

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

**Consolidated Financial Statements for the  
Three Months Ended March 31, 2019 and 2018 and  
Independent Auditors' Review Report**

## **INDEPENDENT AUDITORS' REVIEW REPORT**

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

### **Introduction**

We have reviewed the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. and its subsidiaries (collectively, the "Group") as of March 31, 2019, the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies "(collectively referred to as 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. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

### **Scope of Review**

We conducted our reviews in accordance with Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2019, and its consolidated financial performance and its consolidated cash flows for the three months then ended, 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.

## **Other Matter**

The consolidated financial statements of the Group for the three months ended March 31, 2018, were reviewed by other auditors, who expressed an unqualified conclusion on those statements on April 26, 2018.

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

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

May 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 review such consolidated financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors' review 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' review report and consolidated financial statements shall prevail.*

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(In Thousands of New Taiwan Dollars)

ASSETS	March 31, 2019 (Reviewed)		December 31, 2018 (Audited)		March 31, 2018 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 28)	\$ 267,533,304	3	\$ 206,576,054	2	\$ 307,633,813	3
DUE FROM THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS	110,544,087	1	104,223,315	1	106,246,175	1
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5, 7, 29 and 39)	1,508,436,383	16	1,428,824,049	16	1,499,678,964	17
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 4, 5, 8, 29 and 39)	1,143,413,717	12	1,127,810,270	12	1,132,012,716	13
FINANCIAL ASSETS MEASURED AT AMORTIZED COST (Notes 4, 5, 9, 29 and 39)	2,764,741,406	29	2,688,221,788	29	2,305,093,121	26
FINANCIAL ASSETS FOR HEDGING (Notes 4 and 5)	392,653	-	216,611	-	221,211	-
SECURITIES PURCHASED UNDER RESALE AGREEMENTS (Note 4)	78,865,989	1	59,212,899	1	93,546,024	1
RECEIVABLES, NET (Notes 4, 5 and 10)	171,867,307	2	161,216,190	2	157,666,558	2
CURRENT TAX ASSETS	6,436,322	-	6,438,062	-	4,353,419	-
LOANS, NET (Notes 4, 5, 11 and 28)	2,184,434,714	23	2,176,775,907	24	2,105,919,198	23
REINSURANCE CONTRACT ASSETS, NET	7,791,058	-	7,623,707	-	6,778,434	-
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET (Notes 4 and 13)	47,881,790	-	44,932,006	-	36,466,914	-
OTHER FINANCIAL ASSETS, NET (Notes 4 and 23)	595,120,793	6	555,740,531	6	567,598,725	6
INVESTMENT PROPERTIES, NET (Notes 3, 4, 5, 14 and 29)	395,721,612	4	319,222,554	3	319,493,063	4
PROPERTY AND EQUIPMENT, NET (Notes 4 and 15)	101,550,653	1	166,458,327	2	165,174,158	2
RIGHT-OF-USE ASSETS, NET (Notes 3, 4 and 16)	4,096,206	-	-	-	-	-
INTANGIBLE ASSETS, NET (Notes 4 and 17)	53,305,301	1	53,826,467	1	54,923,780	1
DEFERRED TAX ASSETS (Note 4)	30,530,279	-	40,806,934	-	45,471,637	-
OTHER ASSETS, NET (Notes 3, 28 and 29)	<u>70,174,244</u>	<u>1</u>	<u>76,357,835</u>	<u>1</u>	<u>53,687,724</u>	<u>1</u>
TOTAL	<u>\$ 9,542,837,818</u>	<u>100</u>	<u>\$ 9,224,483,506</u>	<u>100</u>	<u>\$ 8,961,965,634</u>	<u>100</u>
LIABILITIES AND EQUITY						
DUE TO THE CENTRAL BANK AND OTHER BANKS	\$ 98,066,524	1	\$ 81,432,233	1	\$ 113,925,781	1
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5 and 7)	127,863,540	1	129,698,896	1	93,225,997	1
NOTES AND BONDS SOLD UNDER REPURCHASE AGREEMENTS	47,327,250	1	59,307,037	-	102,549,699	1
COMMERCIAL PAPER PAYABLE, NET (Note 18)	65,542,808	1	62,989,367	1	50,597,632	1
PAYABLES (Notes 3 and 28)	64,177,006	1	66,727,399	1	68,169,670	1
CURRENT TAX LIABILITIES (Note 4)	2,937,249	-	2,543,689	-	15,164,847	-
DEPOSITS AND REMITTANCES (Notes 19 and 28)	2,218,277,207	23	2,187,203,086	24	2,083,438,894	23
BONDS PAYABLE (Note 20)	90,600,000	1	90,600,000	1	94,500,000	1
OTHER BORROWINGS	717,575	-	336,381	-	410,307	-
PROVISIONS						
Insurance liabilities (Notes 4 and 21)	5,431,926,327	57	5,336,952,339	58	5,021,799,671	56
Provision for employee benefits liabilities (Notes 4 and 22)	3,666,223	-	3,697,333	-	3,708,672	-
Other provisions	1,232,708	-	1,286,054	-	1,172,551	-
OTHER FINANCIAL LIABILITIES (Notes 4 and 23)	665,614,036	7	627,815,178	7	632,098,927	7
LEASE LIABILITIES (Notes 3, 4 and 16)	12,872,225	-	-	-	-	-
DEFERRED TAX LIABILITIES (Note 4)	34,141,540	-	27,091,143	-	36,629,207	1
OTHER LIABILITIES (Note 28)	<u>16,757,438</u>	<u>-</u>	<u>17,514,376</u>	<u>-</u>	<u>35,682,214</u>	<u>-</u>
Total liabilities	<u>8,881,719,656</u>	<u>93</u>	<u>8,695,194,511</u>	<u>94</u>	<u>8,353,074,069</u>	<u>93</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 24)						
Share capital						
Ordinary shares	125,632,102	1	125,632,102	2	125,632,102	2
Preference shares	15,333,000	-	15,333,000	-	8,333,000	-
Capital surplus	165,440,915	2	165,449,364	2	130,425,473	2
Retained earnings						
Legal reserve	40,976,121	-	40,976,121	-	35,339,841	-
Special reserve	149,346,119	2	149,346,119	2	149,106,971	2
Unappropriated earnings	107,724,634	1	95,553,376	1	114,628,150	1
Other equity	<u>46,739,453</u>	<u>1</u>	<u>(72,558,752)</u>	<u>(1)</u>	<u>35,815,353</u>	<u>-</u>
Total equity attributable to owners of the Company	651,192,344	7	519,731,330	6	599,280,890	7
NON-CONTROLLING INTERESTS (Notes 4 and 24)	<u>9,925,818</u>	<u>-</u>	<u>9,557,665</u>	<u>-</u>	<u>9,610,675</u>	<u>-</u>
Total equity	<u>661,118,162</u>	<u>7</u>	<u>529,288,995</u>	<u>6</u>	<u>608,891,565</u>	<u>7</u>
TOTAL	<u>\$ 9,542,837,818</u>	<u>100</u>	<u>\$ 9,224,483,506</u>	<u>100</u>	<u>\$ 8,961,965,634</u>	<u>100</u>

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

(With Deloitte & Touche review report dated May 15, 2019)

# CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

	For the Three Months Ended March 31			
	2019		2018	
	Amount	%	Amount	%
INTEREST INCOME (Notes 4 and 28)	\$ 54,468,173	44	\$ 46,250,430	38
INTEREST EXPENSE (Notes 4 and 28)	<u>(5,962,007)</u>	<u>(5)</u>	<u>(5,146,047)</u>	<u>(4)</u>
NET INTEREST INCOME	<u>48,506,166</u>	<u>39</u>	<u>41,104,383</u>	<u>34</u>
NET INCOME AND GAINS OTHER THAN INTEREST INCOME				
Net (loss) gain on service fee and commission fee (Notes 4, 23 and 28)	(1,855,435)	(2)	978,406	1
Net income on insurance operations (Notes 4 and 28)	57,444,992	46	46,617,955	38
Gain on financial assets and liabilities at fair value through profit or loss (Notes 4 and 7)	87,154,423	70	31,770,988	26
Gain on investment properties (Note 4)	3,239,030	3	2,812,486	2
Realized gain on financial assets at fair value through other comprehensive income (Note 4)	5,651,451	5	7,440,249	6
Net gain on derecognition of financial assets at amortized cost (Notes 4 and 9)	471,233	-	2,043,871	2
Foreign exchange gain (loss) (Note 4)	8,819,683	7	(38,697,058)	(32)
Reversal of impairment loss on assets (Note 4)	374,316	-	(395,068)	-
Share of gain of associates accounted for using the equity method (Notes 4 and 13)	284,134	-	66,758	-
(Loss) gain on reclassification using the overlay approach (Notes 4 and 7)	(83,694,743)	(67)	26,186,317	22
Net other non-interest (loss) gain	<u>(1,309,169)</u>	<u>(1)</u>	<u>1,214,773</u>	<u>1</u>
PROFIT FROM OPERATIONS	<u>125,086,081</u>	<u>100</u>	<u>121,144,060</u>	<u>100</u>
NET CHANGES IN INSURANCE LIABILITY RESERVE (Note 21)	<u>(87,353,303)</u>	<u>(70)</u>	<u>(79,909,378)</u>	<u>(66)</u>
PROVISION FOR BAD DEBT, COMMITMENTS AND GUARANTEED LIABILITY RESERVE	<u>(436,824)</u>	<u>-</u>	<u>(416,507)</u>	<u>-</u>
OPERATING EXPENSES (Notes 25 and 28)				
Employee benefit expenses	(15,043,858)	(12)	(12,587,641)	(11)
Depreciation and amortization expenses	(1,767,179)	(2)	(1,384,015)	(1)
Other general and administrative expenses	<u>(4,957,737)</u>	<u>(4)</u>	<u>(5,047,963)</u>	<u>(4)</u>
Total operating expenses	<u>(21,768,774)</u>	<u>(18)</u>	<u>(19,019,619)</u>	<u>(16)</u>

(Continued)

# CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

	For the Three Months Ended March 31			
	2019		2018	
	Amount	%	Amount	%
PROFIT BEFORE INCOME TAX	\$ 15,527,180	12	\$ 21,798,556	18
INCOME TAX (EXPENSE) BENEFIT (Notes 4 and 26)	<u>(1,977,167)</u>	<u>(1)</u>	<u>1,458,370</u>	<u>1</u>
NET INCOME	<u>13,550,013</u>	<u>11</u>	<u>23,256,926</u>	<u>19</u>
OTHER COMPREHENSIVE INCOME (Notes 4 and 24)				
Items that will not be reclassified subsequently to profit or loss:				
Property revaluation surplus	709,300	1	-	-
Gain (loss) on equity instruments at fair value through other comprehensive income	5,660,625	4	(98,689)	-
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	(1,215,777)	(1)	707,779	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	128,306	-	(76,661)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 26)	(268,287)	-	231,263	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	1,645,369	2	(119,280)	-
Gain (loss) on hedging instruments	90,241	-	(24,769)	-
Gain (loss) on debt instruments at fair value through other comprehensive income	44,043,499	35	(43,198,328)	(36)
Share of other comprehensive income (loss) of associates accounted for using equity method for items that may be reclassified subsequently to profit or loss	379,136	-	(889,189)	(1)
Other comprehensive income (loss) reclassified using the overlay approach	83,694,743	67	(26,186,317)	(21)
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4 and 26)	<u>(16,168,318)</u>	<u>(13)</u>	<u>11,007,654</u>	<u>9</u>
Total other comprehensive income (loss) for the period, net of income tax	<u>118,698,837</u>	<u>95</u>	<u>(58,646,537)</u>	<u>(48)</u>
TOTAL COMPREHENSIVE INCOME (LOSS)	<u>\$ 132,248,850</u>	<u>106</u>	<u>\$ (35,389,611)</u>	<u>(29)</u>

(Continued)

# CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

	For the Three Months Ended March 31			
	2019		2018	
	Amount	%	Amount	%
NET INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 13,213,152	11	\$ 23,067,383	19
Non-controlling interests	<u>336,861</u>	<u>-</u>	<u>189,543</u>	<u>-</u>
	<u>\$ 13,550,013</u>	<u>11</u>	<u>\$ 23,256,926</u>	<u>19</u>
TOTAL COMPREHENSIVE INCOME (LOSS)				
ATTRIBUTABLE TO:				
Owner of the Company	\$ 131,469,463	105	\$ (35,601,964)	(29)
Non-controlling interests	<u>779,387</u>	<u>1</u>	<u>212,353</u>	<u>-</u>
	<u>\$ 132,248,850</u>	<u>106</u>	<u>\$ (35,389,611)</u>	<u>(29)</u>
EARNINGS PER SHARE (Note 27)				
Basic earnings per share	<u>\$ 1.05</u>		<u>\$ 1.84</u>	

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

(With Deloitte & Touche review report dated May 15, 2019)

(Concluded)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
THREE MONTHS ENDED MARCH 31, 2019 AND 2018  
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company																Non-controlling Interests	Total Equity
											Other Equity							
	Share Capital		Capital Surplus	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	Other Equity 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	Total			
	Ordinary Shares	Preference Shares		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	
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	(26,632)	-	-	-	-	-	-	-	-	-	-	-	(26,632)	-	(26,632)	
Net income for the three months ended March 31, 2018	-	-	-	-	-	23,067,383	-	-	-	-	-	-	-	-	23,067,383	189,543	23,256,926	
Other comprehensive income (loss) for the three months ended March 31, 2018, net of income tax	-	-	-	-	-	-	(677,890)	(36,764,790)	-	(27,177)	609,273	42,310	874	(21,851,947)	(58,669,347)	22,810	(58,646,537)	
Total comprehensive income (loss) for three months ended March 31, 2018	-	-	-	-	-	23,067,383	(677,890)	(36,764,790)	-	(27,177)	609,273	42,310	874	(21,851,947)	(35,601,964)	212,353	(35,389,611)	
Disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	(4,082,934)	-	4,082,934	-	-	-	-	-	-	-	-	-	
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(14,054)	(14,054)	
BALANCE, AT MARCH 31, 2018	<u>\$ 125,632,102</u>	<u>\$ 8,333,000</u>	<u>\$ 130,425,473</u>	<u>\$ 35,339,841</u>	<u>\$ 149,106,971</u>	<u>\$ 114,628,150</u>	<u>\$ (11,501,132)</u>	<u>\$ 4,661,620</u>	<u>\$ -</u>	<u>\$ 176,470</u>	<u>\$ (581,754)</u>	<u>\$ (1,407,369)</u>	<u>\$ 10,377,688</u>	<u>\$ 34,089,830</u>	<u>\$ 599,280,890</u>	<u>\$ 9,610,675</u>	<u>\$ 608,891,565</u>	
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	
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	(8,449)	-	-	-	-	-	-	-	-	-	-	-	(8,449)	-	(8,449)	
Net income for the three months ended March 31, 2019	-	-	-	-	-	13,213,152	-	-	-	-	-	-	-	-	13,213,152	336,861	13,550,013	
Other comprehensive income for the three months ended March 31, 2019, net of income tax	-	-	-	-	-	-	1,735,222	40,670,463	-	69,816	(972,621)	7,721	664,254	76,081,456	118,256,311	442,526	118,698,837	
Total comprehensive income for three months ended March 31, 2019	-	-	-	-	-	13,213,152	1,735,222	40,670,463	-	69,816	(972,621)	7,721	664,254	76,081,456	131,469,463	779,387	132,248,850	
Disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	(1,041,894)	-	1,041,894	-	-	-	-	-	-	-	-	-	
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(411,234)	(411,234)	
BALANCE, AT MARCH 31, 2019	<u>\$ 125,632,102</u>	<u>\$ 15,333,000</u>	<u>\$ 165,440,915</u>	<u>\$ 40,976,121</u>	<u>\$ 149,346,119</u>	<u>\$ 107,724,634</u>	<u>\$ (10,414,649)</u>	<u>\$ 24,125,411</u>	<u>\$ -</u>	<u>\$ 243,105</u>	<u>\$ (198,537)</u>	<u>\$ (1,313,417)</u>	<u>\$ 11,032,165</u>	<u>\$ 23,265,375</u>	<u>\$ 651,192,344</u>	<u>\$ 9,925,818</u>	<u>\$ 661,118,162</u>	

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

(With Deloitte & Touche review report dated May 15, 2019)



# CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 15,527,180	\$ 21,798,556
Adjustments for:		
Depreciation expenses	978,966	631,452
Amortization expenses	788,213	752,563
Bad debt expense	436,824	416,507
Gain on financial assets and liabilities at fair value through profit or loss	(85,943,501)	(2,660,415)
Interest expense	5,962,007	5,146,047
Gain on derecognition of financial assets measured at amortized cost	(471,233)	(286)
Interest income	(54,468,173)	(46,250,430)
Dividend income	(1,855,769)	(166,763)
Net change in insurance liabilities	91,992,971	54,896,108
Net changes in other -provisions	2,872,376	(371,945)
Share of gain of associates accounted for using the equity method	(284,134)	(66,758)
Loss (gain) on reclassification using the overlay approach	83,694,743	(26,186,317)
Loss on disposal and retirement of property and equipment	9,821	3,475
Gain on disposal of investment properties	(3,322)	-
Gain on disposal of investments	(6,150)	(754)
Impairment loss recognized (reversed) on financial assets	(374,316)	395,068
Unrealized loss on foreign currency exchange	-	1,353
Loss on changes in fair value of investment properties	1,518	8,329
Net changes in operating assets and liabilities		
Increase in due from the Central Bank and other banks	(293,889)	(1,306,821)
Decrease in financial assets at fair value through profit or loss	38,834,181	59,375,726
Decrease in financial assets at fair value through other comprehensive income	34,122,022	7,615,694
Increase in investments in debt instruments at amortized cost	(75,666,484)	(60,894,613)
(Increase) decrease in financial assets for hedging	(85,801)	463
(Increase) decrease in receivables	(5,817,566)	16,332,417
Increase in loans	(8,113,538)	(68,496,402)
(Increase) decrease in reinsurance assets	(58,709)	450,915
Increase in other financial assets	(1,256,858)	(884,149)
Increase in other assets	(906,128)	(480,598)
Increase in due to the Central Bank and other banks	16,634,291	23,754,264
Decrease in financial liabilities at fair value through profit or loss	(34,612,641)	(5,702,429)
Decrease in securities sold under repurchase agreements	(11,979,787)	(10,093,883)
(Decrease) increase in payables	(4,554,234)	4,968,384
Increase in deposits and remittances	31,074,121	21,563,271
(Decrease) increase in reserve for employee benefits liabilities	(31,110)	13,975
Decrease in provisions	(53,346)	(415,757)

(Continued)

# CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2019	2018
(Decrease) increase in other financial liabilities	\$ (324,596)	\$ 4,027,601
(Decrease) increase in other liabilities	<u>(703,481)</u>	<u>6,828,780</u>
Cash generated from operations	35,064,468	5,002,628
Interest received	49,773,802	46,178,981
Dividends received	1,855,771	183,304
Interest paid	(4,343,310)	(4,176,284)
Income tax paid	<u>(838,021)</u>	<u>(572,827)</u>
Net cash generated from operating activities	<u>81,512,710</u>	<u>46,615,802</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of financial assets at fair value through other comprehensive income	(8,941,758)	(15,403,968)
Proceeds from disposal of financial assets at fair value through other comprehensive income	8,922,383	12,237,345
Acquisition of financial assets at fair value through profit or loss	(209,719)	(76,573)
Proceeds from disposal of financial assets at fair value through profit or loss	64,593	90,234
Proceeds from disposal of subsidiaries	9,329	-
Acquisition of property and equipment	(375,148)	(708,939)
Proceeds from disposal of property and equipment	26,481	2,080
Acquisition of intangible assets	(231,955)	(103,429)
Acquisition of investment properties	(917,914)	(710,642)
Proceeds from disposal of investment properties	9,511	-
Decrease (increase) in other assets	<u>4,535,814</u>	<u>(1,153,655)</u>
Net cash generated from (used in) investing activities	<u>2,891,617</u>	<u>(5,827,547)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in short-term borrowings	383,408	-
Decrease in short-term borrowings	-	(19,682)
Increase in commercial paper payable	2,553,924	-
Decrease in commercial paper payable	-	(870,000)
Repayment of financial debentures	-	(3,850,000)
Repayment of the principal portion of lease liabilities	(402,235)	-
Increase in other liabilities	-	658,252
Decrease in other liabilities	(18,998)	-
Changes in non-controlling interests	<u>(17,820)</u>	<u>(14,054)</u>
Net cash generated from (used in) financing activities	<u>2,498,279</u>	<u>(4,095,484)</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		
	<u>(265,383)</u>	<u>(803,062)</u>

(Continued)

# CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2019	2018
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 86,637,223	\$ 35,889,709
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>\$ 397,435,569</u>	<u>\$ 451,107,726</u>

Reconciliation of cash and cash equivalents:

	For the Three Months Ended March 31	
	2019	2018
Cash and cash equivalents presented in the consolidated balance sheets	\$ 267,533,304	\$ 307,633,813
Due from the Central Bank and call loans to other banks qualified for cash and cash equivalents under the definition of IAS 7	51,036,276	49,927,889
Securities purchased under resale agreements qualified for cash and cash equivalents under the definition of IAS 7	<u>78,865,989</u>	<u>93,546,024</u>
Cash and cash equivalents at the end of the periods	<u>\$ 397,435,569</u>	<u>\$ 451,107,726</u>

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

(With Deloitte & Touche review report dated May 15, 2019)

(Concluded)

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

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)**

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### **1. ORGANIZATION AND BUSINESS SCOPE**

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

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

On July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs). The Company’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 dollar.

### **2. APPROVAL OF FINANCIAL STATEMENTS**

The consolidated financial statements were approved by the Company’s board of directors and authorized for issue on May 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 Group’s accounting policies:

- 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.

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. 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 1)</b>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 2)
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
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: 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 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

- 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 that 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 are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which 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).
- 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 following these Notes to Consolidated Financial Statements 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 a group entity 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, investments in debt instruments at FVTOCI, and investments in equity instruments at 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. Financial assets mandatorily classified as at FVTPL include 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 38.

In addition, to reduce the fluctuations in profit or loss due to the application of IFRS 9 earlier than IFRS 17, the Group elected to use the overlay approach under IFRS 4, and removed the profit or loss arising from changes in fair value in subsequent measurement and presented it in other comprehensive income. The 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 not measured at FVTPL in their entirety under IAS 39.
  - iii. The financial assets designated for the overlay approach upon the entirety's initial application of IFRS 9, upon initial recognition of a new financial asset, or when a financial asset newly meets the criteria it has not previously met.
- 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 measures 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. The Company is required to set aside the following minimum loan loss provision amounts for the different categories 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 Order No. Financial-Supervisory-Insurance-Corporate-10402506096, the Company shall maintain the ratio of the allowance for bad debt over the loans at a minimum of 1.5% to strengthen its ability against loss exposure to specific loan assets.

Cathay United Bank made 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 stipulated 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.

Credits deemed uncollectable may be written off after approval is obtained from the board of directors. Credits redeemed in the current period which have been written off are recognized as a reversal of loss provision.

### 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 a financial asset 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 an investment in a debt instrument 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 an investment in an equity instrument 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.

#### 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.

#### 1) Subsequent measurement

Except financial liabilities at fair value through profit or loss, 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 mandatorily classified at FVTPL.

Financial liabilities mandatorily classified at FVTPL 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 37.

##### 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.

e. Offsetting of financial instruments

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

### **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.

The fair value adjustments to the carrying amount of the hedged instrument arising from the hedged risk for which the effective interest method is used is amortized to profit or loss from the date on which the hedge accounting is discontinued. The adjustment is based on a recalculated effective interest rate at the date on which amortization begins and will be amortized fully upon maturity of the financial instrument.

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 products. The insurance premiums according to agreed terms paid by applicants, net of the expenses incurred by the insurer, are invested in separate accounts at allocation agreed with or directed by the applicants. 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 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 assets and separate-account liabilities. The revenue and expenses of separate accounts, pursuant to IFRS 4 “Insurance Contracts”, are recorded in separate-account revenue and separate-account 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 insurance policy with a policy period shorter than one year or an injury insurance policy with a policy period longer than one year, the amount of reserve required is based upon the risk calculation.

#### 2) Loss reserve

The loss reserve is the reserve 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) Life insurance policy reserve

Based on the life table and projected interest rates in the manual reported to the authority for each insurance type, the 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 policy year 2003, for valid insurance 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.

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. The fair value of insurance liabilities measured at the same time in accordance with Rule No. 10302501161 issued by the FSC on March 21, 2014 did not exceed their book value and no additional insurance liabilities should be provided accordingly.

#### 4) Special reserve

Cathay life sells 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, if there are still increments after measuring the property at fair value, other than 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 insurance policies 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 and its subsidiaries 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

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 (Vietnam)

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

d. Cathay Century

Reserves for liabilities under the insurance contracts should be audited by the actuaries certified by the FSC and should also conform to these regulations: 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 clients with ongoing business operations and with unexpired insurance contracts, unearned premiums are calculated on the basis of unexpired risks for each type of insurance and individual unearned premium reserves are set up for each type of insurance.

The unearned premium reserve for compulsory automobile liability insurance contracts should conform to the Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance.

The unearned premium reserve for residential earthquake insurance contract should conform to the Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance.

The unearned premium reserve for nuclear energy insurance should conform to the Regulations for the Reserves of Nuclear Energy Insurance.

The amount of the unearned premium reserve is decided by the actuaries in the insurance industry on the basis of the characteristics of the different types of insurance (and this amount may not be changed without permission from the authorities) and should be audited by the actuaries at the end of the reporting period.

2) Claim reserve

This refers to IBNR (incurred but not reported) and outstanding claims and is calculated on the basis of past claim experience and payments, using the actuarial methodology. An outstanding-claim reserve is estimated for each client case, taking into consideration the specific circumstances of each case.

The claims reserve for the compulsory insurance contracts should conform to the Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance.

The claims reserve for residential earthquake insurance contracts should conform to the Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance.

The claims reserve for nuclear energy insurance should conform to the Regulations for the Reserves for Nuclear Energy Insurance.

### 3) Special reserve

The special reserve is divided into the equalization reserve and the catastrophe reserve. The provision of special reserves should be recognized in special reserve under shareholders' equity by the amount, net of the effect of tax. For those special reserve recognized in liabilities before December 31, 2012, except for the catastrophe reserve and equalization reserve of compulsory automobile insurance, nuclear energy insurance, residential earthquake insurance, commercial-business earthquake insurance and typhoon and flood insurance, those reserves of other insurances should be used to make up 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 the special reserve under shareholders' equity by the amount, net of the effect of tax, as requested by IAS 12 since January 1, 2013. The recovered and reversal of special reserve could be debited to those reserves recognized under liabilities first. If those reserves recognized under liabilities are not enough for the debit purpose, those insufficient amount would be debited to the special reserve recognized under shareholders' equity.

#### a) Catastrophe reserve

A catastrophe reserve should be set aside at the required rate for each insurance type.

Under the government's definition of "severe damage" due to a single disaster, the catastrophe reserve can be reversed if the total amount of the retained claims for each insurance type under an individual Company reaches \$30,000,000 and the total amount of the claims for each insurance type under all insurance companies reaches \$2,000,000,000.

A catastrophe reserve that has been set aside for more than 15 years may be reversed in the manner prescribed by the insurance firm's appointed actuary. This reversal should be registered with the relevant authorities. In addition, the reserve for commercial-businesses earthquake insurance, typhoon insurance and flood insurance may be reversed if it has been set aside for more than 30 years.

#### b) Equalization reserve

For each type of insurance, when the actual loss minus the amount withdrawn from the catastrophe reserve is lower than the expected loss, a nonlife insurance firm should place 15% of the difference in the equalization reserve. For commercial-business earthquake insurance and typhoon and flood insurance, a nonlife insurance firm should place 75% of the difference in the equalization reserve.

For each type of insurance, when the actual loss minus the amount withdrawn from the catastrophe reserve is greater than the expected loss, the difference may be withdrawn from the equalization reserve. If the equalization reserve for a particular type of insurance is insufficient to cover the difference, the shortfall may be withdrawn from the equalization reserve of another type of insurance. The insurance type corresponding to the reserve used for covering the shortfall and the withdrawn amount should be registered with the relevant authorities.

For each type of insurance, when the accumulated amount of the equalization reserve exceeds 60% (30% each for accident insurance and health insurance) of the retained earned premiums for the current year, the excess should be retired and treated as income. For commercial-business earthquake insurance and typhoon and flood insurance, if the accumulated amounts exceed 8 times and 18 times, respectively, of the retained earned premiums for the current year, the excess should be retired and treated as income.



4) Premium deficiency reserve

Cathay Century should set aside a premium deficiency reserve if the estimated amount of the future claims on an unexpired insurance contract or on the contract under the insurance risk is more than the sum of the unearned premium reserves and the expected future premium income.

5) Liability reserve

The minimum liability reserve for health insurance policies where the insurance period is greater than one year is set aside using the full preliminary term reserving method. However, the method of setting aside the minimum liability reserve for health insurance policies with a special nature should be approved by the authorities.

6) Liability adequacy reserve

At the end of each reporting period, Cathay Century should assess whether its insurance liabilities recognized were adequate based on the current estimation of future cash flows as requested by IFRS 4. If the result was inadequate, Cathay Century should recognize the shortage amount as a liability adequacy reserve.

### **Liability Adequacy Test**

The 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**

#### Insurance premium income and expenses 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 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 at 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) 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. 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 Cathay United Bank’s obligation is fulfilled.

c. Cathay Century and its subsidiaries

For insurance companies, direct premiums are recognized in the year when the insurance is approved and policies are issued. Ceded reinsurance revenues are recognized when Cathay Century receives the related billing statement. At the balance sheet date, Cathay Century will accrue the related reinsurance revenue and expense for the billing statements that have not yet been received but are already considered likely to be received as shown by past experience. Related expenses such as commission expenses, agent expenses and processing fees are recorded when the related premiums are recognized.

The claims (including claim expenses) pertaining to the direct insurance business are recognized when the claims have been reported and filed by, and paid to, the policyholder. A claims reserves, which is set aside for claims incurred but unsettled, is estimated on actuarial calculation for different types of insurance cases.

The IBNR claims reserve for direct insurance and for the ceding reinsurance is estimated on the basis of past experience and is recognized on the basis of actuarial calculation.

The claims to be recovered from the reinsurer under the reinsurance contract (including claim expenses) are reported as claim recoverable from reinsurers. The difference between outstanding claims and the IBNR claims (including claim expenses) are reported as movement of the claims reserve.

The claim reserve is undiscounted.

d. Cathay Security and its subsidiaries

The services provided by Cathay Securities its subsidiaries are mainly from the provision of brokerage, underwriting and advisory services. The services are based on stand-alone or negotiated pricing, and services are 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 Note 7 for 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.

c. 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 parent company jointly filed income tax returns and surtax on unappropriated retained earnings since 2002 under the integrated income tax system. 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 expects, 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 significant impairment loss may arise. For details of the key assumptions and inputs used, refer to Note 37

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 analysis 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 37.

c. Valuation of insurance contract liabilities

1) Cathay Life and its subsidiaries

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

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

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



2) Cathay Century and its subsidiaries

Cathay Century estimated the claim reserve based on the IBNR (incurred but not reported) and outstanding claims at the end of reporting period based on historical data, actuarial analysis, financial modeling and other analytical techniques. Cathay Century will adjust its estimations if necessary; however, the actual results may differ from these estimates.

## 6. CASH AND CASH EQUIVALENTS

	March 31, 2019	December 31, 2018	March 31, 2018
Cash on hand	\$ 17,319,142	\$ 17,257,240	\$ 17,421,852
Cash in banks	111,259,539	80,146,106	104,717,545
Time deposits	90,323,898	52,709,964	102,187,214
Checks for clearing	7,176,286	7,060,146	2,145,431
Cash equivalents	497,268	5,608,762	14,766,891
Due from commercial banks	40,976,679	43,812,218	66,401,181
Less: Loss allowance	<u>(19,508)</u>	<u>(18,382)</u>	<u>(6,301)</u>
	<u>\$ 267,533,304</u>	<u>\$ 206,576,054</u>	<u>\$ 307,633,813</u>

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

	March 31, 2019	December 31, 2018	March 31, 2018
<u>Financial assets mandatorily classified as at FVTPL</u>			
Non-derivative financial assets			
Shares	\$ 669,493,223	\$ 673,969,471	\$ 665,353,746
Funds and beneficiary certificates	355,018,525	293,491,136	350,106,490
Government bonds	38,061,226	25,763,954	23,768,714
Corporate bonds	4,887,375	7,429,409	21,323,155
Financial debentures	26,570,188	25,818,154	56,937,907
Overseas bonds	214,290,449	188,524,736	138,899,341
Short-term notes	149,758,325	162,478,515	178,461,433
Margin for futures trading-own funds	1,340,284	433,813	972,962
Derivative financial instruments	<u>49,016,788</u>	<u>50,914,861</u>	<u>63,855,216</u>
	<u>\$ 1,508,436,383</u>	<u>\$ 1,428,824,049</u>	<u>\$ 1,499,678,964</u>
<u>Financial liabilities mandatorily classified as at FVTPL</u>			
Designated as at FVTPL			
Bonds	\$ 55,223,461	\$ 51,441,482	\$ 50,542,565
Held for trading			
Derivative instruments	70,837,561	75,735,636	41,474,758
Security lending payable (non-hedging)	1,687,270	2,141,592	1,168,296
Security lending payable (hedging)	<u>115,248</u>	<u>380,186</u>	<u>40,378</u>
	<u>\$ 127,863,540</u>	<u>\$ 129,698,896</u>	<u>\$ 93,225,997</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:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
<u>Financial assets mandatorily classified as at FVTPL</u>			
Shares	\$ 656,841,856	\$ 660,063,193	\$ 646,105,333
Funds and beneficiary certificates	320,091,019	277,643,018	322,683,529
Financial debentures	17,810,848	17,859,589	16,645,375
Overseas debentures	213,670,987	187,795,448	133,460,598

Reclassification from profit or loss to other comprehensive income of the financial assets designated for the overlay approach for the three months ended March 31, 2019 and 2018 is addressed below:

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Gain (loss) reported in profit or loss due to application of IFRS 9	\$ 102,934,573	\$ 3,054,600
(Gain) loss reported in profit or loss if IAS 39 was applied	<u>(19,239,830)</u>	<u>(29,240,917)</u>
Loss (gain) due to reclassification as a result of application of the overlay approach	<u>\$ 83,694,743</u>	<u>\$ (26,186,317)</u>

Due to the application of the overlay approach, the amount of gain on financial assets and liabilities at FVTPL for the three months ended March 31, 2019 and 2018 decreased from \$87,154,423 thousand to \$3,459,680 and increased from \$31,770,988 thousand to \$57,957,305 thousand, respectively.

