ 578,213,249	\$ 300,213,907	\$ 375,869,749	\$ 217,164,993	\$ 214,368,580	\$ 1,002,806,050
Main capital outflow on maturity	3,219,147,150	156,475,238	251,389,665	544,954,560	576,191,999	509,976,499	1,180,159,189
Gap	(530,510,622)	421,738,011	48,824,242	(169,084,811)	(359,027,006)	(295,607,919)	(177,353,139)

December 31, 2018

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days - 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)

June 30, 2018

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 2,717,888,321	\$ 435,376,352	\$ 380,474,373	\$ 337,715,751	\$ 300,956,378	\$ 279,766,528	\$ 983,598,939
Main capital outflow on maturity	3,211,625,464	187,174,255	270,518,085	585,362,113	527,447,324	551,480,233	1,089,643,454
Gap	(493,737,143)	248,202,097	109,956,288	(247,646,362)	(226,490,946)	(271,713,705)	(106,044,515)

Note: The above amounts included only New Taiwan dollar amounts held by Cathay United Bank (i.e., excluding foreign currencies).

**Maturity Analysis of Assets and Liabilities  
June 30, 2019**

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 64,223,441	\$ 19,100,356	\$ 15,287,587	\$ 8,954,058	\$ 9,727,335	\$ 11,154,105
Main capital outflow on maturity	70,389,737	19,720,283	18,571,100	9,502,700	13,918,047	8,677,607
Gap	(6,166,296)	(619,927)	(3,283,513)	(548,642)	(4,190,712)	2,476,498

December 31, 2018

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days - 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

June 30, 2018

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 67,610,930	\$ 20,836,711	\$ 17,678,734	\$ 8,565,626	\$ 8,920,415	\$ 11,609,444
Main capital outflow on maturity	72,733,725	22,004,816	17,254,263	10,251,203	11,955,058	11,268,385
Gap	(5,122,795)	(1,168,105)	424,471	(1,685,577)	(3,034,643)	341,059

Note: The above amounts included only U.S. dollar amounts held by Cathay United Bank and excluded contingent assets and contingent liabilities.

d. 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.

<b>June 30, 2019</b>		
<b>Expressed in Thousands of New Taiwan Dollars; %</b>		
<b>Name</b>	<b>Total Balance</b>	<b>Total Balance to Financial Holding Company's Net Value (%)</b>
1) Same person		
Central Bank of the Republic of China (Taiwan)	\$ 393,778,578	57.25
Freddie Mac	135,158,975	19.65
Treasury Bond/Treasury Bills	86,371,516	12.56
United States Treasury Note/Bond	77,776,021	11.31
FANNIE MAE	72,437,250	10.53
Taiwan Semiconductor Manufacturing Company Limited	62,906,722	9.15
AT&T Inc.	61,258,826	8.91
Citigroup Inc.	52,728,863	7.67
China Development Bank Corp.	50,006,097	7.27
State of California	47,627,618	6.92
JPMorgan Chase & Co.	46,774,137	6.80
Verizon Communications Inc.	45,359,500	6.59
Industrial & Commercial Bank of China	44,672,967	6.49
Bank of China Ltd.	43,998,287	6.40
Indonesia Government International Bond	41,485,255	6.03
BNP Paribas	40,338,234	5.86
Bank of America N.A.	39,631,277	5.76
Goldman Sachs Group Inc.	39,168,717	5.69
Wells Fargo & Co.	38,508,570	5.60
Qatar Government International Bond	33,527,726	4.87
Russian Foreign Bond - Eurobond	33,316,307	4.84
Comcast Corp.	30,960,747	4.50
Central Taiwan Science Park Administration	30,000,000	4.36
Southern Taiwan Science Park Administration	29,470,000	4.28
ELECTRICITE DE FRANCE	28,727,103	4.18
Saudi Government International Bond	28,250,622	4.11
Mexico Government International Bond	28,067,052	4.08
Barclays PLC	27,840,431	4.05
UBS AG	26,914,699	3.91
Yuanta Securities Investment Trust Co., Ltd.	26,530,252	3.86
Fubon Securities Investment Trust Corporation.	25,481,745	3.70
HSBC Holdings PLC	25,379,360	3.69
Credit Suisse Group AG	24,020,496	3.49
China Construction Bank Corp	23,823,850	3.46
Bank of Taiwan	23,195,174	3.37
Ginnie Mae II pool	22,231,451	3.23
ROYAL BANK OF SCOTLAND PLC	21,837,280	3.17

(Continued)

<b>June 30, 2019</b>		
<b>Expressed in Thousands of New Taiwan Dollars; %</b>		
<b>Name</b>	<b>Total Balance</b>	<b>Total Balance to Financial Holding Company's Net Value (%)</b>
KGI Securities Co., Ltd.	\$ 21,507,190	3.13
Microsoft Corp	21,393,518	3.11
NATIONAL BANK OF CANADA	21,288,977	3.10
Societe Generale	21,271,222	3.09
Panama Government International Bond	21,242,900	3.09
Lloyds Bank PLC	21,190,988	3.08
Anheuser-Busch InBev Worldwide Inc.	20,595,968	2.99
CVS Health Corp	20,356,561	2.96
TAIPEIFUBON COMMERCIAL BANK CO., LTD.	19,968,258	2.90
Morgan Stanley	19,378,200	2.82
Government National Mortgage Association	19,165,801	2.79
China Cinda Asset Management Co., Ltd.	19,057,135	2.77
Postal Savings Bank of China Co., Ltd.	18,872,305	2.74
CTBC Bank Co., Ltd.	18,556,876	2.70
LONDON CLEARING HOUSE	18,323,159	2.66
Colombia Government International Bond	18,015,491	2.62
Vodafone Group PLC	17,834,862	2.59
Sinopec Group Overseas Development Ltd	17,646,870	2.57
Standard Chartered PLC	17,508,796	2.55
ROYAL BANK OF CANADA	16,765,936	2.44
MEGA BILLS FINANCE CO., LTD.	16,670,613	2.42
Vietnam Government Bond	16,341,496	2.38
Taiwan Mobile Co., Ltd.	16,279,380	2.37
European Investment Bank	16,246,337	2.36
Barclays Bank	16,041,468	2.33
Amazon.com Inc.	16,038,951	2.33
America Movil SAB de CV	16,019,180	2.33
Fubon Financial Holding Co., Ltd.	16,008,328	2.33
Cooperatieve Centrale Raiffeisen-Boerenleenbank BA/Netherlands	15,849,308	2.30
Apple Inc.	15,832,434	2.30
Credit Agricole Corporate & Investment Bank SA	15,818,812	2.30
CTBC Securities Co., Ltd.	15,755,932	2.29
Corp Nacional del Cobre de Chile	15,635,733	2.27
Telefonica Emisiones SAU	15,402,175	2.24
Anthem Inc.	15,320,970	2.23
CITIC LIMITED	14,990,299	2.18
TransCanada PipeLines Ltd	14,978,797	2.18
Credit Agricole SA	14,951,826	2.17
China Bills Finance Corporation	14,831,534	2.16
CNOOC PETROLEUM NA ULC	14,487,637	2.11
Agricultural Development Bank of China	14,340,432	2.08
Australia and New Zealand Banking Group Limited	14,249,463	2.07

(Continued)

<b>June 30, 2019</b>		
<b>Expressed in Thousands of New Taiwan Dollars; %</b>		
<b>Name</b>	<b>Total Balance</b>	<b>Total Balance to Financial Holding Company's Net Value (%)</b>
BPCE SA	\$ 14,129,201	2.05
Chunghwa Telecom Co., Ltd.	13,989,215	2.03
Land Bank Of Taiwan Co., Ltd.	13,960,500	2.03
Waterland securities Investment consulting	13,779,142	2.00
Chang Hwa Commercial Bank	13,723,214	2.00
LARGAN Precision Co., Ltd.	13,612,225	1.98
Mega International Commercial Bank Co., Ltd.	13,563,196	1.97
Taiwan Business Bank Co., Ltd.	13,493,645	1.96
CNOOC Ltd	13,407,222	1.95
MediaTek Inc.	13,393,283	1.95
Nationwide Building Society	13,350,647	1.94
PERTAMINA PT	12,921,443	1.88
E.SUN COMMERCIAL BANK, LTD.	12,671,918	1.84
ASE Technology Holding Co., Ltd.	12,660,138	1.84
Far EasTone Telecommunications Co., Ltd.	12,614,331	1.83
Nan Ya Plastics Corporation	12,509,707	1.82
Formosa Plastics Corporation	12,484,622	1.82
American International Group Inc.	12,464,300	1.81
Oracle Corp	12,361,674	1.80
Hon Hai Precision Industry Co., Ltd.	12,153,246	1.77
Israel Government International Bond	12,128,557	1.76
Prudential Financial Inc.	12,116,535	1.76
Peruvian Government International Bond	12,034,606	1.75
Southern Copper Corp	11,898,534	1.73
Bank of Nova Scotia	11,870,803	1.73
Hua Nan Commercial Bank	11,654,976	1.69
Altria Group Inc.	11,638,345	1.69
AbbVie Inc.	11,620,883	1.69
National Australia Bank Ltd	11,614,821	1.69
ING Groep NV	11,458,696	1.67
DRAGON STEEL CORPORATION	11,362,161	1.65
Westpac Banking Corp	11,349,383	1.65
Enel Finance International NV	11,306,394	1.64
Natixis	11,293,077	1.64
Commonwealth Bank of Australia	11,018,276	1.60
Export-Import Bank of China	11,018,169	1.60
Alibaba Group Holding Ltd	10,986,406	1.60
Tencent Holdings Ltd	10,960,471	1.59
AIA Group Ltd	10,860,559	1.58
DBS Bank Limited	10,824,728	1.57
Shinhan Bank	10,681,457	1.55
HSBC	10,624,293	1.54
Kommunalbanken AS	10,577,746	1.54

(Continued)



<b>June 30, 2019</b>		
<b>Expressed in Thousands of New Taiwan Dollars; %</b>		
<b>Name</b>	<b>Total Balance</b>	<b>Total Balance to Financial Holding Company's Net Value (%)</b>
ABN AMRO Bank	\$ 10,449,590	1.52
Taiwan Cooperative Bank Co., Ltd.	10,444,259	1.52
Phillips 66	10,430,649	1.52
Far East Horizon Limited	10,378,326	1.51
SG Issuer	10,179,862	1.48
Pfizer Inc.	10,163,240	1.48
Woori Bank	10,161,351	1.48
MetLife Inc.	10,049,269	1.46
Department of Finance, Taipei City Government	10,000,000	1.45
CTBC Financial Holding Co., Ltd.	9,994,160	1.45
Halliburton Co	9,788,591	1.42
BAT CAPITAL CORP	9,766,491	1.42
Comision Federal de Electricidad	9,749,810	1.42
Yuanta Futures Co., Ltd.	9,732,225	1.41
Deutsche Bank AG	9,564,145	1.39
State Grid Overseas Investment Ltd	9,550,715	1.39
BBVA Global Markets BV	9,543,385	1.39
REPUBLICA ORIENT URUGUAY	9,519,012	1.38
Amgen Inc.	9,391,492	1.37
ADCB Finance Cayman Ltd	9,265,859	1.35
Fuh Hwa Securities Investment Trust	9,251,656	1.35
BBVA Bancomer SA	9,249,987	1.34
STANDARD LIFE INVESTMENTS	9,131,779	1.33
First Commercial Bank	9,113,216	1.32
Formosa Chemicals & Fibre Corporation	8,819,596	1.28
AstraZeneca PLC	8,734,469	1.27
Taishin Financial Holding Co., Ltd.	8,676,897	1.26
MIZUHO SECURITIES CO LTD	8,650,868	1.26
Bank of Tokyo-Mitsubishi UFJ Ltd	8,595,772	1.25
CPC Corporation, Taiwan	8,590,304	1.25
Spain Government International Bond	8,588,348	1.25
Bank of Communications Co., Ltd.	8,511,566	1.24
Credit Suisse Group Funding Guernsey Ltd	8,455,092	1.23
OVPH LTD	8,440,847	1.23
Intel Corp	8,330,737	1.21
Capital Futures Corp.	8,294,986	1.21
United Technologies Corp	8,269,349	1.20
BECTON DICKINSON AND CO	8,235,362	1.20
Banco Santander SA	8,152,085	1.19
QUANTA COMPUTER INC.	8,091,426	1.18
UniCredit SpA	8,086,892	1.18
Taiwan Cement Corp.	8,082,173	1.18
Reliance Industries Ltd	8,058,695	1.17

(Continued)

**June 30, 2019**

**Expressed in Thousands of New Taiwan Dollars; %**

Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
AXA Funds Management SA	\$ 8,001,268	1.16
Brazilian Government International Bond	7,964,612	1.16
Italy Buoni Poliennali Del Tesoro	7,939,266	1.15
O-Bank	7,803,625	1.13
Express Scripts Holding Co	7,766,706	1.13
HSBC France SA	7,749,890	1.13
Taiwan Railways Administration	7,678,807	1.12
CIGNA CORP	7,662,099	1.11
Grupo Televisa SA	7,615,309	1.11
UnitedHealth Group Inc.	7,604,010	1.11
India Government	7,550,562	1.10
MasterLink Securities Corp.	7,520,622	1.09
Bayer US Finance LLC	7,477,683	1.09
Abbott Laboratories	7,475,269	1.09
SOUTHERN CO	7,466,214	1.09
Dow Chemical Co	7,438,470	1.08
DP World Ltd	7,348,522	1.07
Hungary Government International Bond	7,264,619	1.06
Gilead Sciences Inc.	7,249,634	1.05
Aetna Inc.	7,149,434	1.04
China Steel Corporation	7,102,258	1.03
Srisawad Corp PCL	7,084,151	1.03
DUKE ENERGY CORP	7,078,896	1.03
Shell International Finance BV	7,058,698	1.03
Formosa Petrochemical Corporation	7,037,648	1.02
HKT Capital No 1 Ltd	7,016,954	1.02
Advanced Semiconductor Engineering, Inc.	7,000,000	1.02
Cornell Capital LLC	6,957,950	1.01
Canadian Natural Resources Ltd	6,948,863	1.01
Hon Han Investment Co., Ltd.	6,855,611	1.00
JPMorgan Chase	6,782,189	0.99
China Government Bond	6,778,303	0.99
Vanguard Fixed Income Securities Funds	6,696,806	0.97
Barrick North America Finance LLC	6,686,332	0.97
Landesbank Baden-Wuerttemberg	6,628,172	0.96
Fubon Life Insurance Co., Ltd.	6,600,798	0.96
Thaioil Treasury Center Co., Ltd.	6,570,378	0.96
Bank SinoPac	6,557,455	0.95
IPIC GMTN Ltd	6,514,812	0.95
Global Investors Series plc	6,498,588	0.94
Newmont Mining Corp	6,489,249	0.94
BHP Billiton Finance USA Ltd	6,444,630	0.94
Bank Nederlandse Gemeenten NV	6,346,401	0.92

(Continued)