- b. As of March 31, 2019, none of Cathay United Bank’s financial assets at fair value through profit or loss were sold under repurchase agreements. As of December 31, 2018 and March 31, 2018, certain financial assets at fair value through profit or loss were sold under repurchase agreements with notional amounts of \$583,927 thousand and \$42,066,780 thousand, respectively. Such repurchase agreements amounting to \$523,725 thousand and \$39,330,780 thousand were recognized under the “Securities sold under repurchase agreements” account on the consolidated balance sheets. Repurchase agreements entered prior to December 31, 2018 were settled at \$523,725 thousand and \$39,437,946 thousand prior to January 31, 2019 and June 30, 2018, respectively.
- c. Financial liabilities at fair value through profit or loss

Cathay United Bank was authorized to issue subordinated financial debentures amounting to US\$990 million in September 2014, and 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 2016, 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. Such interest rate swaps were valued to have a net gain \$2,396,461 thousand and net loss \$1,524,626 thousand, respectively, as at the three months ended March 31, 2019 and 2018.

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

	March 31, 2019	December 31, 2018	March 31, 2018
Equity instrument investments at FVTOCI			
Shares	\$ 52,011,569	\$ 43,192,054	\$ 69,513,847
Debt instrument investments at FVTOCI			
Corporate bonds	52,210,120	45,668,682	33,518,152
Government bonds	142,898,592	160,794,200	190,745,157
Financial debentures	73,938,362	76,406,003	77,729,940
Asset-backed securities	17,490,306	3,191,683	2,147,357
Overseas bonds	805,912,931	800,838,518	760,075,810
Short-term notes	-	-	464,295
Less: Litigation deposits	(4,771)	(1,720)	(89,276)
Less: Deposits to the Central Bank	(1,043,392)	(2,111,016)	(2,092,566)
Less: Derivative instrument collaterals	-	(168,134)	-
	<u>1,091,402,148</u>	<u>1,084,618,216</u>	<u>1,062,498,869</u>
	<u>\$ 1,143,413,717</u>	<u>\$ 1,127,810,270</u>	<u>\$ 1,132,012,716</u>

- These investments in equity instruments are not held for trading, and thus were designated as financial assets at FVTOCI.
- Dividend income recognized relating to investments in equity instruments at FVTOCI still held by the Company and its subsidiaries on the balance sheet date for the three months ended March 31, 2019 and 2018 were \$3,602 thousand and \$44,798 thousand, respectively.
- As at March 31, 2019, December 31, 2018 and March 31, 2018, Cathay United Bank and its subsidiaries' certain financial assets at fair value through other comprehensive income were sold under repurchase agreements with notional amounts of \$42,308,800 thousand, \$46,355,590 thousand and \$50,295,194 thousand, respectively. Such repurchase agreements amounting to \$40,609,441 thousand, \$42,613,744 thousand, \$44,375,883 thousand were recorded as the "Securities sold under agreements to repurchase", and were repurchased at the amounts of \$40,802,827 thousand, \$42,764,361 thousand and \$44,451,331 thousand prior to August 31, 2019, March 31, 2019 and April 30, 2018, respectively.

- d. As of March 31, 2019, December 31, 2018 and March 31, 2018 Cathay Securities and its subsidiaries sold certain financial assets at fair value through other comprehensive income under repurchase agreements with notional amounts of \$3,325,000 thousand, \$3,325,000 thousand and \$3,200,000 thousand, respectively.
- e. Refer to Note 37 for information relating to the credit risk management and impairment of investments in debt instruments at FVTOCI.
- f. Refer to Note 29 for the financial assets at FVTOCI that were pledged as collateral.

## 9. FINANCIAL ASSETS MEASURED AT AMORTIZED COST

	March 31, 2019	December 31, 2018	March 31, 2018
Time deposits	\$ 363,537	\$ 611,285	\$ 796,400
Financial debentures	73,133,717	73,300,796	83,127,400
Corporate bonds	31,229,026	32,239,336	35,517,837
Government bonds	41,294,265	41,021,039	52,905,713
Overseas debentures	2,275,656,599	2,161,607,143	1,816,652,415
Financial asset beneficiary certificates	1,143,282	1,143,199	1,740,353
Asset-backed securities	47,316,273	47,973,170	35,020,459
Short-term notes	313,446,965	348,485,689	289,445,221
Less: Litigation deposits	(1,345,211)	(1,345,625)	(1,346,880)
Less: Deposits in the Central Bank	(8,380,348)	(8,383,555)	(7,036,561)
Less: Derivative instrument collateral	(7,200,064)	(6,075,419)	-
Less: Loss allowance	<u>(1,916,635)</u>	<u>(2,355,270)</u>	<u>(1,729,236)</u>
	<u>\$ 2,764,741,406</u>	<u>\$ 2,688,221,788</u>	<u>\$ 2,305,093,121</u>

- a. As of March 31, 2019, December 31, 2018 and March 31, 2018, Cathay United Bank and its subsidiaries' certain financial assets measured at amortized cost were sold under repurchase agreements with notional amounts of \$2,530,601 thousand, \$19,718,692 thousand and \$20,634,327 thousand. Such repurchase agreements amounting to \$1,974,418 thousand, \$11,447,258 thousand and \$14,209,394 thousand were recognized under the "Securities sold under repurchase agreements" and were repurchased by \$1,980,595 thousand, \$11,477,549 thousand and \$14,254,586 thousand prior to May 31, 2019, March 31, 2019 and April 30, 2018, respectively.
- b. Cathay Life and its subsidiaries disposed of bonds before maturity due to the increase in credit risk, and the losses on disposal were \$1,099,711 thousand and 9,446 thousand for the three months ended March 31, 2019 and 2018, 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 \$1,278,567 thousand and \$2,013,742 thousand, respectively; bond disposal due to other situations such as repayments at maturities resulted in gains on disposal of \$292,259 thousand and \$39,288 thousand, respectively.
- c. Refer to Note 37 for information relating to the credit risk management and impairment of investments in debt instruments at amortized cost.
- d. Refer to Note 29 for information relating to investments in financial assets at amortized cost pledged as security.

## 10. RECEIVABLES

	March 31, 2019	December 31, 2018	March 31, 2018
Notes receivable	\$ 452,291	\$ 527,630	\$ 604,740
Accounts receivable	86,108,476	78,899,338	72,932,374
Interest receivable	58,624,102	54,509,930	49,500,908
Acceptances	1,635,786	1,591,399	958,124
Factoring receivable	2,207,701	2,607,455	3,360,704
Others	<u>25,165,816</u>	<u>25,424,903</u>	<u>32,749,731</u>
	174,194,172	163,560,655	160,106,581
Less: Loss allowance	<u>(2,326,865)</u>	<u>(2,344,465)</u>	<u>(2,440,023)</u>
	<u>\$ 171,867,307</u>	<u>\$ 161,216,190</u>	<u>\$ 157,666,558</u>

The changes in allowance for doubtful accounts of receivables for the three months ended March 31, 2019 were as follows:

For the three months ended March 31, 2019

	12-month Expected- credit Losses	Lifetime Expected- credit Losses	Lifetime Expected- credit Losses (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	(4,779)	101,085	(6,001)	90,305	-	90,305
Transferred to credit-impaired financial assets	(368)	(4,330)	90,178	85,480	-	85,480
Transferred to 12-month ECLs	2,834	(49,241)	(1,475)	(47,882)	-	(47,882)
Derecognition of financial assets in the current reporting period	(68,681)	(26,336)	(80,760)	(175,777)	-	(175,777)
New financial assets purchased or originated	60,014	23,725	73,469	157,208	-	157,208
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	(5,207)	(5,207)
Recovery of written-off receivables	-	(70)	(114,092)	(114,162)	-	(114,162)
Effects of exchange rate changes and others	<u>11,952</u>	<u>(24,463)</u>	<u>6,991</u>	<u>(5,520)</u>	<u>(23)</u>	<u>(5,543)</u>
Balance, end of the period	<u>\$ 126,994</u>	<u>\$ 137,335</u>	<u>\$ 1,736,802</u>	<u>\$ 2,001,131</u>	<u>\$ 45,240</u>	<u>\$ 2,046,371</u>

For the three months ended March 31, 2018

	12-month Expected- credit Losses	Lifetime Expected- credit Losses	Lifetime Expected- credit Losses (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	(1,958)	69,158	(3,848)	63,352	-	63,352
Transferred to credit-impaired financial assets	(400)	(2,100)	62,463	59,963	-	59,963
Transferred to 12-month ECLs	3,350	(26,755)	(2,465)	(25,870)	-	(25,870)
Derecognition of financial assets in the current reporting period	(40,767)	(19,181)	(200,405)	(260,353)	-	(260,353)
New financial assets purchased or originated	65,344	17,069	64,926	147,339	-	147,339
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	8,734	8,734
Recovery of written-off receivables	-	-	(102,220)	(102,220)	-	(102,220)
Effects of exchange rate changes and others	<u>21,863</u>	<u>(18,287)</u>	<u>53,046</u>	<u>56,622</u>	<u>-</u>	<u>56,622</u>
Balance, end of the period	<u>\$ 125,589</u>	<u>\$ 83,827</u>	<u>\$ 1,978,246</u>	<u>\$ 2,187,662</u>	<u>\$ 23,564</u>	<u>\$ 2,211,226</u>

The movements in the loss allowance are as follows:

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 282,516	\$ 200,522
Provision for the current period	92,492	32,213
Amounts written off	<u>(94,514)</u>	<u>(3,938)</u>
Ending balance	<u>\$ 280,494</u>	<u>\$ 228,797</u>

## 11. LOANS

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Inward-outward documentary bills	\$ 1,522,617	\$ 1,722,435	\$ 1,523,535
Loans	2,209,388,353	2,200,985,299	2,127,913,788
Overdrafts	1,967,092	2,031,672	2,703,728
Delinquent accounts	<u>3,522,461</u>	<u>3,275,233</u>	<u>3,238,795</u>
	2,216,400,523	2,208,014,639	2,135,379,846
Less: Loss allowance	<u>(31,965,809)</u>	<u>(31,238,732)</u>	<u>(29,460,648)</u>
	<u>\$ 2,184,434,714</u>	<u>\$ 2,176,775,907</u>	<u>\$ 2,105,919,198</u>

Refer to Note 37 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 (%)		
			March 31, 2019	December 31, 2018	March 31, 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	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 Century (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
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

b. Subsidiaries excluded from the consolidated financial statements

Investors	Subsidiary	Nature of Business	Percentage of Ownership Interest (%)			Notes
			March 31, 2019	December 31, 2018	March 31, 2018	
Cathay Life	Cathay Insurance (Bermuda) Co., Ltd.	Class 3 general business insurers and Class C long-term insurer	-	-	100.00	1)
Cathay Life	Cathay Security 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	2)

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

- 1) The consolidated financial statements do not include Cathay Insurance (Bermuda) because its total assets and operating revenue were insignificant to the total assets and operating revenue of the Company. The subsidiary has obtained the authorities' approval on January 29, 2018 that it is no longer a Class 3 general business insurer and Class C long-term insurer. The subsidiary was dissolved on May 8, 2018 and completed liquidation on May 21, 2018.
- 2) On November 7, 2017, it was dissolved by the board of directors, and the liquidation was completed on February 26, 2019.

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

	March 31, 2019	December 31, 2018	March 31, 2018
Investments in unconsolidated subsidiaries	\$ 310,104	\$ 288,073	\$ 411,322
Investments in associates	<u>47,571,686</u>	<u>44,643,933</u>	<u>36,055,592</u>
	<u>\$ 47,881,790</u>	<u>\$ 44,932,006</u>	<u>\$ 36,466,914</u>

a. Investments in unconsolidated subsidiaries

	March 31, 2019	December 31, 2018	March 31, 2018
Cathay Security Investment Consulting	\$ 310,104	\$ 278,780	\$ 282,881
Cathay Investment Consulting (Shanghai) Co., Ltd.	-	9,293	10,391
Cathay Insurance (Bermuda) Co., Ltd.	<u>-</u>	<u>-</u>	<u>118,050</u>
	<u>\$ 310,104</u>	<u>\$ 288,073</u>	<u>\$ 411,322</u>



b. Investments in associates

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
WK Technology Fund VI Co., Ltd.	\$ 52,063	\$ 50,014	\$ 82,405
Taiwan Real-estate Management Corp.	102,296	103,185	101,048
Taiwan Finance Corp.	1,688,220	1,665,689	1,657,438
Tien-Tai Management Consulting Co., Ltd.	4,501	3,420	1,412
CDBS Cathay Asset Management Co., Ltd.	454,362	458,070	515,124
Syphon Information Co., Ltd.	438,929	429,450	436,713
Da sheng Venture Inc.	1,697,103	1,763,971	1,494,801
KHL IV Venture Capital Co., Ltd.	788,019	791,667	753,258
Dun-Yang Energy Corp.	45,814	45,551	44,633
Yong-Chang Energy Corp.	47,360	47,248	46,655
RI-Zhao Energy Corp.	46,527	46,051	49,156
Tien-Tai Optronics Corporation	137,821	136,778	133,102
Nan-Gang International 1 Corp.	675,847	676,108	675,712
Nan-Gang International 2 Corp.	674,761	675,088	675,040
CM Energy Co., Ltd	274,964	274,352	272,692
Rizal Commercial Banking Corporation	15,798,649	15,743,568	13,188,463
PT Bank Mayapada Internasional Tbk	14,182,398	13,733,069	12,176,620
Hsin Jih Tai Corporation	690,263	697,801	673,355
Cathay Century (China)	4,648,210	2,346,424	2,404,829
Cathay Sunrise Corporation	697,522	696,378	673,136
Ding Teng Co., Ltd.	769,844	765,935	-
Global Evolution Holding ApS	2,864,794	2,711,173	-
PSS Co., Ltd.	<u>791,419</u>	<u>782,943</u>	<u>-</u>
	<u>\$ 47,571,686</u>	<u>\$ 44,643,933</u>	<u>\$ 36,055,592</u>

Aggregate information of associates that are not individually material

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
The Group's share of:		
Net profit	\$ 252,822	\$ 37,940
Other comprehensive income (loss)	<u>483,022</u>	<u>(962,678)</u>
Total comprehensive income (loss) for the period	<u>\$ 735,844</u>	<u>\$ (924,738)</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 as collateral for bank borrowings.

#### 14. INVESTMENT PROPERTY, INVESTMENT PROPERTY UNDER CONSTRUCTION AND PREPAYMENTS FOR BUILDINGS AND LAND - INVESTMENTS

	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	-	-	710,324	318	710,642
Transfers to property and equipment	-	(10,309)	-	-	(10,309)
Other reclassification adjustments	-	8,329	(8,329)	(39)	(39)
Loss on changes in fair value of investment property	-	(8,329)	-	-	(8,329)
Exchange differences	<u>236,707</u>	<u>458,066</u>	<u>-</u>	<u>-</u>	<u>694,773</u>
March 31, 2018	<u>\$ 226,740,211</u>	<u>\$ 87,814,371</u>	<u>\$ 4,247,999</u>	<u>\$ 690,482</u>	<u>\$ 319,493,063</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	-	-	640,040	277,874	917,914
Disposals	(6,189)	-	-	-	(6,189)
Transfers from property and equipment	52,932,436	11,754,852	-	-	64,687,288
Other reclassification adjustments	-	1,518	(1,518)	-	-
Loss on changes in fair value of investment property	-	(1,518)	-	-	(1,518)
Changes in revaluation surplus	(1,266,437)	1,975,737	-	-	709,300
Exchange differences	<u>402,843</u>	<u>775,385</u>	<u>-</u>	<u>-</u>	<u>1,178,228</u>
January 1, 2018	<u>\$ 287,211,752</u>	<u>\$ 104,080,635</u>	<u>\$ 3,428,665</u>	<u>\$ 1,000,560</u>	<u>\$ 395,721,612</u>

Certain investment 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 would be classified as investment properties or property and equipment separately. If each part of property could not be sold separately, it would be classified as investment property only when owner-occupation is lower than 5% of the property.

Investment properties are held mainly for lease purposes. All the lease agreements of the Company and subsidiaries 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 Company and its subsidiaries were not pledged as collateral.

The ownership of the Company and its subsidiaries' 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 Company and its subsidiaries 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.

- a. Valuation of Cathay Life and its subsidiaries has been performed by appraisers from professional valuation agencies based on the Regulations on Real Estate Appraisal, and the valuation dates are December 31, 2018 and 2017. The appraisers reviewed the original valuation reports issued on December 31, 2018 and 2017 and clarified that the valuation reports were still in effect on March 31, 2019 and 2018, respectively. Refer to the following table for details of the appraisal firms and their appraisers:

<b>Name of Appraisal Firm</b>	<b>Name of Appraiser December 31, 2018</b>	<b>Name of Appraiser December 31, 2017</b>
DTZ Real Estate Appraiser Firm	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
REPro KnightFrank Real Estate Appraiser Firm	Hong-xu, Wu; Zhi-hao, Wu; Fu-xue, Shi	Hong-xu, Wu; Zhi-hao, Wu; Fu-xue, Shi
V-LAND Real Estate Appraiser Firm	Xi-zhong, Wang; You-qi, Liang	Xi-zhong, Wang; Yu-zhi, Gao
Shang-shang Real Estate Appraiser Firm	Hong-yuan, Wang	Hong-yuan, Wang
Sinyi Real Estate Appraiser Firm	Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang	Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang
Elite Real Estate Appraiser Firm	Yu-lin, Chen	Yu-lin, Chen
Colliers International Real Estate Appraiser Firm	-	Xiu-Ying, Zhan

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:

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Direct capitalization rate (net)	0.62%-4.39%	0.73%-4.39%
Discount rate	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.