<b>June 30, 2019</b>		
<b>Expressed in Thousands of New Taiwan Dollars; %</b>		
<b>Name</b>	<b>Total Balance</b>	<b>Total Balance to Financial Holding Company's Net Value (%)</b>
Deutsche Telekom International Finance BV	\$ 6,336,901	0.92
Malayan Banking Bhd	6,299,023	0.92
Occidental Petroleum Corp	6,294,596	0.92
ALLERGAN FUNDING SCS	6,259,479	0.91
Marathon Petroleum Corp	6,219,972	0.90
SILICONWARE PRECISION INDUSTRIES CO., LTD.	6,214,400	0.90
BANCO DE BOGOTA SA	6,174,210	0.90
Enbridge Inc.	6,161,043	0.90
Kroger Co	6,142,367	0.89
YUANTA COMMERCIAL BANK	6,121,026	0.89
Reynolds American Inc.	6,070,648	0.88
KRAFT HEINZ FOODS CO	6,069,494	0.88
Shin Kong Investment Trust Co., Ltd.	6,053,139	0.88
Burlington Northern Santa Fe LLC	6,042,991	0.88
UBAM	6,016,134	0.87
HUA NAN FINANCIAL HOLDINGS CO., LTD.	6,011,409	0.87
Molson Coors Brewing Co	5,996,717	0.87
Walt Disney Co/The	5,952,112	0.87
Walgreens Boots Alliance Inc.	5,941,610	0.86
Rogers Communications Inc.	5,924,471	0.86
Apache Corp	5,819,899	0.85
Yuanta Securities Co., Ltd.	5,811,969	0.84
Barings Global Investment Fund plc	5,808,810	0.84
Macquarie Bank Ltd	5,792,816	0.84
ConocoPhillips	5,787,726	0.84
Grand Bills Finance Corporation	5,721,899	0.83
Capital Investment Trust Corporation.	5,613,703	0.82
Yuanta Financial Holding Co., Ltd.	5,573,470	0.81
ENI SpA	5,562,844	0.81
Fubon Securities Co., Ltd.	5,559,237	0.81
Discovery Communications LLC	5,546,297	0.81
QUALCOMM Inc.	5,530,520	0.80
China Overseas Land & Investment Ltd	5,523,707	0.80
Vale Overseas Ltd	5,436,880	0.79
Anheuser-Busch InBev Finance Inc.	5,425,004	0.79
Intesa Sanpaolo SpA	5,418,385	0.79
Huarong Finance 2017 Co	5,401,805	0.79
China Network Systems Co., Ltd.	5,374,838	0.78
National Bank of Abu Dhabi PJSC	5,347,564	0.78
QNB Finance Ltd	5,337,845	0.78
Agricultural Bank of Taiwan	5,299,283	0.77
Macquarie Group Ltd	5,266,979	0.77
Far Eastern New Century Co., Ltd.	5,201,542	0.76

(Continued)

<b>June 30, 2019</b>		
<b>Expressed in Thousands of New Taiwan Dollars; %</b>		
<b>Name</b>	<b>Total Balance</b>	<b>Total Balance to Financial Holding Company's Net Value (%)</b>
Jih Sun Securities Co., Ltd.	\$ 5,191,156	0.75
Fomento Economico Mexicano SAB de CV	5,184,359	0.75
CBS Corp	5,173,838	0.75
Invesco Management S.A.	5,158,706	0.75
Evergreen Marine Corporation	5,158,031	0.75
South Africa Government International Bond	5,150,771	0.75
DAH CHUNG BILLS FINANCE CORP.	5,070,000	0.74
Indonesia Treasury Bond	5,031,215	0.73
Valero Energy Corp	5,000,414	0.73
National Treasury Agency, Ministry of Finance	5,000,000	0.73
CIC	4,993,607	0.73
Manulife Financial Corp	4,971,637	0.72
KAZMUNAYGAS NATIONAL	4,965,144	0.72
CNAC HK Finbridge Co., Ltd.	4,962,336	0.72
Petroleos Mexicanos	4,962,315	0.72
HORIZON SECURITIES CO., LTD.	4,942,021	0.72
Mega Financial Holding Company Ltd.	4,912,187	0.71
Union Pacific Corp	4,900,644	0.71
MYRIAD INTL HOLDINGS BV	4,895,484	0.71
Romanian Government International Bond	4,812,525	0.70
Petronas Capital Ltd	4,796,799	0.70
iShares US Preferred Stock ETF	4,777,364	0.69
Top Luxury Investment Ltd	4,712,305	0.69
THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.	4,707,454	0.68
GRAND CENTRAL LIMIT	4,660,800	0.68
CYBER COMPANY INC	4,660,800	0.68
Bristol-Myers Squibb Co	4,659,859	0.68
SIGNUM MAGNOLIA LIMITED	4,659,591	0.68
Humana Inc.	4,644,467	0.68
KGI Futures	4,635,831	0.67
ICICI Bank Ltd	4,631,141	0.67
Entrust Securities Co., Ltd	4,623,072	0.67
CELGENE CORP	4,605,664	0.67
Caisse des Depots et Consignations	4,564,399	0.66
PTTEP Canada International Finance Ltd	4,552,506	0.66
CATCHER TECHNOLOGY CO., LTD.	4,541,772	0.66
Delta Electronics, Inc.	4,516,812	0.66
Bank of Communications Co., Ltd.	4,513,535	0.66
SHERWIN-WILLIAMS CO	4,492,612	0.65
Taiwan Cooperative Financial Holding Co., Ltd.	4,466,419	0.65
United Overseas Bank Ltd	4,463,417	0.65
Taishin International Bank	4,439,532	0.65

(Continued)

<b>June 30, 2019</b>		
<b>Expressed in Thousands of New Taiwan Dollars; %</b>		
<b>Name</b>	<b>Total Balance</b>	<b>Total Balance to Financial Holding Company's Net Value (%)</b>
HSBC Bank (Taiwan) Limited	\$ 4,394,465	0.64
Cisco Systems Inc.	4,393,222	0.64
China Mobile Ltd	4,391,340	0.64
Intesa Sanpaolo Bank Ireland PLC	4,346,923	0.63
DowDuPont Inc.	4,342,752	0.63
Oman Government International Bond	4,324,574	0.63
CHINA DEVELOPMENT FINANCIAL HOLDING CORP.	4,290,818	0.62
Banco Santander Mexico SA Institucion de Banca Multiple Grupo Financiero Santand	4,287,983	0.62
Suncor Energy Inc.	4,264,821	0.62
BELLAVITA COMPANY	4,237,176	0.62
Formosa Ha Tinh (Cayman) Limited	4,225,792	0.61
Berkshire Hathaway Energy Co	4,219,871	0.61
BANK OF MONTREAL	4,211,157	0.61
TELUS Corp	4,208,733	0.61
Visa Inc.	4,199,651	0.61
CTBC Venture Capital	4,194,673	0.61
Nordea Bank AB	4,169,883	0.61
Bell Canada	4,165,803	0.61
Abu Dhabi National Energy Co	4,163,364	0.61
CNPC HK Overseas Capital Ltd	4,155,652	0.60
EVA Airways Corporation	4,136,027	0.60
KGI Commercial Bank Co., Ltd.	4,059,391	0.59
Taishin Securities Investment Trust Co., Ltd.	4,036,859	0.59
China Life Insurance Co., Ltd.	4,031,661	0.59
Petroleos del Peru SA	4,026,034	0.59
Blackstone Group LP	4,020,860	0.58
Dominion Resources Inc.	4,000,148	0.58
Taichung City Government	4,000,000	0.58
Sinopec Capital Ltd	3,976,323	0.58
Commercial Mortgage Pass Through Certificates	3,949,740	0.57
Orange SA	3,930,971	0.57
NRW.BANK	3,929,029	0.57
Accton Technology Corp.	3,927,625	0.57
Voya Financial Inc.	3,913,312	0.57
Qtel International Finance Ltd	3,905,509	0.57
Grupo Bimbo SAB de CV	3,896,514	0.57
CAPITAL SECURITIES CORP.	3,872,179	0.56
SinoPac Securities Inc.	3,868,195	0.56
Nucor Corp	3,850,436	0.56
Capital One Financial Corp	3,845,796	0.56
Nederlandse Waterschapsbank NV	3,838,286	0.56
Principal Financial Group Inc.	3,827,053	0.56

(Continued)

**June 30, 2019**

**Expressed in Thousands of New Taiwan Dollars; %**

Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
PCCW Capital No 5 Ltd	\$ 3,796,754	0.55
Kinder Morgan Inc./DE	3,790,941	0.55
Honglong Industrial Co., Ltd.	3,790,000	0.55
Consolidated Edison Co of New York Inc.	3,787,745	0.55
Columbia Funds Series Trust I	3,767,556	0.55
LEGAL & GENERAL GROUP	3,761,720	0.55
ProShares Short S&P500	3,758,704	0.55
Anadarko Petroleum Corp	3,756,668	0.55
Shamrock Group Limited	3,709,997	0.54
Lockheed Martin Corp	3,709,624	0.54
HSBC Finance Corp	3,707,909	0.54
TYSON FOODS INC	3,703,493	0.54
Central American Bank for Economic Integration	3,701,981	0.54
Global Infrastructure Management	3,701,834	0.54
Fidelity Funds/Luxembourg	3,691,946	0.54
UBS AG	3,677,738	0.53
Saudi Arabian Oil Co	3,666,011	0.53
Brookfield Asset Management Inc.	3,656,362	0.53
Nisource Finance Corp	3,645,137	0.53
Berkshire Hathaway Finance Corp	3,625,373	0.53
Deutsche Bank A.G.	3,607,661	0.52
BARRICK GOLD CORP	3,600,899	0.52
Shen Shawn Company	3,600,000	0.52
General Electric Co	3,581,747	0.52
DIGITIMES Inc.	3,578,400	0.52
Lowe's Cos Inc.	3,565,918	0.52
HONGKONG ELECTRIC FIN	3,554,484	0.52
Chile Government International Bond	3,551,324	0.52
ING Bank NV	3,541,414	0.51
Morgan Stanley Finance LLC	3,521,081	0.51
SinoPac Futures	3,510,952	0.51
Enel Chile SA	3,510,114	0.51
YAGEO CORPORATION	3,457,389	0.50
SIMPLO TECHNOLOGY CO., LTD.	3,446,094	0.50
Banco de Credito e Inversiones	3,440,767	0.50
Merck & Co Inc.	3,424,833	0.50
CTBC Securities	3,403,245	0.49
China Life Insurance Co., Ltd.	3,399,775	0.49
SOUTHERN CO GAS CAPITAL	3,395,322	0.49
Sumitomo Mitsui Banking Corp	3,392,025	0.49
LYB International Finance BV	3,385,176	0.49
Investec Global Strategy Fund	3,383,255	0.49
AXA Equitable Holdings Inc.	3,363,900	0.49

(Continued)

<b>June 30, 2019</b>		
<b>Expressed in Thousands of New Taiwan Dollars; %</b>		
<b>Name</b>	<b>Total Balance</b>	<b>Total Balance to Financial Holding Company's Net Value (%)</b>
Realty Income Corp	\$ 3,354,992	0.49
Hartford Financial Services Group Inc.	3,349,637	0.49
Ford Motor Co	3,344,156	0.49
Far Eastern Electronic Toll Collection Co., Ltd.	3,342,410	0.49
NUTRIEN LTD	3,288,153	0.48
Corp Andina de Fomento	3,284,502	0.48
MX GOVERNMENT	3,280,071	0.48
Ping An Insurance Group Co	3,274,236	0.48
Devon Energy Corp	3,271,681	0.48
MICRO-STAR INTERNATIONAL CO., LTD.	3,268,934	0.48
Embraer Netherlands Finance BV	3,239,808	0.47
PERUSAHAAN GAS NEGARA PT	3,219,021	0.47
General Motors Co	3,216,687	0.47
iShares JP Morgan USD Emerging Markets Bond ETF	3,215,644	0.47
Gazprom OAO Via Gaz Capital SA	3,177,484	0.46
Infraestructura Energetica Nova SAB de CV	3,170,500	0.46
FREMF Mortgage Trust	3,163,618	0.46
Banco de Credito del Peru	3,151,991	0.46
First Securities Inc.	3,148,111	0.46
Export-Import Bank of Korea	3,139,370	0.46
Home Depot Inc.	3,137,836	0.46
Hsin-Da-Huang Construction Co., Ltd.	3,127,277	0.45
iShares TIPS Bond ETF	3,122,000	0.45
BARCLAYS BANK PLC	3,107,544	0.45
Eirles Two Ltd	3,107,200	0.45
Citigroup Global Markets Holdings Inc.	3,107,200	0.45
BANK OF MONTREAL	3,107,200	0.45
EMERA US FINANCE LP	3,099,485	0.45
ONGC Videsh Vankorneft Pte Ltd	3,073,138	0.45
BOC Aviation Pte Ltd	3,071,050	0.45
Insight Venture Management, LLC	3,069,475	0.45
IBM CORP	3,058,465	0.44
Hong Chang Company	3,057,000	0.44
Min Hue Company	3,050,000	0.44
CHOW TAI FOOK ENTERPRISES LIMITED	3,044,226	0.44
Realtek Semiconductor Corp	3,043,350	0.44
State Grid Corp of China	3,013,745	0.44

(Continued)

<b>June 30, 2019</b>		
<b>Expressed in Thousands of New Taiwan Dollars; %</b>		
<b>Name</b>	<b>Total Balance</b>	<b>Total Balance to Financial Holding Company's Net Value (%)</b>
2) The same natural person and his or her spouse, blood relative within second degree of kinship, and enterprise that is owned by the same person or his or her spouse.		
Dong and his or her spouse, blood relative within second degree of kinship, and enterprise that is owned by the same person or his or her spouse.	\$ 19,725,136	2.87
Ko and his or her spouse, blood relative within second degree of kinship, and enterprise that is owned by the same person or his or her spouse.	9,780,726	1.42
Su and his or her spouse, blood relative within second degree of kinship, and enterprise that is owned by the same person or his or her spouse.	8,157,208	1.19
Cheng and his or her spouse, blood relative within second degree of kinship, and enterprise that is owned by the same person or his or her spouse.	7,354,357	1.07
Lee and his or her spouse, blood relative within second degree of kinship, and enterprise that is owned by the same person or his or her spouse.	5,947,464	0.86
Lee and his or her spouse, blood relative within second degree of kinship, and enterprise that is owned by the same person or his or her spouse.	5,749,964	0.84
Yang and his or her spouse, blood relative within second degree of kinship, and enterprise that is owned by the same person or his or her spouse.	5,554,964	0.81
Jiang and his or her spouse, blood relative within second degree of kinship, and enterprise that is owned by the same person or his or her spouse.	4,253,536	0.62
Lee and his or her spouse, blood relative within second degree of kinship, and enterprise that is owned by the same person or his or her spouse.	4,145,320	0.60
Chen and his or her spouse, blood relative within second degree of kinship, and enterprise that is owned by the same person or his or her spouse.	3,304,757	0.48
Huang and his or her spouse, blood relative within second degree of kinship, and enterprise that is owned by the same person or his or her spouse.	3,125,827	0.45
Wu and his or her spouse, blood relative within second degree of kinship, and enterprise that is owned by the same person or his or her spouse.	3,050,116	0.44

(Continued)



<b>June 30, 2019</b>		
<b>Expressed in Thousands of New Taiwan Dollars; %</b>		
<b>Name</b>	<b>Total Balance</b>	<b>Total Balance to Financial Holding Company's Net Value (%)</b>
3) The same related parties		
Government of the Republic of China and its supervisory agency	\$ 566,298,901	82.33
Government of the USA and its supervisory agency	326,769,498	47.51
Group of TSMC	65,092,649	9.46
Group of Fubon	62,468,787	9.08
Group of Yuanta Financial Holding	54,986,059	7.99
JPMorgan and its related parties	54,646,018	7.94
Citigroup Inc. and its related parties	54,117,535	7.87
BNP Paribas and its related parties	45,057,069	6.55
HSBC Bank PLC and its related parties	44,897,449	6.53
Government of the Indonesia and its supervisory agency	44,704,845	6.50
Bank of China and its related parties	44,076,385	6.41
Bank of America Corporation and its related parties	41,038,729	5.97
Goldman Sachs Group Inc. and its related parties	39,648,462	5.76
Group of China Development Financial Holding Corporation	38,413,718	5.58
State of Qatar and its related parties	37,433,235	5.44
Government of the Russia and its supervisory agency	36,493,791	5.31
Government of the France and its supervisory agency	33,291,502	4.84
UBS AG and its related parties	30,592,437	4.45
Group of Hon Tai	28,846,974	4.19
Group of ASE Technology Holding Co., Ltd.	28,429,116	4.13
The Far Eastern Group	27,737,444	4.03
Group of Mega Financial Holding Company Ltd.	22,804,971	3.32
Group of O-Bank	22,635,159	3.29
Anheuser-Busch InBev NV and its related parties	22,574,617	3.28
Group of China Steel Corporation	21,781,586	3.17
Lloyds Banking Group PLC and its related parties	21,287,815	3.09
Morgan Stanley and its related parties	20,706,008	3.01
Standard Chartered Bank and its related parties	20,677,124	3.01
Government of the China and its supervisory agency	20,431,265	2.97
BBVA and its related parties	18,793,372	2.73
Group of Yong Feng Yu	18,552,093	2.70
Group of Taishin Financial Holding Company Ltd.	18,444,036	2.68
ING Group and its related parties	17,881,357	2.60
Group of Capital Financial	17,780,868	2.59
Group of CTBC Financial Holding Co., Ltd.	17,592,078	2.56
Group of Waterland	17,118,390	2.49
Group of TACB	17,041,839	2.48
Barclays Bank PLC and its related parties	16,357,967	2.38
Credit Agricole SA and its related parties	16,138,751	2.35
Telefonica SA and its related parties	15,958,124	2.32