- b. Cathay United Bank appointed appraisers from REPro Valuation and Professional Services (Fu-Xue Shi, Zhi-Hao Wu, Hong-Xu Wu, You-Xiang Cai) to evaluate the fair value of investment property at December 31, 2018 and 2017, respectively.

Fair value determination is supported by observable market evidence. The appraisal approaches used are mainly the income approach (such as the discounted cash flow model and direct capitalization approach), sales comparison approach and cost approach, etc.

- 1) As office buildings have market liquidity and their rent levels are similar to comparable properties in the same neighborhood, their fair values have been determined using the comparison approach and the 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 has been determined based on the reference tables of current house values assessed for each city/county to estimate the total current house value assessed. House tax is calculated based on the tax rates provided by the House Tax Act and the actual payment date.

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

The replacement allowance for significant renovation costs is based on 15% of construction costs, assuming at useful life of 20 years, according to the ROC Real Estate Appraisers Association Gazette No.5, the replacement allowance is based on 0.5% to 1.5% of construction or building costs.

The main parameters are as follows:

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Direct capitalization rate	1.98%-5.73%	2.03%-5.83%
Overall capital interest rate	0.76%-2.89%	0.76%-2.89%

- 2) The fair value has been determined by the method of land development analysis and comparison. Reserved areas in hillside land, scenic land site, areas for agriculture, animal husbandry and forestry had fewer market transactions as their uses are restricted by law, and will not have significant changes in the market in the near future.

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Rate of return	15%	15%-20%
Overall capital interest rate	2.11%	1.63%-2.11%

- c. Cathay Securities and its subsidiaries appointed an appraiser from Elite Appraisers Firm (Yu-Lin Chen) to evaluate the fair value of the investment property on 31 December 2018 and 2017, respectively and valuation dates are December 31, 2018 and 2017.

The appraiser reviewed the original valuation reports issued on December 31, 2018 and 2017 and clarified that the valuation reports are still in effect on March 31, 2019 and 2018, respectively.

The fair value has been determined by the discounted cash flow (DCF) method. Significant assumptions were as follows. If estimated cash inflows increase or discount rate decreases, the fair value of investment property will increase.

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Estimated future cash inflows	\$ 436,792	\$ 440,515
Estimated future cash outflows	<u>(18,314)</u>	<u>(32,000)</u>
Net cash inflows	<u>\$ 418,478</u>	<u>\$ 408,515</u>
Discount rate	2.045%	2.045%
Direct capitalization rate	2.56%	2.60%

The market rentals ranged from \$4,000 thousand to \$6,000 thousand per square foot in the neighborhood of the investment property.

Leases of all the investment properties are operating leases. Rents from investment property for the three months ended March 31, 2019 and 2018 were \$1,791 thousand and 1,788 thousand, respectively.

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 11 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 inflows consist of land tax, property tax, and reset appropriation fee which are estimated for current expenditure level, adjustments of assessed and publicly announced land value, and tax rates in accordance with the property tax regulations.

The discount rate is determined based on an interest rate not lower than the floating interest rate on a 2-year time deposit of petty cash 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:

	For the Three Months Ended March 31	
	2019	2018
Beginning balance	\$ 310,083,727	\$ 307,190,424
Adjustment on initial application of IFRS 16	9,014,035	-
Amount recognized in profit or loss		
Loss from investment property	(1,518)	(8,329)
Amount recognized in other comprehensive income		
Property revaluation surplus	709,300	-
Exchange differences resulting from translating the financial statements of foreign operations	1,178,228	694,773
Disposals	(6,189)	-
Transfers from property and equipment	-	(10,309)
Transfers to property and equipment	64,687,288	-
Transfers from investment property under construction	<u>1,518</u>	<u>8,329</u>
Ending balance	<u>\$ 385,666,389</u>	<u>\$ 307,874,888</u>

## 15. PROPERTY AND EQUIPMENT

	Land	Buildings and Construction	Computer Equipment	Leased Assets	Leasehold improvements	Communication and 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	-	362,624	-	16,002	3	79,040	251,870	709,623
Disposals	(84)	-	(59,927)	-	-	(1,115)	(248,568)	-	(309,694)
Reclassification	39	42,091	78,544	-	-	-	67,787	(180,727)	7,734
Others	(600)	-	-	-	-	-	-	-	(600)
Exchange differences	(3,157)	8,894	(13,982)	(13)	3,223	(2,522)	(6,397)	(1,839)	(15,793)
Balance at March 31, 2018	<u>123,884,671</u>	<u>57,863,069</u>	<u>7,253,122</u>	<u>276,118</u>	<u>731,362</u>	<u>116,498</u>	<u>12,331,265</u>	<u>777,868</u>	<u>203,233,973</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	-	294,571	150,943	22	22,138	2,279	161,499	-	631,452
Disposals	-	-	(58,402)	-	-	(1,115)	(244,538)	-	(304,055)
Reclassification	-	-	1	-	-	-	(1)	-	-
Exchange differences	(309)	(8,440)	(8,440)	(6)	332	(1,779)	(4,393)	-	(14,595)
Balance at March 31, 2018	<u>103,134</u>	<u>21,753,981</u>	<u>5,336,589</u>	<u>275,893</u>	<u>440,755</u>	<u>82,396</u>	<u>10,067,067</u>	<u>-</u>	<u>38,059,815</u>
Carrying amount at March 31, 2018	<u>\$ 123,781,537</u>	<u>\$ 36,109,088</u>	<u>\$ 1,916,533</u>	<u>\$ 225</u>	<u>\$ 290,607</u>	<u>\$ 34,102</u>	<u>\$ 2,264,198</u>	<u>\$ 777,868</u>	<u>\$ 165,174,158</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	-	-	148,357	-	12,579	2,772	46,337	165,703	375,748
Disposals	-	-	(385,814)	-	(151)	(1,164)	(120,000)	(19,400)	(526,529)
Reclassification	-	765	52,694	(276,135)	110,465	-	(37,150)	(80,741)	(230,102)
Transfers to investment property	(52,932,436)	(11,754,852)	-	-	-	-	-	-	(64,687,288)
Others	(600)	-	-	-	-	-	-	-	(600)
Exchange differences	399	50,982	2,024	-	8,413	423	26,951	(19,622)	69,570
Balance at March 31, 2019	<u>71,383,689</u>	<u>46,917,958</u>	<u>7,586,856</u>	<u>-</u>	<u>1,000,630</u>	<u>123,560</u>	<u>12,539,311</u>	<u>996,414</u>	<u>140,548,418</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	-	293,019	172,376	-	25,225	2,077	171,618	-	664,315
Disposals	-	-	(394,114)	-	(65)	(1,164)	(95,087)	-	(490,430)
Reclassification	-	-	-	(275,960)	88,577	-	(88,577)	-	(275,960)
Exchange differences	-	7,736	5,366	-	10,634	16	(13,204)	-	10,548
Balance at March 31, 2019	<u>103,134</u>	<u>22,937,003</u>	<u>5,127,123</u>	<u>-</u>	<u>618,922</u>	<u>91,551</u>	<u>10,120,032</u>	<u>-</u>	<u>38,997,765</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 March 31, 2019	<u>\$ 71,280,555</u>	<u>\$ 23,980,955</u>	<u>\$ 2,459,733</u>	<u>\$ -</u>	<u>\$ 381,708</u>	<u>\$ 32,009</u>	<u>\$ 2,419,279</u>	<u>\$ 996,414</u>	<u>\$ 101,550,653</u>

Depreciation of property and equipment is calculated on a straight-line basis over their estimated economic lives as follows:

Buildings and construction	5-70 years
Computer equipment	3-8 years
Leased assets	3-5 years
Leasehold improvements	5 years or lease term
Communication and transportation equipment	3-7 years
Other equipment	2-15 years

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

## 16. LEASE AGREEMENTS

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

**March 31, 2019**

#### Carrying amounts

Buildings	\$ 4,006,490
Office equipment	18,330
Property and equipment	1,637
Transportation equipment	<u>69,749</u>

\$ 4,096,206

The right-of-use assets presented as investment properties \$ 9,014,035

**For the Three  
Months Ended  
March 31, 2019**

Additions to right-of-use assets \$ 91,719

Depreciation charge for right-of-use assets	
Buildings and construction	\$ 303,300
Computer equipment	1,231
Property and equipment	209
Communication and transportation equipment	<u>9,911</u>

\$ 314,651

### b. Lease liabilities - 2019

**March 31, 2019**

Carrying amounts of lease liabilities \$ 12,872,225

Range of discount rate for lease liabilities was as follows:

	<b>March 31, 2019</b>
Buildings	0.35%-8.57%
Office equipment	0.71%-4.76%
Transportation equipment	0.70%-2.99%
Property and 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
<u>Cost</u>							
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	101,635	-	-	-	-	1,794	103,429
Disposal	(11,801)	-	-	-	-	-	(11,801)
Reclassification	36,524	-	-	-	-	-	36,524
Exchange differences	(10,617)	-	(9,551)	(85,804)	(187,242)	(5,616)	(298,830)
Balance at March 31, 2018	<u>\$ 4,678,639</u>	<u>\$ 37,659,600</u>	<u>\$ 382,025</u>	<u>\$ 3,432,200</u>	<u>\$ 18,679,977</u>	<u>\$ 226,292</u>	<u>\$ 65,058,733</u>
<u>Amortization and impairment</u>							
Balance at January 1, 2018	\$ 3,317,139	\$ 5,198,458	\$ -	\$ 795,546	\$ -	\$ 115,292	\$ 9,426,435
Amortization	125,154	519,846	-	95,156	-	12,407	752,563
Disposal	(11,801)	-	-	-	-	-	(11,801)
Exchange differences	(9,233)	-	-	(20,107)	-	(2,904)	(32,244)
Balance at March 31, 2018	<u>\$ 3,421,259</u>	<u>\$ 5,718,304</u>	<u>\$ -</u>	<u>\$ 870,595</u>	<u>\$ -</u>	<u>\$ 124,795</u>	<u>\$ 10,134,953</u>
Carrying amount at March 31, 2018	<u>\$ 1,257,380</u>	<u>\$ 31,941,296</u>	<u>\$ 382,025</u>	<u>\$ 2,561,605</u>	<u>\$ 18,679,977</u>	<u>\$ 101,497</u>	<u>\$ 54,923,780</u>
<u>Cost</u>							
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	231,955	-	-	-	-	-	231,955
Reclassification	7,741	-	-	-	-	-	7,741
Exchange differences	(100)	-	1,207	10,843	23,662	700	36,312
Balance at March 31, 2019	<u>\$ 5,435,175</u>	<u>\$ 37,659,600</u>	<u>\$ 404,393</u>	<u>\$ 3,633,157</u>	<u>\$ 19,118,504</u>	<u>\$ 239,114</u>	<u>\$ 66,489,943</u>
<u>Amortization and impairment</u>							
Balance at January 1, 2019	\$ 3,730,271	\$ 7,277,841	\$ -	\$ 1,217,871	\$ -	\$ 161,485	\$ 12,387,468
Amortization	163,697	519,846	-	99,798	-	4,872	788,213
Exchange differences	4,640	-	-	3,829	-	492	8,961
Balance at March 31, 2019	<u>\$ 3,898,608</u>	<u>\$ 7,797,687</u>	<u>\$ -</u>	<u>\$ 1,321,498</u>	<u>\$ -</u>	<u>\$ 166,849</u>	<u>\$ 13,184,642</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 March 31, 2019	<u>\$ 1,536,567</u>	<u>\$ 29,861,913</u>	<u>\$ 404,393</u>	<u>\$ 2,311,659</u>	<u>\$ 19,118,504</u>	<u>\$ 72,265</u>	<u>\$ 53,305,301</u>

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

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

### a. Cathay Life

As of March 31, 2019, December 31, 2018 and March 31, 2018, the book values of goodwill were \$10,520,772 thousand, \$10,498,082 thousand and \$10,100,267 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.

b. 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.

c. Cathay Century

On September 4, 2015, Cathay Securities acquired 100% of the equity of Cathay Securities (Hong Kong). The goodwill that arose from the acquisition amounted to \$8,629 thousand.

## 18. COMMERCIAL PAPER PAYABLE

	March 31, 2019	December 31, 2018	March 31, 2018
Nominal amount	\$ 65,544,000	\$ 62,990,000	\$ 50,600,000
Less: Discount amount	<u>(1,192)</u>	<u>(633)</u>	<u>(2,368)</u>
	<u>\$ 65,542,808</u>	<u>\$ 62,989,367</u>	<u>\$ 50,597,632</u>
Interest rate	0.46%-0.78%	0.46%-0.86%	0.35%-0.57%

## 19. DEPOSITS AND REMITTANCES

	March 31, 2019	December 31, 2018	March 31, 2018
Checking deposits	\$ 12,819,244	\$ 15,781,941	\$ 12,155,990
Demand deposits	500,427,651	499,861,928	456,865,127
Demand savings deposits	876,623,803	847,465,305	815,302,130
Time deposits	449,729,622	450,145,909	426,700,382
Fixed savings deposits	374,090,774	367,920,662	366,024,039
Negotiable certificates of deposit	3,277,000	4,313,300	3,961,798
Remittances	<u>1,309,113</u>	<u>1,714,041</u>	<u>2,429,428</u>
	<u>\$ 2,218,277,207</u>	<u>\$ 2,187,203,086</u>	<u>\$ 2,083,438,894</u>

## 20. BONDS PAYABLE

	March 31, 2019	December 31, 2018	March 31, 2018
Subordinated financial debentures	\$ 55,600,000	\$ 55,600,000	\$ 59,500,000
Cumulative perpetual subordinated debts	<u>35,000,000</u>	<u>35,000,000</u>	<u>35,000,000</u>
	<u>\$ 90,600,000</u>	<u>\$ 90,600,000</u>	<u>\$ 94,500,000</u>

### a. Subordinated financial debentures

	March 31, 2019	December 31, 2018	March 31, 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 1.65%; maturity: June 2018	-	-	3,900,000
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	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
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>\$ 55,600,000</u>	<u>\$ 55,600,000</u>	<u>\$ 59,500,000</u>

b. Cumulative perpetual subordinated debts

Pursuant to Order No. Securities-TPEX-Bond-10600099421 of the Taipei Exchange, Cathay life issued its first perpetual cumulative subordinated financial debentures on May 12, 2017 through public offering. Key terms and conditions are as follows:

- 1) Issue amount: \$35,000,000 thousand.
- 2) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
- 3) Years to maturity: Perpetual.
- 4) 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.
- 5) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
- 6) Right of early redemption: If the Company's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, the Company 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.
- 7) Form of bonds: Book-entry securities.
- 8) Interest expense: Interest expense amounted to \$284,795 thousand and \$284,795 thousand for the three months ended March 31, 2019 and 2018, respectively. The expense was recorded as finance costs.