(Continued)

<b>June 30, 2019</b>		
<b>Expressed in Thousands of New Taiwan Dollars; %</b>		
<b>Name</b>	<b>Total Balance</b>	<b>Total Balance to Financial Holding Company's Net Value (%)</b>
Group of CHT	\$ 14,540,017	2.11
Uni-President Group	14,159,850	2.06
Group of Nan Ya Plastics Corporation	13,915,802	2.02
Group of E.SUN FINANCIAL HOLDING COMPANY, LTD.	13,759,108	2.00
Deutsche Bank AG and its related parties	13,727,432	2.00
Group of Shin Kong Financial Holding Co., Ltd.	13,630,774	1.98
EVERGREEN Group	13,173,856	1.92
DBS and its related parties	13,071,414	1.90
Group of Formosa Plastics Corporation	12,485,047	1.82
Group of Formosa Petrochemical Corporation	11,939,651	1.74
NOVA SCOTIA and its related parties	11,879,644	1.73
National Australia Bank Ltd and its related parties	11,878,077	1.73
Group of Hua Nan Financial Holdings Co., Ltd.	11,736,616	1.71
Foxconn Technology Group	11,438,059	1.66
Pfizer Inc. and its related parties	10,802,013	1.57
Government of the UK and its supervisory agency	10,469,905	1.52
Taiwan Chemical Fiber Group	9,483,579	1.38
China Network Group	8,959,095	1.30
Barrick Gold Corp and its related parties	8,683,716	1.26
Group of First Financial Holding Co., Ltd.	8,662,673	1.26
He Shin Group	8,643,623	1.26
Triumph Transcend Group	8,572,022	1.25
Quanta Computer Group	8,371,338	1.22
UMC Group	6,424,310	0.93
Dominion Resources Inc./VA and its related parties	5,972,385	0.87
Sumitomo Corp and its related parties	5,431,757	0.79
Group of Central Trade	5,110,569	0.74
Suncor Energy Inc. and its related parties	4,870,661	0.71
Group of Chow Tai Fook	4,238,040	0.62
Group of Sino-American Silicon	4,236,006	0.62
BlackRock Inc. and its related parties	4,233,605	0.62
Fidelity and its related parties	4,065,776	0.59
HueTeng Group	4,048,000	0.59
Walsin Lihwa Group	3,844,670	0.56
Yageo Group	3,739,861	0.54
MiTAC-Synnex Group	3,541,790	0.51
JUT LAND Development Group	3,420,609	0.50
Wistron Group	3,358,582	0.49
TBC Group	3,330,766	0.48
Charoen Pokphand Group	3,318,184	0.48
Realtek Semiconductor Group	3,243,258	0.47
BenQ Group	3,221,523	0.47
Group of Kindom Construction	3,037,550	0.44

(Concluded)

### 39. SUPPLEMENTAL DISCLOSURES

a. Information about significant transactions:

Code	Description	Explanation
1	Accumulated purchases and sales balance of specific investee's marketable securities over \$300 million or 10% of the paid-in capital	None
2	Acquisition or disposal of individual real estate at prices over \$300 million or 10% of the paid-in capital	None
3	Discount on processing fee the transactions with related parties over \$5 million	None
4	Receivables from related parties over \$300 million or 10% of the paid-in capital	Table 1
5	Disposal of nonperforming loans by subsidiaries	None
6	Related information of financial assets securitization or real estate securitization by subsidiaries	None
7	Other significant transaction which may affect the decisions of users of the financial statements	None

b. Information of investees

Code	Description	Explanation
1	Information regarding investee companies and percentage of ownership	Table 3
2	Acquisition and disposal of real estate at prices over \$300 million or 10% of the paid-in capital	Table 4
3	Discount on processing fee for transactions with related parties over \$5 million	None
4	Receivables from related parties over \$300 million or 10% of the paid-in capital	Table 1
5	Disposal of nonperforming loans by investees	None
6	Related information of financial assets securitization or real estate securitization by investees	None
7	Other significant transaction which may affect the decisions of users of the financial statements	None
8	Financing provided to others	Note
9	Endorsements/guarantees provided	None
10	Marketable securities held as of June 30, 2019	Table 2 (Note)
11	Marketable securities acquired or disposed of at costs or prices over \$300 million or 10% of the paid-in capital	None
12	Derivative transactions	Note 7

Note: Disclosure requirements are not applicable to Cathay Life, Cathay Century, Cathay United Bank and Cathay Securities.

c. Investments in mainland China

<b>Code</b>	<b>Description</b>	<b>Explanation</b>
1	Name of companies, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, investment income, carrying amount of the investment, repatriation of investment income, and limit of investment in investees in the mainland China area.	Table 5
2	Significant transaction elements like price, disbursement condition and unrealizable income generated directly or indirectly through a third area, by investee in mainland China.	None
3	Notes, endorsements and collateral provided directly or indirectly through an investee in a third area in mainland China.	None
4	Capital financing directly or indirectly through an investee in a third area in mainland China.	None
5	Other significant transactions which may affect the decisions of users of the financial statements	None

- d. The important intercompany transactions among the Group are disclosed in Table 6 following the Note 28 to Consolidated Financial Statements.

**CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST \$300 MILLION OR 10% OF THE PAID-IN CAPITAL**

**JUNE 30, 2019**

**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Cathay Financial Holding Co., Ltd.	Cathay Life Insurance Co., Ltd.	Subsidiary	\$ 690,411	Note 1	\$ -	-	\$ -	\$ -
	Cathay United Bank Co., Ltd.	Subsidiary	10,368,256	Notes 2 and 3	-	-	-	-
	Cathay Securities Investment Trust Co., Ltd.	Subsidiary	630,532	Notes 2 and 3	-	-	-	-
Cathay United Bank Co., Ltd.	Cathay Life Insurance Co., Ltd.	Fellow subsidiaries	427,597	-	-	-	-	-
Cathay Life Insurance Co., Ltd.	Cathay Financial Holding Co., Ltd.	Parent company	10,934,473	Note 2	-	-	-	-

Note 1: The ending balance is primarily consisted of interest receivables arising from subsidiary debt, which is not applicable for the calculation of the turnover rate.

Note 2: The ending balance is primarily consisted of receivables arising from consolidated income tax return, which is not applicable for the calculation of the turnover rate.

Note 3: The ending balance is primarily consisted of unclaimed dividends, which is not applicable for the calculation of the turnover rate.

## CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

JUNE 30, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2019				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
Cathay Venture Inc.	<u>Corporate bonds</u>							
	SmartGames CB	N/A	Financial assets at fair value through profit or loss	-	\$ 7	-	\$ 7	
	Guanghe CBI	N/A	"	-	58,640	-	58,640	
	A2G CB	N/A	"	-	1,213	-	1,213	
	PT Cemerlang Multimedia CB	N/A	"	-	61,560	-	61,560	
	Huang Chieh Mental Composite Material Tech. Co., Ltd. CB	N/A	"	-	71,502	-	71,502	
	OneDegree CB	N/A	"	-	9,897	-	9,897	
	<u>Beneficiary certificates</u>							
	Mega Diamond Money Market Fund	N/A	"	31,861	400,000	-	400,000	
	Taishin 1699 Money Market Fund	N/A	"	29,531	400,000	-	400,000	
	Cathay Taiwan Money Market Fund	N/A	"	48,166	600,000	-	600,000	
	<u>Shares</u>							
	Tien-Tai Management Consulting Co., Ltd.	Investee accounted for using the equity method	Investments accounted for using the equity method	141	3,335	28.20	3,335	
	Dun-Yang Energy Corp.	Investee accounted for using the equity method	"	3,897	42,082	32.20	42,082	
	Yong-Chang Energy Corp.	Investee accounted for using the equity method	"	3,975	41,531	32.32	41,531	
	RI-Zhao Energy Corp.	Investee accounted for using the equity method	"	4,040	43,996	32.32	43,996	
	Tien-Tai Optronics Corporation	Investee accounted for using the equity method	"	10,646	130,232	33.64	130,232	
	Kwan's International Co., Ltd.	N/A	Financial assets at fair value through profit or loss	759	43,356	-	43,356	
	Good Friend International Holdings Inc.	N/A	"	53	213	2.78	213	
	AVer Information Inc.	N/A	"	-	-	-	-	
	F - Rotam Global AgroSciences Limited (Cayman)	N/A	"	1,404	24,296	-	24,296	
	F- Yeong Guan Energy Technology Group Co., Ltd.	N/A	"	96	5,635	-	5,635	
	F- Fulgent Sun International (Holding) Co., Ltd.	N/A	"	768	54,292	-	54,292	
F- Hiroca Holdings Ltd.	N/A	"	439	29,332	-	29,332		
TWi Pharmaceuticals, Inc.	N/A	"	338	23,998	-	23,998		