## 21. INSURANCE LIABILITY RESERVES

Insurance liability reserves as March 31, 2019, December 31, 2018 and March 31, 2018 were as follows:

	March 31, 2019	December 31, 2018	March 31, 2018
Unearned premium reserve	\$ 28,713,402	\$ 28,779,799	\$ 27,222,630
Loss reserve	18,277,495	17,377,650	15,648,164
Policy reserve	5,316,619,588	5,225,589,934	4,916,863,929
Special reserve	14,343,251	14,356,733	14,388,374
Premium deficiency reserve	21,948,589	22,559,651	25,638,206
Reserve for insurance contracts with the nature of financial products	10,186,795	9,318,713	8,910,606
Reserve for foreign exchange valuation	19,947,665	17,075,289	11,217,192
Other reserve	<u>1,889,542</u>	<u>1,894,570</u>	<u>1,910,570</u>
	<u>\$ 5,431,926,327</u>	<u>\$ 5,336,952,339</u>	<u>\$ 5,021,799,671</u>

a. Cathay Life and its subsidiaries

As of March 31, 2019, December 31, 2018 and March 31, 2018 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

<b>March 31, 2019</b>			
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Individual life insurance	\$ 61,728	\$ -	\$ 61,728
Individual injury insurance	6,314,436	-	6,314,436
Individual health insurance	8,408,345	-	8,408,345
Group insurance	1,736,073	-	1,736,073
Investment-linked insurance	<u>113,377</u>	<u>-</u>	<u>113,377</u>
Total	<u>16,633,959</u>	<u>-</u>	<u>16,633,959</u>
Less ceded unearned premium reserve:			
Individual life insurance	512,359	-	512,359
Individual injury insurance	13,621	-	13,621
Individual health insurance	200,027	-	200,027
Group insurance	<u>3,388</u>	<u>-</u>	<u>3,388</u>
Total	<u>729,395</u>	<u>-</u>	<u>729,395</u>
Net	<u>\$ 15,904,564</u>	<u>\$ -</u>	<u>\$ 15,904,564</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>-</u>	<u>112,153</u>
Total	<u>16,752,317</u>	<u>-</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>
Total	<u>624,337</u>	<u>-</u>	<u>624,337</u>
Net	<u>\$ 16,127,980</u>	<u>\$ -</u>	<u>\$ 16,127,980</u>

	<b>March 31, 2018</b>		
	<b>Financial Instruments with Discretionary Participation Features</b>		
	<b>Insurance Contracts</b>		<b>Total</b>
Individual life insurance	\$ 687,670	\$ -	\$ 687,670
Individual injury insurance	5,436,346	-	5,436,346
Individual health insurance	7,899,241	-	7,899,241
Group insurance	1,589,842	-	1,589,842
Investment-linked insurance	<u>107,493</u>	<u>-</u>	<u>107,493</u>
Total	<u>15,720,592</u>	<u>-</u>	<u>15,720,592</u>
Less ceded unearned premiums reserve			
Individual life insurance	264,454	-	264,454
Individual injury insurance	8,478	-	8,478
Individual health insurance	47,961	-	47,961
Group insurance	<u>299</u>	<u>-</u>	<u>299</u>
Total	<u>321,192</u>	<u>-</u>	<u>321,192</u>
Net	<u>\$ 15,399,400</u>	<u>\$ -</u>	<u>\$ 15,399,400</u>

The changes in unearned premium reserve are summarized below:

	<b>For the Three Months Ended March 31, 2019</b>		
	<b>Financial Instruments with Discretionary Participation Features</b>		
	<b>Insurance Contracts</b>		<b>Total</b>
Beginning balance	\$ 16,752,317	\$ -	\$ 16,752,317
Provision	16,409,677	-	16,409,677
Recovery	(16,535,052)	-	(16,535,052)
Foreign exchange	<u>7,017</u>	<u>-</u>	<u>7,017</u>
Ending balance	<u>16,633,959</u>	<u>-</u>	<u>16,633,959</u>
Less ceded unearned premium reserve			
Beginning balance	624,337	-	624,337
Increase	<u>105,058</u>	<u>-</u>	<u>105,058</u>
Ending balance	<u>729,395</u>	<u>-</u>	<u>729,395</u>
Net ending balance	<u>\$ 15,904,564</u>	<u>\$ -</u>	<u>\$ 15,904,564</u>

	<b>For the Three Months Ended March 31, 2018</b>		
		<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
	<b>Insurance Contracts</b>		
Beginning balance	\$ 15,978,199	\$ -	\$ 15,978,199
Provision	15,712,064	-	15,712,064
Recovery	(15,970,050)	-	(15,970,050)
Foreign exchange	<u>379</u>	<u>-</u>	<u>379</u>
Ending balance	<u>15,720,592</u>	<u>-</u>	<u>15,720,592</u>
Less ceded unearned premium reserve			
Beginning balance	300,568	-	300,568
Increase	<u>20,624</u>	<u>-</u>	<u>20,624</u>
Ending balance	<u>321,192</u>	<u>-</u>	<u>321,192</u>
Net ending balance	<u>\$ 15,399,400</u>	<u>\$ -</u>	<u>\$ 15,399,400</u>

2) Loss reserve

	<b>March 31, 2019</b>		
		<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
	<b>Insurance Contracts</b>		
Individual life insurance			
Filed but not paid	\$ 1,939,196	\$ 4,322	\$ 1,943,518
Not yet filed	72,549	-	72,549
Individual injury insurance			
Filed but not paid	38,221	-	38,221
Not yet filed	1,801,811	-	1,801,811
Individual health insurance			
Filed but not paid	941,249	-	941,249
Not yet filed	2,933,703	-	2,933,703
Group insurance			
Filed but not paid	52,773	-	52,773
Not yet filed	1,628,668	-	1,628,668
Investment-linked insurance			
Filed but not paid	150,023	-	150,023
Not yet filed	<u>719</u>	<u>-</u>	<u>719</u>
	<u>9,558,912</u>	<u>4,322</u>	<u>9,563,234</u>
Less ceded loss reserve			
Individual life insurance	1,287	-	1,287
Individual injury insurance	69	-	69
Individual health insurance	14,990	-	14,990
Group insurance	<u>7</u>	<u>-</u>	<u>7</u>
Total	<u>16,353</u>	<u>-</u>	<u>16,353</u>
Net	<u>\$ 9,542,559</u>	<u>\$ 4,322</u>	<u>\$ 9,546,881</u>

	<b>December 31, 2018</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Individual life insurance			
Filed but not paid	\$ 1,482,412	\$ 9,145	\$ 1,491,557
Not yet filed	78,293	-	78,293
Individual injury insurance			
Filed but not paid	27,845	-	27,845
Not yet filed	1,781,854	-	1,781,854
Individual health insurance			
Filed but not paid	867,032	-	867,032
Not yet filed	2,813,866	-	2,813,866
Group insurance			
Filed but not paid	51,463	-	51,463
Not yet filed	1,572,121	-	1,572,121
Investment-linked insurance			
Filed but not paid	218,680	-	218,680
Not yet filed	620	-	620
Total	<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	-	-	-
Total	<u>22,509</u>	<u>-</u>	<u>22,509</u>
Net	<u>\$ 8,871,677</u>	<u>\$ 9,145</u>	<u>\$ 8,880,822</u>

	<b>March 31, 2018</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Individual life insurance			
Filed but not paid	\$ 854,030	\$ 5,068	\$ 859,098
Not yet filed	71,305	-	71,305
Individual injury insurance			
Filed but not paid	79,234	-	79,234
Not yet filed	1,708,553	-	1,708,553
Individual health insurance			
Filed but not paid	765,748	-	765,748
Not yet filed	2,670,949	-	2,670,949
Group insurance			
Filed but not paid	44,932	-	44,932
Not yet filed	1,350,370	-	1,350,370
Investment-linked insurance			
Filed but not paid	125,976	-	125,976
Not yet filed	2,984	-	2,984
Total	<u>7,674,081</u>	<u>5,068</u>	<u>7,679,149</u>
Less ceded loss reserve			
Individual life insurance	31	-	31
Individual injury insurance	-	-	-
Individual health insurance	6,045	-	6,045
Group insurance	940	-	940
Total	<u>7,016</u>	<u>-</u>	<u>7,016</u>
Net	<u>\$ 7,667,065</u>	<u>\$ 5,068</u>	<u>\$ 7,672,133</u>



The changes in loss reserve are summarized below:

<b>For the Three Months Ended March 31, 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	9,278,013	4,322	9,282,335
Recovery	(8,622,896)	(9,145)	(8,632,041)
Foreign exchange	<u>9,609</u>	<u>-</u>	<u>9,609</u>
Ending balance	<u>9,558,912</u>	<u>4,322</u>	<u>9,563,234</u>
Less ceded loss reserve:			
Beginning balance, net	22,509	-	22,509
Increase	14,505	-	14,505
Decrease	(21,001)	-	(21,001)
Foreign exchange differences, net	<u>340</u>	<u>-</u>	<u>340</u>
Ending balance, net	<u>16,353</u>	<u>-</u>	<u>16,353</u>
Net ending balance	<u>\$ 9,542,559</u>	<u>\$ 4,322</u>	<u>\$ 9,546,881</u>

  

<b>For the Three Months Ended March 31, 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	7,500,532	5,068	7,505,600
Recovery	(7,402,371)	(2,678)	(7,405,049)
Foreign exchange	<u>2,701</u>	<u>-</u>	<u>2,701</u>
Ending balance	<u>7,674,081</u>	<u>5,068</u>	<u>7,679,149</u>
Less ceded loss reserve:			
Beginning balance, net	9,684	-	9,684
Increase	-	-	-
Decrease	(2,751)	-	(2,751)
Foreign exchange differences, net	<u>83</u>	<u>-</u>	<u>83</u>
Ending balance, net	<u>7,016</u>	<u>-</u>	<u>7,016</u>
Net ending balance	<u>\$ 7,667,065</u>	<u>\$ 5,068</u>	<u>\$ 7,672,133</u>

3) Policy reserve

	<b>March 31, 2019</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Life insurance	\$ 4,609,175,525	\$ 6,110	\$ 4,609,181,635
Injury insurance	7,386,877	-	7,386,877
Health insurance	672,288,022	-	672,288,022
Annuity insurance	1,396,177	25,424,723	26,820,900
Investment-limited insurance	<u>506,903</u>	<u>-</u>	<u>506,903</u>
Total (Note)	<u>5,290,753,504</u>	<u>25,430,833</u>	<u>5,316,184,337</u>
Less ceded policy reserve			
Life insurance	<u>375,147</u>	<u>-</u>	<u>375,147</u>
Net	<u>\$ 5,290,378,357</u>	<u>\$ 25,430,833</u>	<u>\$ 5,315,809,190</u>

Note: Total policy reserve after including policy reserve- payables for the insured amounted to \$5,316,619,539 thousand, \$5,225,589,886 thousand and \$4,916,863,878 thousand as of March 31, 2019, December 31, 2018 and March 31, 2018, respectively.

	<b>December 31, 2018</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Life insurance	\$ 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)	<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>
Net	<u>\$ 5,198,916,196</u>	<u>\$ 25,847,690</u>	<u>\$ 5,224,763,886</u>

	<b>March 31, 2018</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Life insurance	\$ 4,273,397,656	\$ 734,370	\$ 4,274,132,026
Injury insurance	7,492,666	-	7,492,666
Health insurance	602,828,376	-	602,828,376
Annuity insurance	1,387,509	30,237,232	31,624,741
Investment-limited insurance	<u>490,812</u>	<u>-</u>	<u>490,812</u>
Total (Note)	<u>4,885,597,019</u>	<u>30,971,602</u>	<u>4,916,568,621</u>
Less ceded policy reserve			
Life insurance	<u>307,202</u>	<u>-</u>	<u>307,202</u>
Net	<u>\$ 4,885,289,817</u>	<u>\$ 30,971,602</u>	<u>\$ 4,916,261,419</u>

The changes in policy reserve are summarized below:

	<b>For the Three Months Ended March 31, 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	171,615,101	719,941	172,335,042
Recovery	(84,264,264)	(1,136,850)	(85,401,114)
Losses (gains) on foreign exchange	<u>4,121,062</u>	<u>52</u>	<u>4,121,114</u>
Ending balance	<u>5,290,753,504</u>	<u>25,430,833</u>	<u>5,316,184,337</u>
Less ceded policy reserve			
Beginning balance	365,409	-	365,409
Increase	1,021	-	1,021
Foreign exchange	<u>8,717</u>	<u>-</u>	<u>8,717</u>
Ending balance	<u>375,147</u>	<u>-</u>	<u>375,147</u>
Net ending balance	<u>\$ 5,290,378,357</u>	<u>\$ 25,430,833</u>	<u>\$ 5,315,809,190</u>

	<b>For the Three Months Ended March 31, 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	153,327,358	32,243	153,359,601
Recovery	(70,614,246)	(1,950,124)	(72,564,370)
Losses (gains) on foreign exchange	<u>(25,350,763)</u>	<u>(29,515)</u>	<u>(25,380,278)</u>
Ending balance	<u>4,885,597,019</u>	<u>30,971,602</u>	<u>4,916,568,621</u>
Less ceded policy reserve			
Beginning balance	301,806	-	301,806
Increase	909	-	909
Foreign exchange	<u>4,487</u>	<u>-</u>	<u>4,487</u>
Ending balance	<u>307,202</u>	<u>-</u>	<u>307,202</u>
Net ending balance	<u>\$ 4,885,289,817</u>	<u>\$ 30,971,602</u>	<u>\$ 4,916,261,419</u>

4) Special reserve

	<b>March 31, 2019</b>			
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Others</b>	<b>Total</b>
Participating policies				
dividends reserve	\$ (58,786)	\$ -	\$ -	\$ (58,786)
Reserve for risk of bonus	59,879	-	-	59,879
Special reserve for revaluation increments of property	<u>-</u>	<u>-</u>	<u>11,083,324</u>	<u>11,083,324</u>
Total	<u>\$ 1,093</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,417</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>
Total	<u>\$ 930</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,254</u>

<b>March 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	\$ (58,246)	\$ -	\$ -	\$ (58,246)
Reserve for risk of bonus	59,306	-	-	59,306
Special reserve for revaluation increments of property	<u>-</u>	<u>-</u>	<u>11,083,324</u>	<u>11,083,324</u>
Total	<u>\$ 1,060</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,384</u>

The changes of special reserve are summarized below:

<b>For the Three Months Ended March 31, 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, adjusted	<u>930</u>	<u>-</u>	<u>11,083,324</u>	<u>11,084,254</u>
Provision for participating policies dividends reserve	3,468	-	-	3,468
Provision for reserve for risk of bonus	<u>(3,305)</u>	<u>-</u>	<u>-</u>	<u>(3,305)</u>
Ending balance	<u>\$ 1,093</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,417</u>

	<b>For the Three Months Ended March 31, 2018</b>			
	<b>Financial Instruments with Discretionary Participation Features</b>			
	<b>Insurance Contracts</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, adjusted	<u>494</u>	<u>-</u>	<u>11,083,324</u>	<u>11,083,818</u>
Provision for participating policies dividends reserve	1,507	-	-	1,507
Provision for reserve for risk of bonus	<u>(941)</u>	<u>-</u>	<u>-</u>	<u>(941)</u>
Ending balance	<u>\$ 1,060</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,384</u>

5) Premium deficiency reserve

	<b>March 31, 2019</b>		
	<b>Financial Instruments with Discretionary Participation Features</b>		
	<b>Insurance Contracts</b>		<b>Total</b>
Individual life insurance	\$ 20,374,778	\$ -	\$ 20,374,778
Individual health insurance	1,477,978	-	1,477,978
Individual injury insurance	1,172	-	1,172
Group insurance	<u>86,736</u>	<u>-</u>	<u>86,736</u>
Total	<u>\$ 21,940,664</u>	<u>\$ -</u>	<u>\$ 21,940,664</u>

	<b>December 31, 2018</b>		
	<b>Financial Instruments with Discretionary Participation Features</b>		
	<b>Insurance Contracts</b>		<b>Total</b>
Individual life insurance	\$ 20,966,673	\$ -	\$ 20,966,673
Individual health insurance	1,508,079	-	1,508,079
Individual injury insurance	1,229	-	1,229
Group insurance	<u>72,323</u>	<u>-</u>	<u>72,323</u>
Total	<u>\$ 22,548,304</u>	<u>\$ -</u>	<u>\$ 22,548,304</u>

	<b>March 31, 2018</b>		
	<b>Financial Instruments with Discretionary Participation Features</b>		
	<b>Insurance Contracts</b>		<b>Total</b>
Individual life insurance	\$ 23,965,961	\$ -	\$ 23,965,961
Individual health insurance	1,610,133	-	1,610,133
Individual injury insurance	-	-	-
Group insurance	<u>54,540</u>	<u>-</u>	<u>54,540</u>
Total	<u>\$ 25,630,634</u>	<u>\$ -</u>	<u>\$ 25,630,634</u>

The changes in premium deficiency reserve are summarized below:

	<b>For the Three Months Ended March 31, 2019</b>		
	<b>Financial Instruments with Discretionary Participation Features</b>		
	<b>Insurance Contracts</b>		<b>Total</b>
Beginning balance	\$ 22,548,304	\$ -	\$ 22,548,304
Provision	196,784	-	196,784
Recovery	(830,637)	-	(830,637)
Foreign exchange differences	<u>26,213</u>	<u>-</u>	<u>26,213</u>
Ending balance	<u>\$ 21,940,664</u>	<u>\$ -</u>	<u>\$ 21,940,664</u>

	<b>For the Three Months Ended March 31, 2018</b>		
	<b>Financial Instruments with Discretionary Participation Features</b>		
	<b>Insurance Contracts</b>		<b>Total</b>
Beginning balance	\$ 26,232,317	\$ -	\$ 26,232,317
Provision	376,779	-	376,779
Recovery	(776,242)	-	(776,242)
Foreign exchange differences	<u>(202,220)</u>	<u>-</u>	<u>(202,220)</u>
Ending balance	<u>\$ 25,630,634</u>	<u>\$ -</u>	<u>\$ 25,630,634</u>

6) Other reserve

<b>March 31, 2019</b>			
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Others	<u>\$ 1,889,542</u>	<u>\$ -</u>	<u>\$ 1,889,542</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>March 31, 2018</b>			
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Others	<u>\$ 1,910,570</u>	<u>\$ -</u>	<u>\$ 1,910,570</u>

The changes in other reserve are summarized below:

<b>For the Three Months Ended March 31, 2019</b>			
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Beginning balance	\$ 1,894,570	\$ -	\$ 1,894,570
Recovery	<u>(5,028)</u>	<u>-</u>	<u>(5,028)</u>
Ending balance	<u>\$ 1,889,542</u>	<u>\$ -</u>	<u>\$ 1,889,542</u>



	<b>For the Three Months Ended March 31, 2018</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Beginning balance	\$ 1,916,570	\$ -	\$ 1,916,570
Recovery	<u>(6,000)</u>	<u>-</u>	<u>(6,000)</u>
Ending balance	<u>\$ 1,910,570</u>	<u>\$ -</u>	<u>\$ 1,910,570</u>

7) Liability adequacy reserve

	<b>Insurance Contracts and Financial Instruments with Discretionary Participation Features</b>		
	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Unearned premium reserve	\$ 16,633,959	\$ 16,752,317	\$ 15,720,592
Policy reserve	5,316,619,539	5,225,589,886	4,916,863,878
Premium deficiency reserve	21,940,664	22,548,304	25,630,634
Other reserve	<u>1,889,542</u>	<u>1,894,570</u>	<u>1,910,570</u>
Book value of insurance liabilities	<u>\$ 5,357,083,704</u>	<u>\$ 5,266,785,077</u>	<u>\$ 4,960,125,674</u>
Estimated present value of cash flows	<u>\$ 4,268,662,943</u>	<u>\$ 4,244,307,094</u>	<u>\$ 4,039,674,558</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 are no merger or transfer of insurance contracts for Cathay Lujiazui Life and Cathay Life (Vietnam). As such, the book value of related intangible assets shall not be deducted from the book value of insurance liability for liability adequacy reserve test.

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

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 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.	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.	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 methodologies are listed as follows:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 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 Cathay Lujiazui Life issued financial instruments without discretionary participation features and recognized reserve for insurance contracts with the nature of financial products. As of March 31, 2019, December 31, 2018 and March 31, 2018, reserve for insurance contracts with the nature of financial products is summarized below:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Life insurance	\$ 9,278,416	\$ 8,475,663	\$ 8,405,934
Investment-linked insurance	<u>908,379</u>	<u>843,050</u>	<u>504,672</u>
	<u><b>\$ 10,186,795</b></u>	<u><b>\$ 9,318,713</b></u>	<u><b>\$ 8,910,606</b></u>
	<b>For the Three Months Ended March 31</b>		
	<b>2019</b>	<b>2018</b>	
Beginning balance	\$ 9,318,713	\$ 8,761,609	
Premiums received	1,157,670	583,113	
Claims and payments	(674,698)	(79,246)	
Net provision of statutory reserve	175,019	(458,172)	
Foreign exchange	<u>210,091</u>	<u>103,302</u>	
Ending balance	<u><b>\$ 10,186,795</b></u>	<u><b>\$ 8,910,606</b></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 Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 17,075,289	\$ 11,589,138
Provision:		
Compulsory reserve	2,064,978	1,505,934
Additional reserve	<u>2,483,198</u>	<u>472,585</u>
	4,548,176	1,978,519
Recovery	<u>(1,675,800)</u>	<u>(2,350,465)</u>
Ending balance	<u><b>\$ 19,947,665</b></u>	<u><b>\$ 11,217,192</b></u>

c) Effects due to reserve for foreign exchange valuation

Item	For the Three Months Ended March 31, 2019		
	Inapplicable Amount (1)	Applicable Amount (2)	Effects (3)=(2)-(1)
Consolidated income	\$ 15,847,913	\$ 13,550,013	\$ (2,297,900)
Earnings per share	1.23	1.05	(0.18)
Reserve for foreign exchange valuation	-	19,947,665	19,947,665
Equity	673,473,397	661,118,162	(12,355,235)

Item	For the Three Months Ended March 31, 2018		
	Inapplicable Amount (1)	Applicable Amount (2)	Effects (3)=(2)-(1)
Consolidated income	\$ 22,959,369	\$ 23,256,926	\$ 297,557
Earnings per share	1.81	1.84	0.03
Reserve for foreign exchange valuation	-	11,217,192	11,217,192
Equity	614,262,422	608,891,565	(5,370,857)

b. Century Insurance and its subsidiaries

1) Unearned insurance premium reserve

a) Unearned premium reserve and ceded unearned premium reserve

Insurance by Type	March 31, 2019			
	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)	
Fire insurance	\$ 1,723,757	\$ 170,223	\$ 1,031,027	\$ 862,953
Marine insurance	153,907	12,738	97,533	69,112
Land and air insurance	5,042,022	534	186,918	4,855,638
Liability insurance	759,816	714	266,557	493,973
Financial guarantee insurance	64,495	811	46,206	19,100
Other property insurance	803,052	63,800	494,566	372,286
Accident insurance	1,480,885	5,323	110,499	1,375,709
Health insurance	65,470	5,191	-	70,661
Compulsory auto liability insurance	<u>1,255,083</u>	<u>471,622</u>	<u>753,050</u>	<u>973,655</u>
	<u>\$ 11,348,487</u>	<u>\$ 730,956</u>	<u>\$ 2,986,356</u>	<u>\$ 9,093,087</u>

December 31, 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)	
Fire insurance	\$ 1,876,580	\$ 202,282	\$ 1,131,256	\$ 947,606
Marine insurance	160,920	7,893	105,301	63,512
Land and air insurance	4,958,232	1,117	207,212	4,752,137
Liability insurance	741,928	998	266,606	476,320
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>
March 31, 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)	
Fire insurance	\$ 1,690,134	\$ 172,357	\$ 996,270	\$ 866,221
Marine insurance	147,631	10,983	100,498	58,116
Land and air insurance	4,760,018	1,652	215,687	4,545,983
Liability insurance	670,464	1,384	222,444	449,404
Financial guarantee insurance	57,206	749	39,729	18,226
Other property insurance	607,163	58,574	363,676	302,061
Accident insurance	1,503,423	3,658	83,085	1,423,996
Health insurance	58,831	2,298	-	61,129
Compulsory auto liability insurance	<u>1,267,368</u>	<u>488,145</u>	<u>760,403</u>	<u>995,110</u>
	<u>\$ 10,762,238</u>	<u>\$ 739,800</u>	<u>\$ 2,781,792</u>	<u>\$ 8,720,246</u>

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

	<b>For the Three Months Ended March 31</b>			
	<b>2019</b>		<b>2018</b>	
	<b>Unearned Premium Reserves</b>	<b>Reserve for Unearned Ceded Premium</b>	<b>Unearned Premium Reserves</b>	<b>Reserve for Unearned Ceded Premium</b>
Balance at January 1	\$ 12,027,482	\$ 2,965,730	\$ 11,502,792	\$ 2,889,339
Provision	11,908,358	2,890,973	11,503,092	2,782,199
Release	(11,866,830)	(2,875,777)	(11,508,497)	(2,888,252)
Effect of foreign currency exchange differences	<u>10,433</u>	<u>5,430</u>	<u>4,651</u>	<u>(1,494)</u>
Balance at March 31	<u>\$ 12,079,443</u>	<u>\$ 2,986,356</u>	<u>\$ 11,502,038</u>	<u>\$ 2,781,792</u>

2) Special reserve

a) Special reserve - compulsory automobile liability insurance

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Balance at January 1	\$ 1,478,017	\$ 1,575,128
Provision	32,313	-
Release	<u>(45,958)</u>	<u>(84,327)</u>
Balance at December 31	<u>\$ 1,464,372</u>	<u>\$ 1,490,801</u>

b) Special reserve - all lines of business other than compulsory auto liability insurance

	<b>For the Three Months Ended March 31, 2019</b>		
	<b>Liability</b>		
	<b>Catastrophe Reserve</b>	<b>Equalization Reserve</b>	<b>Total</b>
Balance at January 1	\$ 449,445	\$ 1,345,017	\$ 1,794,462
Provision	-	-	-
Release	<u>-</u>	<u>-</u>	<u>-</u>
Balance at December 31	<u>\$ 449,445</u>	<u>\$ 1,345,017</u>	<u>\$ 1,794,462</u>

  

	<b>For the Three Months Ended March 31, 2018</b>		
	<b>Liability</b>		
	<b>Catastrophe Reserve</b>	<b>Equalization Reserve</b>	<b>Total</b>
Balance at January 1	\$ 468,172	\$ 1,345,017	\$ 1,813,189
Provision	-	-	-
Release in	<u>-</u>	<u>-</u>	<u>-</u>
Balance at December 31	<u>\$ 468,172</u>	<u>\$ 1,345,017</u>	<u>\$ 1,813,189</u>

If Cathay Century had not adopted 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”, there would be no material impact on Cathay Century’s profit or loss and earnings per share. Cathay Century’s special reserve of liabilities and special capital reserve of equity decreased by \$1,485,963 thousand and increased by \$508,108 thousand, respectively.

3) Premium deficiency reserve

a) Premium deficiency reserve and ceded, premium deficiency reserve

<b>March 31, 2019</b>				
<b>Insurance by Type</b>	<b>Premium Deficiency Reserve</b>		<b>Reserve for Ceded Premium Deficiency</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	3,140	574	-	3,714
Land and air insurance	3,969	242	-	4,211
Liability insurance	-	-	-	-
Financial guarantee insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory auto liability insurance	-	-	-	-
	<u>\$ 7,109</u>	<u>\$ 816</u>	<u>\$ -</u>	<u>\$ 7,925</u>

December 31, 2018				
Insurance by Type	Premium Deficiency Reserve		Reserve for Ceded Premium Deficiency	Retained Business (4)=(1)+(2)-(3)
	Direct	Reinsurance	Ceded	
	Business (1)	Inward Business (2)	Reinsurance Business (3)	
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>

March 31, 2018				
Insurance by Type	Premium Deficiency Reserve		Reserve for Ceded Premium Deficiency	Retained Business (4)=(1)+(2)-(3)
	Direct	Reinsurance	Ceded	
	Business (1)	Inward Business (2)	Reinsurance Business (3)	
Fire insurance	\$ -	\$ -	\$ -	\$ -
Marine insurance	1,671	126	-	1,797
Land and air insurance	4,503	1,272	1,119	4,656
Liability insurance	-	-	-	-
Financial guarantee insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-
	<u>\$ 6,174</u>	<u>\$ 1,398</u>	<u>\$ 1,119</u>	<u>\$ 6,453</u>



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

For the Three Months Ended March 31, 2019									
	Direct Underwriting Business		Assumed Reinsurance Business		Net Change for Premium Deficiency Reserve	Ceded Reinsurance Business		Net Change for Ceded Premium Deficiency Reserve	Recognized Net Loss (Gain) for Premium Deficiency Reserve
	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)	(5)=(1)-(2)+(3)-(4)	Reserve (6)	Recover (7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Marine insurance	3,140	2,253	574	714	747	-	-	-	747
Land and air insurance	3,969	7,512	242	868	(4,169)	-	-	-	(4,169)
Liability insurance	-	-	-	-	-	-	-	-	-
Financial guarantee insurance	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-	-	-	-	-	-
	<u>\$ 7,109</u>	<u>\$ 9,765</u>	<u>\$ 816</u>	<u>\$ 1,582</u>	<u>\$ (3,422)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,422)</u>

  

For the Three Months Ended March 31, 2018									
	Direct Underwriting Business		Assumed Reinsurance Business		Net Change for Premium Deficiency Reserve	Ceded Reinsurance Business		Net Change for Ceded Premium Deficiency Reserve	Recognized Net Loss (Gain) for Premium Deficiency Reserve
	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)	(5)=(1)-(2)+(3)-(4)	Reserve (6)	Recover (7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Marine insurance	1,671	1,144	126	103	550	-	-	-	550
Land and air insurance	4,503	8,446	1,272	2,932	(5,603)	1,119	2,578	(1,459)	(4,144)
Liability insurance	-	-	-	-	-	-	-	-	-
Financial guarantee insurance	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-	-	-	-	-	-
	<u>\$ 6,174</u>	<u>\$ 9,590</u>	<u>\$ 1,398</u>	<u>\$ 3,035</u>	<u>\$ (5,053)</u>	<u>\$ 1,119</u>	<u>\$ 2,578</u>	<u>\$ (1,459)</u>	<u>\$ (3,594)</u>

- c) Reconciliation statement for premium deficiency reserve and ceded premium deficiency reserve

For the Three Months Ended March 31				
	2019		2018	
	Premium Deficiency Reserve	Reserve for Ceded Premium Deficiency	Premium Deficiency Reserve	Reserve for Ceded Premium Deficiency
Balance at January 1	\$ 11,347	\$ -	\$ 12,625	\$ 2,578
Provision	7,925	-	7,572	1,119
Release	(11,347)	-	(12,625)	(2,578)
Balance at December 31	<u>\$ 7,925</u>	<u>\$ -</u>	<u>\$ 7,572</u>	<u>\$ 1,119</u>

d) Effects for the change in estimation and assumptions

The premium deficiency reserve is a measurement of the present value of future expenditure. The expected final loss ratio referred to the data in the past three years, large-compensation cases and loss trend. The expected operation expense ratio referred to the insurance expense exhibit in the past three years excluding entertainment expense and membership fee. The actual ratio of return on investment may not be the same as the expected ratio due to the uncertainty of estimation and assumption.

4) Claims reserve

a) Claims reserve and reserve for ceded claims

<b>March 31, 2019</b>				
<b>Items</b>	<b>Claims Reserve</b>		<b>Reserve for Ceded Claims</b>	
	<b>Direct Business (1)</b>	<b>Reinsurance Inward Business (2)</b>	<b>Ceded Reinsurance Business (3)</b>	<b>Retained Business (4)=(1)+(2)-(3)</b>
Outstanding claims	\$ 3,770,977	\$ 406,604	\$ 1,213,445	\$ 2,964,136
IBNR claims	<u>4,094,690</u>	<u>441,990</u>	<u>1,126,793</u>	<u>3,409,887</u>
	<u>\$ 7,865,667</u>	<u>\$ 848,594</u>	<u>\$ 2,340,238</u>	<u>\$ 6,374,023</u>
<b>December 31, 2018</b>				
<b>Items</b>	<b>Claims Reserve</b>		<b>Reserve for Ceded Claims</b>	
	<b>Direct Business (1)</b>	<b>Reinsurance Inward Business (2)</b>	<b>Ceded Reinsurance Business (3)</b>	<b>Retained Business (4)=(1)+(2)-(3)</b>
Outstanding claims	\$ 3,670,166	\$ 330,733	\$ 1,231,776	\$ 2,769,123
IBNR claims	<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>
<b>March 31, 2018</b>				
<b>Items</b>	<b>Claims Reserve</b>		<b>Reserve for Ceded Claims</b>	
	<b>Direct Business (1)</b>	<b>Reinsurance Inward Business (2)</b>	<b>Ceded Reinsurance Business (3)</b>	<b>Retained Business (4)=(1)+(2)-(3)</b>
Outstanding claims	\$ 3,347,046	\$ 283,204	\$ 1,256,762	\$ 2,373,488
IBNR claims	<u>3,895,837</u>	<u>442,928</u>	<u>1,141,826</u>	<u>3,196,939</u>
	<u>\$ 7,242,883</u>	<u>\$ 726,132</u>	<u>\$ 2,398,588</u>	<u>\$ 5,570,427</u>

b) Changes in claims reserve and reserve for ceded claims

For the three months ended March 31, 2019

Items	Direct Business		Reinsurance Inward Business		Movement of Claims Reserves (5)=(1)-(2)+(3)-(4)
	Provision (1)	Release (2)	Provision (3)	Release (4)	
Outstanding claims	\$ 3,594,953	\$ 3,494,672	\$ 406,604	\$ 330,733	\$ 176,152
IBNR claims	<u>4,078,455</u>	<u>4,011,028</u>	<u>441,989</u>	<u>446,465</u>	<u>62,951</u>
	<u>\$ 7,673,408</u>	<u>\$ 7,505,700</u>	<u>\$ 848,593</u>	<u>\$ 777,198</u>	<u>\$ 239,103</u>

Items	Ceded Reinsurance Business		Movement of Reserve for Ceded Claims (8)=(6)-(7)
	Provision (6)	Release (7)	
Outstanding claims	\$ 1,061,945	\$ 1,080,732	\$ (18,787)
IBNR claims	<u>1,118,652</u>	<u>1,105,134</u>	<u>13,518</u>
	<u>\$ 2,180,597</u>	<u>\$ 2,185,866</u>	<u>\$ (5,269)</u>

For the three months ended March 31, 2018

Items	Direct Business		Reinsurance Inward Business		Movement of Claims Reserves (5)=(1)-(2)+(3)-(4)
	Provision (1)	Release (2)	Provision (3)	Release (4)	
Outstanding claims	\$ 3,349,189	\$ 3,552,722	\$ 283,204	\$ 286,595	\$ (206,924)
IBNR claims	<u>3,895,961</u>	<u>3,796,111</u>	<u>442,928</u>	<u>442,692</u>	<u>100,086</u>
	<u>\$ 7,245,150</u>	<u>\$ 7,348,833</u>	<u>\$ 726,132</u>	<u>\$ 729,287</u>	<u>\$ (106,838)</u>

Items	Ceded Reinsurance Business		Movement of Reserve for Ceded Claims (8)=(6)-(7)
	Provision (6)	Release (7)	
Outstanding claims	\$ 1,258,714	\$ 1,338,031	\$ (79,317)
IBNR claims	<u>1,141,880</u>	<u>1,132,150</u>	<u>9,730</u>
	<u>\$ 2,400,594</u>	<u>\$ 2,470,181</u>	<u>\$ (69,587)</u>

c) Liability on policyholders' outstanding claims and incurred but not reported (IBNR) claims

<b>March 31, 2019</b>			
<b>Liability</b>			
<b>Insurance by Type</b>	<b>Outstanding Claims</b>	<b>IBNR</b>	<b>Total</b>
Fire insurance	\$ 819,174	\$ 17,376	\$ 836,550
Marine insurance	282,923	1,890	284,813
Land and air insurance	1,561,153	1,339,313	2,900,466
Liability insurance	442,861	783,990	1,226,851
Financial guarantee insurance	68,535	84,827	153,362
Other property insurance	357,267	137,313	494,580
Accident insurance	96,532	569,061	665,593
Health insurance	824	50,579	51,403
Compulsory automobile liability insurance	<u>548,313</u>	<u>1,552,330</u>	<u>2,100,643</u>
	<u>\$ 4,177,582</u>	<u>\$ 4,536,679</u>	<u>\$ 8,714,261</u>
<b>December 31, 2018</b>			
<b>Liability</b>			
<b>Insurance by Type</b>	<b>Outstanding Claims</b>	<b>IBNR</b>	<b>Total</b>
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>
<b>March 31, 2018</b>			
<b>Liability</b>			
<b>Insurance by Type</b>	<b>Outstanding Claims</b>	<b>IBNR</b>	<b>Total</b>
Fire insurance	\$ 1,050,850	\$ 13,522	\$ 1,064,372
Marine insurance	271,164	2,378	273,542
Land and air insurance	985,624	1,280,013	2,265,637
Liability insurance	393,560	626,002	1,019,562
Financial guarantee insurance	63,814	93,235	157,049
Other property insurance	380,667	178,241	558,908
Accident insurance	89,805	537,677	627,482
Health insurance	1,487	46,588	48,075
Compulsory automobile liability insurance	<u>393,279</u>	<u>1,561,109</u>	<u>1,954,388</u>
	<u>\$ 3,630,250</u>	<u>\$ 4,338,765</u>	<u>\$ 7,969,015</u>

d) Reinsurance assets - ceded claim reserves for outstanding claims and IBNR claims