(Continued)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2019				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
	PILI International Multimedia Co., Ltd.	N/A	Financial assets at fair value through profit or loss	91	\$ 3,548	-	\$ 3,548	
	Min Aik Precision Industrial Co., Ltd.	N/A	"	240	5,400	-	5,400	
	Man Zai Industrial Co., Ltd.	N/A	"	349	7,050	-	7,050	
	POWER WIND HEALTH INDUSTRY INC.	N/A	"	-	-	-	-	
	Taisun Int'l (Holding) Corp._KY	N/A	"	139	16,759	-	16,759	
	Senhwa Biosciences, Inc.	N/A	"	1,200	82,200	1.61	82,200	
	Tanvex BioPharma, Inc. (F-Tanvex)	N/A	"	1,250	91,500	-	91,500	
	Kayee International Group Co., Ltd.	N/A	"	403	43,121	-	43,121	
	Global Tek Fabrication Co., Ltd.	N/A	"	1,350	54,810	2.05	54,810	
	Cryomax Cooling System Corp.	N/A	"	1,270	24,069	1.92	24,069	
	Shane Global Holdings	N/A	"	4,486	641,455	4.49	641,455	
	Ta Chen Stainless Pipe Co., Ltd.	N/A	"	5,573	196,448	-	196,448	
	Nan Pao Resins Chemical Co., Ltd.	N/A	"	323	50,274	-	50,274	
	Compal Broadband Networks, Inc.	N/A	"	78	2,336	-	2,336	
	Ching Chan Optical Technology Co., Ltd.	N/A	"	821	29,310	2.23	29,310	
	Fusheng Precision Co., Ltd.	N/A	"	800	158,400	-	158,400	
	REMOTEK Corp.	N/A	"	480	8,307	2.20	8,307	
	glac Biotech Co., Ltd.	N/A	"	662	18,768	-	18,768	
	TWi Biotechnology, Inc.	N/A	"	491	9,908	-	9,908	
	Fittech Co., Ltd.	N/A	"	255	15,318	-	15,318	
	Smartdisplayer Technology Co., Ltd.	N/A	"	1,000	28,530	4.01	28,530	
	Sincere Group	N/A	"	700	24,318	3.50	24,318	
	BioGend Therapeutics Co., Ltd.	N/A	"	2,000	46,000	2.44	46,000	
	Mars Semiconductor Limited	N/A	"	528	7,198	2.36	7,198	
	Senhwa Biosciences, Inc.	N/A	"	19	625	4.67	625	
	Proconn Technology Co., Ltd.	N/A	"	2,055	678	3.30	678	
	EasyCard Investment Holdings Co., Ltd.	N/A	"	1,430	41,777	1.37	41,777	
	Lian-an Service Co., Ltd.	N/A	"	125	1,020	5.00	1,020	
	Koatech Technology Corp.	N/A	"	101	974	-	974	
	Ares Green Technology Corporation	N/A	"	425	15,924	1.25	15,924	
	Mega Union Technology Incorporated.	N/A	"	2,653	64,358	9.37	64,358	
	Cathay Healthcare Management Co., Ltd.	N/A	"	8,250	217,718	15.00	217,718	
	FashionGuide Digital Technology Co., Ltd.	N/A	"	714	8,248	4.26	8,248	
	F - Shiang-yang International Holdings Limited (Cayman)	N/A	"	528	-	1.85	-	
	NARUKO Beauty Essentials Limited.	N/A	"	43,252	112,021	4.39	112,021	
	SMS Holdings One I	N/A	"	1	-	5.00	-	
	Shengzhuang Holdings	N/A	"	122	-	1.09	-	

(Continued)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2019				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
	Bioengine Capital Inc.	N/A	Financial assets at fair value through profit or loss	4,500	\$ 113,580	3.16	\$ 113,580	
	WinWay Technology Co., Ltd.	N/A	"	1,008	93,603	3.54	93,603	
	Bravo ideas Digital Co., Ltd.	N/A	"	1,600	7,664	3.58	7,664	
	Episonica Holding	N/A	"	2,255	48,025	11.12	48,025	
	Andros Pharmaceuticals Co., Ltd.	N/A	"	1,050	12,474	4.19	12,474	
	F - Transound Electronics (Cayman) Co., Ltd.	N/A	"	1,200	10,104	3.40	10,104	
	Hyper Crystal Inc.	N/A	"	2,000	23,340	13.80	23,340	
	F - Amaryllo International B.V.	N/A	"	1,000	4,860	5.68	4,860	
	Noratech Pharmaceuticals, Inc.	N/A	"	1,000	32,280	-	32,280	
	KuangMing Shipping Corp.	N/A	"	157	388	-	388	
	TOt Biopharm Co., Ltd. (Dongyuan)	N/A	"	1,978	33,436	2.36	33,436	
	Grandsys	N/A	"	1,860	24,961	7.77	24,961	
	SinoGreenergy	N/A	"	-	1	10.00	1	
	DTCO (Samoa)	N/A	"	325	3,365	2.87	3,365	
	Tennrich International Corp.	N/A	"	1,938	1,686	3.19	1,686	
	Allianz Pharmascience Limited	N/A	"	2,000	37,920	6.85	37,920	
	KKDAY	N/A	"	5,668	34,236	2.90	34,236	
	SmartGames	N/A	"	164	1,883	2.13	1,883	
	SSC Holdco Limited	N/A	"	100	63,924	-	63,924	
	PSS Co., Ltd.	N/A	"	330	12,830	-	12,830	
	Altek Semiconductor	N/A	"	800	26,600	1.80	26,600	
	World Known MFG	N/A	"	1,500	66,525	5.00	66,525	
	Anywhere2Go	N/A	"	2	10,464	-	10,464	
	Yikon Genomics	N/A	"	1,340	52,394	3.55	52,394	
	Rani Therapeutics, LLC	N/A	"	119	13,440	-	13,440	
	ThinkPower Information Corporation	N/A	"	960	34,388	15.00	34,388	
	Mimetas B.V.	N/A	"	8	11,095	2.81	11,095	
	Yonggu Group Inc. (Cayman)	N/A	"	1,130	48,753	-	48,753	
	Xiongchuang (Samoa)	N/A	"	19	27,678	4.50	27,678	
	91APP	N/A	"	8,333	21,917	-	21,917	
	Acepodia Inc.	N/A	"	1,848	43,449	5.81	43,449	
	Green Van International Co., Ltd.	N/A	"	4,375	62,344	11.22	62,344	
	Emotibot Technology Limited	N/A	"	2,302	61,780	1.57	61,780	
	Pacific 8 Venture	N/A	"	-	69,129	-	69,129	
	Monk's hill Venture Fund	N/A	"	-	26,440	-	26,440	
	Validus	N/A	"	145	61,657	-	61,657	
	VIZIONFOCUS INC.	N/A	"	1,700	47,600	3.49	47,600	
	Finaxar	N/A	"	87	30,920	-	30,920	
	aetherAI CO., LTD.	N/A	"	582	34,429	9.23	34,429	

(Continued)



Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2019				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
	Intudo Venture II,LP	N/A	Financial assets at fair value through profit or loss	-	\$ 6,170	-	\$ 6,170	
	Taiwan Aerospace Corp.	N/A	"	1	15	-	15	
	Hua Zhi Venture Capital Co., Ltd.	N/A	"	-	3	-	3	
	HWA VI Venture Capital Corp.	N/A	"	-	2	-	2	
	CDIB BioScience Ventures I, Inc.	N/A	"	-	1	-	1	
	WK Technology Fund	N/A	"	-	1	-	1	
	WK Technology Fund IV	N/A	"	-	1	-	1	
	WK 5 Venture Capital Co., Ltd.	N/A	"	-	1	-	1	
	WK 8 Venture Capital Co., Ltd.	N/A	"	-	1	-	1	
	WK 6 Venture Capital Co., Ltd.	N/A	"	-	1	-	1	
	WK 7 Venture Capital Co., Ltd.	N/A	"	-	1	-	1	
	Maxima Venture Capital Co., Ltd.	N/A	"	-	-	-	-	
	Harbinger Venture Capital Co., Ltd.	N/A	"	-	-	-	-	
	Harbinger 3 Venture Capital Co., Ltd.	N/A	"	-	-	-	-	
	Huawei Century Venture Capital Co., Ltd.	N/A	"	-	-	-	-	
	Mega 1 Venture Capital Co., Ltd.	N/A	"	-	-	-	-	
	<u>Preference shares</u>							
	Winking Entertainment	N/A	"	1,418	25,743	0.15	25,743	
Cathay Futures Co., Ltd.	<u>Shares</u>							
	Taiwan Futures Exchange	N/A	Financial assets at fair value through other comprehensive income	5,095	448,350	1.52	448,350	

(Concluded)

## CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## RELATED INFORMATION OF INVESTEEES SUCH AS NAMES AND LOCATIONS

JUNE 30, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	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 1)				Note
							Existing Shares	Phantom Shares (Note 2)	Total		
									Number of Shares	Ownerships Interest	
Cathay Financial Holding Co., Ltd	Cathay Life	R.O.C	Life insurance	100.00%	\$ 490,202,026	\$ 18,989,801	5,726,527	-	5,726,527	100.00%	Note 3
	Cathay United Bank	R.O.C	Commercial banking operations	100.00%	210,073,596	12,464,902	9,665,835	-	9,665,835	100.00%	Note 3
	Cathay Century	R.O.C	Property and casualty insurance	100.00%	11,380,407	996,391	305,705	-	305,705	100.00%	Note 3
	Cathay Securities	R.O.C	Securities	100.00%	8,131,531	279,871	600,000	-	600,000	100.00%	Note 3
	Cathay Venture	R.O.C	Venture capital investment	75.00%	3,948,516	290,274	501,302	-	501,302	100.00%	Note 3
	Cathay Securities Investment Trust	R.O.C	Securities investment trust	100.00%	3,926,889	319,321	150,000	-	150,000	100.00%	Note 3
	Conning Asia Pacific Ltd.	Hong Kong	Wealth management	17.15%	26,276	5,298	272,950	-	272,950	100.00%	Note 4

Note 1: 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 2: a. "Phantom share" refers to converted shares 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.

b. 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.

c. The above-mentioned "derivative contracts" shall refer to those meeting the definition in IFRS No. 39, such as stock option.

Note 3: The Company recognized the profit or loss on investment based on the financial statements audited and certified by accountant.

Note 4: The Company recognized the profit or loss on investment based on financial statements not audited and certified by accountant.

## CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE SIX MONTHS ENDED JUNE 30, 2019  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty Is A Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
Cathay Financial Holding Co., Ltd.	Sanmin Rd., Sec. 1, Zhongli Dist., Taoyuan City 320, Taiwan	2019.05.03	\$ 981,851	The price was paid each period according to contracts	Mr. Lu and other seven natural person	Non-related party	-	-	-	\$ -	Evaluation report of appraisers	Real estate investment in accordance with The Insurance Company Act.	None
	Minquan E. Rd., Sec. 3, Zhongshan Dist., Taipei City 104, Taiwan	2019.05.31	323,890	Lump sum	Taipei	Non-related party	-	-	-	-	Evaluation report of appraisers	Real estate investment in accordance with The Insurance Company Act.	None
	Minquan E. Rd., Sec. 3, Zhongshan Dist., Taipei City 104, Taiwan	2019.05.31	389,855	Lump sum	Taipei	Non-related party	-	-	-	-	Evaluation report of appraisers	Real estate investment in accordance with The Insurance Company Act.	None

Note 1: The transaction amount is the total contract price, not including the land registration fee, transcript expense, scrivener expense and stamp duty.

Note 2: The appraisal result should be presented in the 'Basis or reference used in setting the price' column if the real estate acquired should be appraised pursuant to the regulations.

## CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE SIX MONTHS ENDED JUNE 30, 2019  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment (Note 1)	Accumulated Outward Remittance for Investments from Taiwan as of January 1, 2019	Remittance of Funds		Accumulated Outward Remittance for Investments from Taiwan as of June 30, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of June 30, 2019	Accumulated Repatriation of Investment Income as of June 30, 2019
					Outflow	Inflow						
Cathay Lujiazui Life Insurance Co., Ltd.	Life insurance	\$ 13,497,155	a	\$ 6,748,578	\$ -	\$ -	\$ 6,748,578	\$ 565,024	50.0	\$ 282,511 (Note 2,b,2))	\$ 5,484,194	\$ -
Cathay Century (China)	Property and casualty insurance	12,196,844	a	5,908,393	-	-	5,908,393	(95,573)	49.0	(46,830) (Note 2,b,3))	4,550,669	-
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Office equipment leasing company	7,223,435	a	7,223,435	-	-	7,223,435	144,465	100.0	101,211 (Note 2,b,2))	7,659,377	-
Cathay United Bank (China) Corporation Limited	Wholesale banking	14,377,562	a	14,377,562	-	-	14,377,562	154,229	100.0	154,229 (Note 2,b,2))	16,362,236	-
CDBS Cathay Asset Management Co., Ltd.	Fund management services	1,701,823	a	566,707	-	-	566,707	(83,838)	33.3	(27,918) (Note 2,b,3))	435,301	-
CDBS Cathay Asset Management Co., Ltd. (Beijing) (Note 4)	Wealth management	468,290	c	-	-	-	-	10,497	33.3	3,496 (Note 2,b,3))	197,375	-
Cathay Investment Consulting (Shanghai) Co., Ltd. (Note 5)	Investment consulting	38,965	a	38,965	-	9,329	29,636	(737)	100.0	(737) (Note 2,b,3))	-	-

Accumulated Outward Remittance for Investments in Mainland China as of June 30, 2019	Investment Amount Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investments Stipulated by the Investment Commission, MOEA
\$ 34,854,311	\$ 34,863,640	\$ 457,051,625

Note 1: The 3 methods of investment are as follows:

- Direct investment in China.
- Reinvestment in China through companies located in a third region
- Others.

Note 2: The column of investment profit or loss for the period:

- It should be indicated if the entity was in the preparation stage without profit or loss on investment.
- It should be indicated if the basis of recognizing the profit or loss on investment are of the following 3 types:
  - The financial statement is audited and certified by international accounting firms which have partnership with R.O.C. accounting firms.
  - The financial statement is audited and certified by the parent company's auditors in Taiwan.
  - Other basis.

Note 3: The related figure in the schedule should be expressed in New Taiwan dollars.

(Continued)

Note 4: CDBS Cathay Asset Management Co., Ltd. invested in CDBC Cathay Asset Management Co., Ltd. (Beijing) in the amount of CNY\$100 million in Mainland China.

Note 5: Cathay Investment Consulting (Shanghai) Co., Ltd has completed liquidation on February 26, 2019.