<b>March 31, 2019</b>			
<b>Liability</b>			
<b>Insurance by Type</b>	<b>Outstanding Claims</b>	<b>IBNR</b>	<b>Total</b>
Fire insurance	\$ 275,823	\$ 77,264	\$ 353,087
Marine insurance	156,841	2,185	159,026
Land and air insurance	70,558	40,129	110,687
Liability insurance	266,891	266,050	532,941
Financial guarantee insurance	31,250	47,424	78,674
Other property insurance	126,904	51,806	178,710
Accident insurance	8,204	37,692	45,896
Health insurance	-	-	-
Compulsory automobile liability insurance	<u>203,731</u>	<u>677,487</u>	<u>881,218</u>
	<u>\$ 1,140,202</u>	<u>\$ 1,200,037</u>	<u>\$ 2,340,239</u>
<b>December 31, 2018</b>			
<b>Liability</b>			
<b>Insurance by Type</b>	<b>Outstanding Claims</b>	<b>IBNR</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>March 31, 2018</b>			
<b>Liability</b>			
<b>Insurance by Type</b>	<b>Outstanding Claims</b>	<b>IBNR</b>	<b>Total</b>
Fire insurance	\$ 498,747	\$ 5,305	\$ 504,052
Marine insurance	183,963	618	184,581
Land and air insurance	62,094	36,978	99,072
Liability insurance	231,947	200,574	432,521
Financial guarantee insurance	31,734	74,629	106,363
Other property insurance	120,471	102,815	223,286
Accident insurance	6,675	37,892	44,567
Health insurance	-	-	-
Compulsory automobile liability insurance	<u>121,131</u>	<u>683,015</u>	<u>804,146</u>
	<u>\$ 1,256,762</u>	<u>\$ 1,141,826</u>	<u>\$ 2,398,588</u>

e) Reconciliation statement of claims reserve and ceded claims reserve

	For the Three Months Ended March 31			
	2019		2018	
	Claims Reserve	Reserve for Ceded Claims	Claims Reserve	Reserve for Ceded Claims
Balance at January 1	\$ 8,474,319	\$ 2,345,027	\$ 8,082,584	\$ 2,474,474
Provision	8,522,261	2,180,438	7,971,282	2,400,594
Release	(8,283,317)	(2,185,866)	(8,078,120)	(2,470,181)
Effect of foreign currency exchange differences	<u>998</u>	<u>640</u>	<u>(6,731)</u>	<u>(6,299)</u>
Balance at December 31	<u>\$ 8,714,261</u>	<u>\$ 2,340,239</u>	<u>\$ 7,969,015</u>	<u>\$ 2,398,588</u>

5) Liability reserve

a) Liability reserve and liability reserve ceded

March 31, 2019

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	<u>\$ 49</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49</u>

December 31, 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	<u>\$ 48</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48</u>

March 31, 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	<u>\$ 51</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51</u>

b) Net change in liability reserve and liability reserve ceded

For the three months ended March 31, 2019

Insurance by Type	Direct Business		Reinsurance Inward Business		Net Change for Liability Reserve (5)=(1)-(2)+(3)-(4)
	Provision (1)	Release (2)	Provision (3)	Release (4)	
Health insurance	<u>\$ 12</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2</u>

Insurance by Type	Ceded Reinsurance Business		Net Change for Liability Reserve Ceded (8)=(6)-(7)
	Provision (6)	Release (7)	
Health insurance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

For the three months ended March 31, 2018

Insurance by Type	Direct Business		Reinsurance Inward Business		Net Change for Liability Reserve (5)=(1)-(2)+(3)-(4)
	Provision (1)	Release (2)	Provision (3)	Release (4)	
Health insurance	<u>\$ 3</u>	<u>\$ 7</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4)</u>

Insurance by Type	Ceded Reinsurance Business		Net Change for Liability Reserve Ceded (8)=(6)-(7)
	Provision (6)	Release (7)	
Health insurance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## 22. PROVISIONS

The retirement expense recognized under defined benefit plans for 2018 and 2017 were calculated using the determined discount rates as of March 31, 2019 and 2018 and are as follows:

	For the Three Months Ended March 31	
	2019	2018
Employee benefits expense	<u>\$ 122,946</u>	<u>\$ 125,601</u>

## 23. OTHER FINANCIAL ASSETS AND LIABILITIES

	March 31, 2019	December 31, 2018	March 31, 2018
<u>Miscellaneous financial assets</u>			
Assets on insurance products - separate accounts	\$ 585,087,715	\$ 546,964,261	\$ 559,046,680
Structured time deposits	2,000,000	2,000,000	3,500,000
Other miscellaneous financial assets	8,033,722	6,776,864	5,052,994
Less: Allowance for impairment loss	<u>(644)</u>	<u>(594)</u>	<u>(949)</u>
	<u>\$ 595,120,793</u>	<u>\$ 555,740,531</u>	<u>\$ 567,598,725</u>
<u>Miscellaneous financial liabilities</u>			
Liabilities on insurance products - separate accounts	\$ 585,087,715	\$ 546,964,261	\$ 559,046,680
Principal received from the sale of structured products	74,816,488	76,615,204	70,085,247
Other miscellaneous financial liabilities	<u>5,709,833</u>	<u>4,235,713</u>	<u>2,967,000</u>
	<u>\$ 665,614,036</u>	<u>\$ 627,815,178</u>	<u>\$ 632,098,927</u>

a. The CLIC related account balances were summarized as follow:

	March 31, 2019	December 31, 2018	March 31, 2018
<u>Separate account insurance product assets</u>			
Cash in bank	\$ 820,761	\$ 888,274	\$ 1,141,925
Financial assets at FVTPL	578,805,789	539,874,109	547,302,793
Other receivables	<u>5,338,291</u>	<u>6,090,351</u>	<u>10,463,931</u>
	<u>\$ 584,964,841</u>	<u>\$ 546,852,734</u>	<u>\$ 558,908,649</u>
<u>Separate account insurance product liabilities</u>			
Other payables	\$ 845,781	\$ 743,442	\$ 1,218,286
Reserve for separate account - insurance contracts	235,981,892	220,038,873	232,721,540
Reserve for separate account - investment contracts	<u>348,137,168</u>	<u>326,070,419</u>	<u>324,968,823</u>
	<u>\$ 584,964,841</u>	<u>\$ 546,852,734</u>	<u>\$ 558,908,649</u>



	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Separate account insurance product income</u>		
Premium income	\$ 7,954,623	\$ 7,349,050
Interest income	363	448
Gains (losses) from financial assets and liabilities at FVTPL	15,996,277	(665,269)
Foreign exchange gains (losses)	<u>861,594</u>	<u>(4,007,987)</u>
	<u>\$ 24,812,857</u>	<u>\$ 2,676,242</u>
<u>Separate account insurance product expenses</u>		
Claims and payments	\$ 1,942,715	\$ 2,209,471
Cash surrender value	6,116,327	10,772,116
Dividends	1	2
Provision (reversal) of separate account reserve	15,881,155	(11,232,582)
Administrative expenses	903,644	952,396
Non-operating income and expenses	<u>(30,985)</u>	<u>(25,161)</u>
	<u>\$ 24,812,857</u>	<u>\$ 2,676,242</u>

The commission earned for the sales of separate account insurance products from counterparties recorded under fee income for the three months ended March 31, 2019 and 2018 were \$228,431 thousand and \$264,693 thousand, respectively.

- b. The CLLIC related account balances were summarized as follow:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
<u>Separate account insurance product assets</u>			
Cash in bank	\$ 20,507	\$ 17,902	\$ 15,669
Financial assets at FVTPL	102,308	94,126	122,465
Interest receivable	6	55	51
Others	<u>53</u>	<u>(556)</u>	<u>(154)</u>
	<u>\$ 122,874</u>	<u>\$ 111,527</u>	<u>\$ 138,031</u>
<u>Separate account insurance product liabilities</u>			
Other payables	\$ (650)	\$ 8	\$ 9
Reserve for separate account - insurance contracts	123,524	98,690	123,092
Others	<u>-</u>	<u>12,829</u>	<u>14,930</u>
	<u>\$ 122,874</u>	<u>\$ 111,527</u>	<u>\$ 138,031</u>

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Separate account insurance product income</u>		
Premium income	\$ 74	\$ 162
Gains (losses) from financial assets and liabilities at FVTPL	12,213	1,404
Interest income	<u>49</u>	<u>47</u>
	<u>\$ 12,336</u>	<u>\$ 1,613</u>
<u>Separate account insurance product expenses</u>		
Cash surrender value	\$ 3,961	\$ 3,901
Provision (reversal) of separate account reserve	7,280	(2,793)
Administrative expenses	371	450
Tax expense	<u>724</u>	<u>55</u>
	<u>\$ 12,336</u>	<u>\$ 1,613</u>

## 24. EQUITY

### a. Share capital

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
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>833,300</u>
Shares issued	<u>\$ 140,965,102</u>	<u>\$ 140,965,102</u>	<u>\$ 133,965,102</u>

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

### Issuance of preference shares

1) The board of directors has approved the issuance of Series A Preference Shares on September 6, 2016. The Company issued 833,300 thousand preference shares for cash which totaled \$8,333,000 thousand, with a par value of \$10 per share and an issue price of \$60 per share. The capital injection was approved by the FSC on October 25, 2016. The subscription date was December 8, 2016. All issued shares were registered and recognized as equity. The rights and obligations of Series A Preference Shares Issuance are listed 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 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 the Preference Shares, including its discretion to not declare dividends when no profit is recorded, or insufficient profit is recorded for Preference Share dividends, or preference share dividend distribution would render the Company's RBC 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. The Series A Preference Shares which were issued this time are non-cumulative. Undeclared or under-declared dividends are not cumulative, and are not paid in subsequent years with profit.
- e) Except for receipt of dividends at the aforementioned dividend rate in Paragraph (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 common 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 shareholders' meeting of Preference Shares, and at the annual shareholders' meeting on items relating to the rights of Preference Share holders.
- h) Holders of Series A Preference Shares cannot convert the said preference shares to common 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 Preference Shares at the issue price. Rights and obligations of the unredeemed Preference Shares shall remain the same as mentioned above.

- 2) The board of directors approved the issuance of Series B Preference Shares on February 9, 2018. The Company issued 700,000 thousand preference shares for cash which totaled \$7,000,000 thousand, with a par value of \$10 per share and an issue price of \$60 per share. The capital injection was approved by the FSC on May 10, 2017. The subscription date was June 27, 2018. All issued shares were registered and recognized as equity. The rights and obligations of Series B Preference Shares Issuance are listed 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 Preference Shares, including its discretion to not declare dividends when no profit is recorded, or insufficient profit is recorded for Preference Share dividends, or preference share dividend distribution would render the Company's RBC 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. The Series B Preference Shares which were issued this time are non-cumulative. Undeclared or under-declared dividends are not cumulative, and are not paid in subsequent years with profit.
  - d) Except for receipt of dividends at the aforementioned dividend rate in Paragraph (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 common 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 Preference Shares, and at the annual shareholders' meeting on items relating to rights of Preference Shares holders.
  - g) Holders of Series B Preference Shares cannot convert the said preference shares to common 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 Preference Shares at the issue price. Rights and obligations of the unredeemed Preference Shares shall remain the same as mentioned above.

### Issuance of overseas depositary receipt

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

#### b. Capital surplus

1)

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Additional paid-in capital	\$ 161,523,972	\$ 161,523,972	\$ 126,523,972
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>23,135</u>	<u>31,584</u>	<u>10,018</u>
	<u>\$ 165,440,915</u>	<u>\$ 165,449,364</u>	<u>\$ 130,425,473</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 amended 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 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 and supervisors after the amendment, refer to employees' compensation and remuneration of directors and supervisors in Note 25-1.

In order for the Company to continue to expand its scale 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, whereby share dividends, if declared, shall not be less than 50% of the total common stock dividends declared for the year.

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 board of directors' meetings on May 3, 2019 and approved in the shareholders' meeting on June 8, 2018, respectively, were as follows:

	<b>Appropriation of Earnings 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	184,003
Cash dividends of ordinary shares	18,844,815	31,408,025
Cash dividends of preference shares	2,667,891	1,899,924

The appropriations of earnings for 2018 were approved in the shareholders' meeting held on June 14, 2019.

d. Special reserves

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Transferred to special reserve 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 following 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)	107,509,178	107,509,178	107,270,030
Transferred to special reserve from insurance liabilities (5)	<u>34,764,311</u>	<u>34,764,311</u>	<u>34,764,311</u>
	<u>\$ 149,346,119</u>	<u>\$ 149,346,119</u>	<u>\$ 149,106,971</u>

- 1) Cathay United Bank, Cathay Securities and Cathay Futures have reclassified the appropriated trading losses reserve and default 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 in the amount of \$333,598 thousand for the year ended December 31, 2011.
- 2) Based on the "Regulation Governing the Setting Aside of Various Reserves by Insurance Enterprises", the reserves under liabilities recorded amounted to \$9,022,812 thousand. Half of this amount was set aside to be reclassified as the opening balance of foreign exchange volatility reserve on March 1, 2012, and the rest of it in the amount of \$4,511,405 thousand after deducting the effect of income tax was diverted to special reserve under retained earnings of \$3,744,467 thousand. The Company set aside the special reserve in the amount of \$3,744,467 thousand for the year ended December 31, 2013.

- 3) Upon initial adoption of IFRSs, Cathay Life elected 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 in the amount of \$2,994,565 thousand for 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, on the first-time adoption of the fair value model for subsequent measurement of investment properties, the group shall set aside an equal amount of special reserve when transferring the fair value increment of investment properties to retained earnings.
- 5) Other special reserve mainly included the amount of \$34,764,311 thousand transferred from insurance liabilities in accordance with Rule No. 10402029590.

e. Other equity

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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ (12,149,871)	\$ (10,823,242)
Recognized for the period	1,509,385	(77,808)
Share of associates accounted for using the equity method	360,288	(887,473)
Tax effects	(134,451)	287,391
Other comprehensive income (loss) recognized for the period	<u>1,735,222</u>	<u>(677,890)</u>
Ending balance	<u>\$ (10,414,649)</u>	<u>\$ (11,501,132)</u>

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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance per IFRS 9	\$ (17,586,946)	\$ 37,343,476
Recognized for the period	55,336,424	(36,002,794)
Share of associates accounted for using the equity method	137,503	(67,464)
Reclassification adjustments		
Disposal of investments in debt instruments	(5,647,850)	(7,395,451)
Tax effects	(9,155,614)	6,700,919
Other comprehensive income (loss) recognized for the period	<u>40,670,463</u>	<u>(36,764,790)</u>
Cumulative unrealized gain (loss) of equity instruments transferred to retained earnings due to disposal	<u>1,041,894</u>	<u>4,082,934</u>
Ending balance	<u>\$ 24,125,411</u>	<u>\$ 4,661,620</u>

3) Gain (loss) on hedging instruments

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 173,289	\$ 203,647
Recognized for the period	106,524	2,814
Reclassification adjustments		
Impact to profit or loss due to hedged items	(16,283)	(27,583)
Tax effects	(20,425)	(2,408)
Other comprehensive income (loss) recognized for the period	<u>69,816</u>	<u>(27,177)</u>
Ending balance	<u>\$ 243,105</u>	<u>\$ 176,470</u>

4) Changes of Financial liabilities designated as at fair value through profit or loss resulting from credit risk

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 774,084	\$ (1,191,027)
Recognized during the period	(1,215,777)	707,779
Tax effects	243,156	(98,506)
Other comprehensive income recognized for the period	<u>(972,621)</u>	<u>609,273</u>
Ending balance	<u>\$ (198,537)</u>	<u>\$ (581,754)</u>

5) Remeasurement of defined benefit plans

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ (1,321,138)	\$ (1,449,679)
Share of associate accounted for using the equity method	9,651	(10,913)
Tax effects	(1,930)	53,223
Other comprehensive income recognized for the period	<u>7,721</u>	<u>42,310</u>
Ending balance	<u>\$ (1,313,417)</u>	<u>\$ (1,407,369)</u>

6) Property revaluation surplus

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 10,367,911	\$ 10,376,814
Recognized for the period	709,300	-
Tax effects	(45,046)	874
Other comprehensive income recognized for the period	<u>664,254</u>	<u>874</u>
Ending balance	<u>\$ 11,032,165</u>	<u>\$ 10,377,688</u>



7)

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance per IFRS 9	\$ (52,816,081)	\$ 55,941,777
Recognized for the period	96,538,032	(954,765)
Reclassification adjustments		
Disposal of investments in financial instruments	(13,134,281)	(25,194,606)
Tax effects	<u>(7,322,295)</u>	<u>4,297,424</u>
Other comprehensive income (loss) recognized for the period	<u>76,081,456</u>	<u>(21,851,947)</u>
Ending balance	<u>\$ 23,265,375</u>	<u>\$ 34,089,830</u>

f. Non-controlling interests

	<b>For the Three Months Ended March 31</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	336,861	189,543
Other comprehensive income for the period		
Exchange differences on translating financial statements of foreign operations	135,984	(41,472)
Financial assets at fair value through other comprehensive income	15,550	101,228
Other comprehensive income on reclassification using the overlay approach	290,992	(36,946)
Others	<u>(411,234)</u>	<u>(14,054)</u>
Ending balance	<u>\$ 9,925,818</u>	<u>\$ 9,610,675</u>

## 25. NET PROFIT FROM CONTINUING OPERATIONS

a. Employee benefits expense

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Short-term benefits		
Salaries	\$ 16,860,683	\$ 13,432,119
Labor and health insurance expenses	1,227,119	1,157,420
Post-employment benefits	565,094	531,125
Remuneration of directors	57,541	59,678
Others	<u>510,331</u>	<u>342,943</u>
	<u>\$ 19,220,768</u>	<u>\$ 15,523,285</u>
An analysis of employee benefits expense by function		
Profit from operations	\$ 4,176,910	\$ 2,935,644
Operating expenses	<u>15,043,858</u>	<u>12,587,641</u>
	<u>\$ 19,220,768</u>	<u>\$ 15,523,285</u>

According to the Articles of Incorporation of the Company, 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 and supervisors. However, in the case of accumulated deficit, the Company's accumulated deficit need to be offset first.