Note 6: Information on investments in mainland China

- a. On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (“MOEAIC”) authorized Cathay Life to remit US\$22,850 thousand and US\$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 US\$50,000 thousand to US\$48,330 thousand, approved by the MOEAIC on December 20, 2010. Also, MOEAIC authorized Cathay Life to remit US\$59,000 thousand as the registered capital again on May 16, 2008. MOEAIC authorized Cathay Life to remit US\$3,400 thousand as the registered capital again on April 2, 2012. MOEAIC also authorized the revision of the amount of US\$32,520 thousand of unexecuted project to CNY200,000 thousand to avoid currency risk on September 14, 2013. The total registered capital was US\$110,730 thousand. On September 25, 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 December 29, 2004 and changed its name to Cathay Lujiazui Life Insurance Company Ltd. following approval by the China Insurance Regulatory Commission on August 12, 2014. Cathay Life has remitted US\$48,330 thousand to the subsidiary as of December 31, 2009. Cathay Life injected additional US\$29,880 thousand on September 29, 2010 and CNY200,000 thousand on May 8, 2014. On August 23, 2017, MOEAIC authorized Cathay Life to remit CNY700,000 thousand and the amount was remitted on September 20, 2017. As of June 30, 2019, Cathay Life’s remittances to the subsidiary totaled approximately CNY900,000 thousand and US\$78,210 thousand.
- b. On October 17, 2007, MOEAIC authorized Cathay Life to remit US\$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 October 8, 2007. On March 6, 2008, MOEAIC authorized Cathay Life to increase the remittances from US\$26,390 thousand to US\$28,960 thousand. On August 15, 2008, MOEAIC further authorized Cathay Life to revise the remittance from US\$28,960 thousand to US\$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 August 26, 2008. On May 28, 2013, MOEAIC authorized Cathay Life to remit CNY200,000 thousand to increase the share capital. Also, MOEAIC authorized Cathay Life to remit CNY245,000 thousand on December 6, 2018. As of June 30, 2019, Cathay Life’s remittances to this general insurance company totaled approximately CNY445,000 thousand and US\$28,140 thousand.
- c. On November 1, 2011 and April 11, 2012, MOEAIC authorized Cathay Life to remit CNY300,000 (US\$47,000) thousand and CNY500,000 (US\$80,000) thousand, respectively. A total of US\$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 August 15, 2012. On April 1, 2013, MOEAIC authorized Cathay Life to remit CNY700,000 (US\$111,000) thousand to increase the share capital. As of June 30, 2019, Cathay Life’s remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately CNY1,500,000 thousand.
- d. MOEAIC approved Cathay United Bank to remit to China CNY400,000,000 (US\$60,067,239). 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 CNY400,000,000 (US\$59,768,397.46). The remaining amount of US\$298,841.54 was repatriated by Shanghai Branch, Cathay United Bank on November 5, 2010. The investment amounts were revised by Cathay United Bank by reporting to MOEAIC in January 18, 2011 and were approved on January 24, 2011. In addition, MOEAIC further approved Cathay United Bank to remit CNY600,000,000 (US\$95,024,128) 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 CNY600,000,000 (US\$94,929,198.64). The remaining amount of US\$94,929.36 was repatriated by Cathay United Bank’s Shanghai Branch on February 1, 2012. The investment amounts were revised by Cathay United Bank by reporting to MOEAIC on March 20, 2012 and were approved on March 26, 2012. MOEAIC approved Cathay United Bank’s Shanghai Branch to increase the working capital of CNY1,000,000,000 (US\$164,000,000) on February 27, 2014. According to MOEAIC, further approved working capital of Cathay United Bank’s Qingdao Branch was CNY600,000,000 (US\$98,199,673) on January 21, 2014. And the approved working capital of Cathay United Bank’s Shamchun Branch was CNY400,000,000 (US\$60,708,160.7) on January 5, 2015.
- e. Cathay United Bank (China) Corporation Limited's registered capital was CNY3 billion, whose working capital was transferred from Cathay United Bank (Shanghai), Cathay United Bank (Qingdao), Cathay United Bank (Shenzhen) upon obtaining approval from the authorities.
- f. On January 9, 2012, MOEAIC authorized Cathay Securities Investments Trust to remit CNY66,600 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 CNY200,000 thousand, and has acquired a business license of an enterprise legal person on August 16, 2013. On November 9, 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 CNY53,280 thousand. The proposal was authorized by the FSC and MOEAIC on May 16, 2017 and June 9, 2017, respectively, on September 29, 2017 increase capital and will be executed after obtaining approval by the China authorities. As of December 31, 2019, Cathay Securities Investment Trust remittances to CDBS Cathay Asset Management totaled approximately CNY119,880 thousand.
- g. CDBS Cathay Asset Management Co., Ltd. invested in CDBC Cathay Asset Management Co., Ltd. (Beijing) in the amount of CNY100 million in mainland China.

(Concluded)

## CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS  
FOR THE SIX MONTHS ENDED JUNE 30, 2019

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Investee Company	Counterparty	Relationship (Note 2)	Transactions Details			
				Financial Statement Account	Amount	Payment Terms	% of Total Sales or Assets (Note 3)
0	Cathay Financial Holding	Cathay Life	a	Financial assets at fair value through profit or loss	\$ 35,000,000	Not significantly different with that of third parties	0.36
		Cathay Life	a	Income tax payable for linked-tax	10,934,120	"	0.11
		Cathay Life	a	Interest revenues	624,822	"	0.26
		Cathay Life	a	Interest receivable	690,411	"	-
		Cathay United Bank	a	Cash and cash equivalents	286,787	"	-
		Cathay United Bank	a	Dividends receivable	10,000,000	"	0.10
		Cathay United Bank	a	Income tax payable for linked-tax	368,256	"	-
		Cathay Century	a	Income tax payable for linked-tax	180,621	"	-
		Cathay Century	a	Dividends receivable	111,158	"	-
		Cathay Securities Investment Trust	a	Dividends receivable	547,500	"	-
1	Cathay Life	Cathay United Bank	c	Guarantee deposits received	175,220	"	-
		Cathay United Bank	c	Cash and cash equivalents	17,828,099	"	0.18
		Cathay United Bank	c	Gains on investment property	295,964	"	0.04
		Cathay United Bank	c	Operating expenses	3,411,269	"	1.40
		Cathay United Bank	c	Payables	427,597	"	-
		Cathay United Bank	c	Other operating costs	705,832	"	0.29
		Cathay United Bank	c	Gain on financial assets and liabilities at fair value through profit or loss	3,533,344	"	1.46
		Cathay United Bank	c	Financial liabilities at fair value through profit or loss	2,169,702	"	0.02
		Cathay Century	c	Non-operating income and expenses	321,365	"	0.13
		Cathay Futures	c	Other assets	2,301,049	"	0.02
		Cathay Walbrook Holding 1 Limited	c	Loans	12,909,047	"	0.13
		Cathay Walbrook Holding 1 Limited	c	Interest revenues	248,177	"	0.10
		Cathay Walbrook Holding 2 Limited	c	Loans	679,424	"	-
		Cathay Walbrook Holding 1 Limited	c	Interest revenues	13,062	"	-
		Conning holding limited	c	Payables	164,568	"	-
		Conning holding limited	c	Other operating costs	324,391	"	0.13

(Continued)

No. (Note 1)	Investee Company	Counterparty	Relationship (Note 2)	Transactions Details			
				Financial Statement Account	Amount	Payment Terms	% of Total Sales or Assets (Note 3)
2	Cathay United Bank	Cathay Century	c	Deposits	\$ 2,030,218	//	0.02
		Cathay Securities	c	Deposits	3,012,799	//	0.03
		Cathay Securities Investment Trust	c	Deposits	182,371	//	-
		Cathay Futures	c	Deposits	1,117,526	//	0.01
		Cathay Venture	c	Deposits	18,117	//	-
		Cathay Life (Vietnam)	c	Deposits	266,800	//	-
		Indovina Bank Limited (Vietnam)	c	Call loans to banks	3,355,776	//	0.03
		CUBCN Bank	c	Call loans to banks	10,191,986	//	0.10
		CUBCN Bank	c	Due to commercial banks	10,096,947	//	0.10
3	Indovina Bank	Cathay Insurance (Vietnam) Co., Ltd.	c	Deposits	224,803	//	-
		Cathay Life (Vietnam)	c	Deposits	760,221	//	-

Note 1: Parent company is number 0; subsidiaries are sequentially numbered starting from 1.

Note 2: Categories of relationship:

- a. Parent company to subsidiary.
- b. Subsidiary to parent company.
- c. Between subsidiaries.

Note 3: Percentage of transaction amount to total consolidated operating income and assets is calculated as follows:

For balance sheet accounts: Transaction amount ÷ Total consolidated assets

For income statement accounts: Accumulated transaction amount ÷ Total consolidated profit from operations.

Note 4: Disclosure of the important intercompany transactions above is decided by the Company based on the materiality principle.

(Concluded)