As of March 31, 2019 and 2018, the total number of the employees in the Group were 54,550 and 52,506, respectively.

As of March 31, 2019 and 2018, the average number of the Group's employees were 54,585 and 52,496, respectively. Among them, the number of directors who were not concurrently serving as employees were 35 for both years.

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:

	<b>For the Three Months Ended</b>	
	<b>March 31</b>	
	<b>2019</b>	<b>2018</b>
	<b>Cash</b>	<b>Cash</b>
Employees' compensation	\$ 1,332	\$ 2,306
Remuneration of directors and supervisors	675	675

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

	<b>For the Three Months Ended</b>	
	<b>March 31</b>	
	<b>2018</b>	<b>2017</b>
	<b>Cash</b>	<b>Cash</b>
Employees' compensation	\$ 5,307	\$ 5,812
Remuneration of directors and supervisors	2,700	2,700

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors 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 and supervisors resolved by the Company's board of directors in 2019 and 2018 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

b. Depreciation and amortization

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Right-of-use assets	\$ 314,651	\$ -
Property and equipment	664,315	631,452
Intangible assets	<u>788,213</u>	<u>752,563</u>
	<u>\$ 1,767,179</u>	<u>\$ 1,384,015</u>
An analysis of depreciation by function		
Operating expenses	<u>\$ 978,966</u>	<u>\$ 631,452</u>
An analysis of amortization by function		
Operating expenses	<u>\$ 788,213</u>	<u>\$ 752,563</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:

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Current tax		
In respect of the current period	\$ (589,352)	\$ (7,296,824)
Adjustments for prior periods	67,989	126,106
Deferred tax		
In respect of the current period	(888,112)	5,310,837
Adjustments to deferred tax attributable to changes in tax rates and laws	-	3,418,095
Tax loss and credit	-	8,144
Reduction of deferred tax assets	-	(9,487)
Others	<u>(567,692)</u>	<u>(98,501)</u>
Income tax expense recognized in profit or loss	<u>\$ (1,977,167)</u>	<u>\$ 1,458,370</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. The effect of the change in tax rate on deferred tax income/expense to be recognized in profit or loss is recognized in full in the period in which the change in tax rate occurs. 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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Current tax		
Derecognition of investments in equity instruments at FVTOCI	\$ 41,359	\$ 435,003
Deferred tax		
Effect of change in tax rate	-	(26,633)
Derecognition of investments in equity instruments at FVTOCI	<u>(41,359)</u>	<u>(435,003)</u>
Total income tax (benefit) recognized directly in equity	<u>\$ -</u>	<u>\$ (26,633)</u>

c. Income tax recognized in other comprehensive income

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Deferred tax</u>		
Changes in financial liabilities designated as at fair value through profit or loss resulting from credit risk	\$ 243,156	\$ (98,506)
Exchange differences on the translation of financial statements of foreign operations	(134,451)	52,016
Unrealized gain (loss) on financial assets at FVTOCI	(9,121,016)	6,692,401
Gain (loss) on hedging instruments	(20,425)	(2,408)
Gain on property revaluation surplus	(45,046)	874
Remeasurment of defined benefit plans	-	51,400
Shares of other comprehensive (loss) income of associates accounted for using the equity method	(36,528)	245,716
Other comprehensive (loss) gain on reclassification using the overlay approach	<u>(7,322,295)</u>	<u>4,297,424</u>
Total income tax recognized in other comprehensive income	<u>\$ (16,436,605)</u>	<u>\$ 11,238,917</u>

d. Income tax assessments

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

	<b>Year of Assessment</b>	<b>Note</b>
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 Investment Trust	2014	-
Cathay Futures	2015	-
Cathay Private Equity	2017	-

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

## 27. EARNINGS PER SHARE

Unit: NT\$ Per Share

	For the Three Months Ended March 31	
	2019	2018
Basic earnings per share	\$ <u>1.05</u>	\$ <u>1.84</u>

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

### Net Profit for the Period

	For the Three Months Ended March 31	
	2019	2018
Earnings used in the computation of basic earnings per share	\$ <u>13,213,152</u>	\$ <u>23,067,383</u>

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

	For the Three Months Ended March 31	
	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>

## 28. RELATED-PARTY TRANSACTIONS

- a. The related parties and their relationships with the Group 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
Cathay Securities Investment Trust	Subsidiary of the Company
Cathay Lujiazui Life Insurance Company Limited	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 (Shanghai) Real Estate Co., Ltd	Subsidiary of the Company

(Continued)

<b>Related Party Name</b>	<b>Related Party Category</b>
Cathay Insurance (Vietnam) Co., Ltd.	Subsidiary of the Company
Indovina Bank Limited (Vietnam)	Subsidiary of the Company
Cathay Futures Co., Ltd.	Subsidiary of the Company
Cathay Securities (Hong Kong) Limited	Subsidiary of the Company
Cathay Private Equity	Subsidiary of the Company
Cathay Century (China)	Associate
Taiwan Real-estate Management Corp.	Associate
Taiwan Finance Corp.	Associate
Symphox Information Co., Ltd.	Associate
Xin-Ri-Tai Energy Corp.	Associate
Global Evolution Holding Aps	Associate
PSS 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
Liang-Ting Co., Ltd.	Other related party
Ally Logistic Property	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
Cathay Hospitality Consulting Co., Ltd.	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

<b>Name</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
<u>Due from commercial banks</u>			
Other related party			
Vietinbank	\$ 5,391,452	\$ 5,309,375	\$ 5,226,749
<u>Due to commercial banks</u>			
Other related party			
Vietinbank	\$ 5,349,695	\$ 5,360,670	\$ 5,197,946

Name	<b>Interest Income (Expense)</b>	
	<b>For the Three Months Ended</b>	
	<b>March 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Due from commercial banks</u>		
Other related party		
Vietinbank	\$ <u>1,330</u>	\$ <u>1,300</u>
<u>Due to commercial banks</u>		
Other related party		
Vietinbank	\$ <u>(1,312)</u>	\$ <u>(1,291)</u>
2) Financial assets at FVTPL		

Name	March 31, 2019	December 31, 2018	March 31, 2018
Other related party			
Cathay Healthcare Management Co., Ltd.	\$ <u>202,376</u>	\$ <u>180,180</u>	\$ <u>113,355</u>

3) Loans

Name	March 31, 2019	December 31, 2018	March 31, 2018
Associate			
Taiwan Real-estate Management Corp.	\$ 33,000	\$ 30,000	\$ 32,000
Other related party			
Cathay Real Estate Development Co., Ltd.	-	210,000	-
Others	<u>2,638,965</u>	<u>2,456,817</u>	<u>2,330,573</u>
	\$ <u>2,671,965</u>	\$ <u>2,696,817</u>	\$ <u>2,362,573</u>

Name	<b>Interest Income (Expense)</b>	
	<b>For the Three Months Ended</b>	
	<b>March 31</b>	
	<b>2019</b>	<b>2018</b>
Associate		
Taiwan Real-estate Management Corp.	\$ 143	\$ 141
Other related party		
Cathay Real Estate Development Co., Ltd.	470	-
Others	<u>10,694</u>	<u>9,539</u>
	\$ <u>11,307</u>	\$ <u>9,680</u>

4) Deposits

Name	March 31, 2019	December 31, 2018	March 31, 2018
Subsidiary of the Company			
Cathay Securities Investment Consulting Co., Ltd.	\$ 207,981	\$ 187,533	\$ 170,627
Associates			
Symphox Information Co., Ltd.	124,740	122,139	88,892
Xin-Ri-Tai Energy Corp.	95,979	137,979	221,774
Other related parties			
Cathay Real Estate Development Co., Ltd.	297,458	199,127	319,155
Cathay Hospitality Management Co., Ltd.	2,052	16,523	56,390
Cathay United Bank Culture and Charity Foundation	541,501	541,888	549,768
Cathay Life Insurance Employees' Welfare Committee	2,261,408	2,221,665	3,218,071
Cathay Real Estate Development Employees' Welfare Committee	384,346	386,529	362,235
Others	<u>8,918,358</u>	<u>7,457,000</u>	<u>12,461,258</u>
	<u>\$ 12,833,823</u>	<u>\$ 11,270,383</u>	<u>\$ 17,448,170</u>

Name	Interest Expense	
	For the Three Months Ended	
	March 31	
	2019	2018
Subsidiary of the Company		
Cathay Securities Investment Consulting Co., Ltd.	\$ 163	\$ 147
Associates		
Symphox Information Co., Ltd.	177	150
Xin-Ri-Tai Energy Corp.	14	120
Other related parties		
Cathay Real Estate Development Co., Ltd.	13	11
Cathay Hospitality Management Co., Ltd.	1	5
Cathay United Bank Culture and Charity Foundation	1,394	1,412
Cathay Life Insurance Employees' Welfare Committee	5,489	5,799
Cathay Real Estate Development Employees' Welfare Committee	1,028	919
Others	<u>20,117</u>	<u>16,345</u>
	<u>\$ 28,396</u>	<u>\$ 24,908</u>



5) Property transactions

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

Name	Items	For the Three Months Ended March 31	
		2019	2018
Subsidiary of associate			
Ally Logistic Property Co., Ltd.	Wuri E-commerce Building, etc.	\$ -	\$ 186,771
Other related parties			
Lin Yuan Property Management Co., Ltd.	Cathay Land Mark, etc.	540	4,855
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	424,542	302,429
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	296,515	65,766
		<u>721,597</u>	<u>373,050</u>
		<u>\$ 721,597</u>	<u>\$ 559,821</u>

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

The total amounts of contracted projects for real estate as of March 31, 2019, December 31, 2018 and March 31, 2018, between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were \$1,838,045 thousand, \$1,838,045 thousand and \$1,850,813 thousand, respectively.

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

- b) Cathay Life as a real-estate lessor

Name	Rental Income For the Three Months Ended March 31	
	2019	2018
Associate and its subsidiaries		
Symphox Information Co., Ltd.	\$ 10,822	\$ 10,190
Ally Logistic Property Co., Ltd.	142,932	104,828
Cathay Insurance Company Limited (China)	<u>6,060</u>	<u>6,552</u>
	<u>159,814</u>	<u>121,570</u>
		(Continued)

Name	<b>Rental Income</b>	
	<b>For the Three Months Ended</b>	
	<b>March 31</b>	
	<b>2019</b>	<b>2018</b>
Other related parties		
Cathay Medical Care Corp.	\$ 45,043	\$ 44,767
Cathay Real Estate Development Co., Ltd.	4,264	4,240
Cathay Healthcare Management Co., Ltd.	16,789	14,090
Cathay Hospitality Management Co., Ltd.	48,436	57,843
Cathay Hospitality Consulting Co., Ltd.	<u>28,489</u>	<u>-</u>
	<u>143,021</u>	<u>120,940</u>
	<u>\$ 302,835</u>	<u>\$ 242,510</u>

(Concluded)

Name	<b>Guarantee Deposits Received</b>		
	<b>December 31,</b>		
	<b>March 31, 2019</b>	<b>2018</b>	<b>March 31, 2018</b>
Associate and its subsidiaries			
Symphox Information Co., Ltd.	\$ 10,363	\$ 10,363	\$ 9,798
Ally Logistic Property Co., Ltd.	56,941	57,040	56,752
Cathay Insurance Company Limited (China)	<u>-</u>	<u>7,030</u>	<u>7,277</u>
	<u>67,304</u>	<u>74,433</u>	<u>73,827</u>
Other related parties			
Cathay Medical Care Corp.	11,369	11,260	10,916
Cathay Real Estate Development Co., Ltd.	3,803	3,803	3,783
Cathay Healthcare Management Co., Ltd.	16,029	15,628	13,157
Cathay Hospitality Management Co., Ltd.	<u>184,170</u>	<u>206,166</u>	<u>218,252</u>
	<u>215,371</u>	<u>236,857</u>	<u>246,108</u>
	<u>\$ 282,675</u>	<u>\$ 311,290</u>	<u>\$ 319,935</u>

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

c) Cathay Life and its subsidiaries as a real-estate lessee

Name	Rental Expense		Rental Payment Method
	For the Three Months Ended		
	March 31		
	2019	2018	
Other related party			
Cathay Real Estate Development Co., Ltd.	\$ <u>-</u>	\$ <u>1,853</u>	Monthly basis

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

d) Cathay Unites Bank as a real-estate lessor

Name	Rental Income	
	For the Three Months Ended	
	March 31	
	2019	2018
Other related party		
Cathay United Bank Culture and Charity Foundation	\$ -	\$ 1,158

Lease periods are usually between 1 and 3 years and rental incomes are collected on a monthly basis.

e) Cathay United Bank as a real-estate lessee

Name	Rental Expense		Rental Payment Method
	For the Three Months Ended		
	March 31		
	2019	2018	
Other related party			
Cathay Real Estate Development Co., Ltd.	\$ 2,502	\$ 4,923	Monthly basis

Name	Guarantee Deposits Paid		
	December 31,		
	March 31, 2019	2018	March 31, 2018
Other related party			
Cathay Real Estate Development Co., Ltd.	\$ 4,625	\$ 4,608	\$ 4,549

Lease periods are usually between 2 and 5 years and rentals are usually paid on a monthly basis.

6) Prepayments for long-term investments

Name	March 31, 2019	December 31,	March 31, 2018
		2018	
Associate			
Cathay Century (China)	\$ -	\$ 2,200,394	\$ -

Cathay Life and Cathay Century resolved at a board meetings held on September 17, 2018 to increase capital in the amount CNY245 million to its associate Cathay Century (China). The Investment Commission of the Ministry of Economic Affairs authorized the remittance on December 6, 2018 and November 23, 2018. The capital increase was approved by the Bank of China Banking and Insurance Regulatory Commission on January 23, 2019.

7) Guarantee deposits paid

Name	March 31, 2019	December 31, 2018	March 31, 2018
Other related parties			
Lin Yuan Property Management Co., Ltd.	\$ 5,000	\$ 5,000	\$ 5,000
San Ching Engineering Co., Ltd.	440,700	440,700	456,980
Cathay Hospitality Management Co., Ltd.	256,883	256,883	104,537
Ally Logistic Property	160,310	139,386	337,790
Cathay Hospitality Consulting Co., Ltd.	<u>107,074</u>	<u>107,074</u>	<u>-</u>
	<u>\$ 969,967</u>	<u>\$ 949,043</u>	<u>\$ 904,307</u>

8) Payables

Name	March 31, 2019	December 31, 2018	March 31, 2018
Associate			
Symphox Information Co., Ltd.	\$ 196,047	\$ 29,398	\$ 149,669
Other related parties			
Seaward Card Co., Ltd.	25,079	34,034	10,900
Lin Yuan Property Management Co., Ltd.	47,090	-	54,239
Others	<u>13,972</u>	<u>-</u>	<u>-</u>
	<u>\$ 282,188</u>	<u>\$ 63,432</u>	<u>\$ 214,808</u>

9) Purchased fund balance issued by related parties

Name	Items	March 31, 2019	December 31, 2018	March 31, 2018
Associate				
Global Evolution	Market value	<u>\$ 2,799,199</u>	<u>\$ 2,138,492</u>	<u>\$ -</u>
Holdings ApS	Cost	<u>\$ 2,707,877</u>	<u>\$ 2,142,144</u>	<u>\$ -</u>

10) Investment balance of related parties' discretionary investment

Name	March 31, 2019	December 31, 2018	March 31, 2018
Other related parties			
Charity Foundation of Cathay Life	\$ 75,643	\$ 68,993	\$ 72,887
Cathay Real Estate Development Cultural Foundation	<u>51,415</u>	<u>47,019</u>	<u>52,598</u>
	<u>\$ 127,058</u>	<u>\$ 116,012</u>	<u>\$ 125,485</u>

11) Investment balance appointed to related parties' discretionary investments

Name	March 31, 2019	December 31, 2018	March 31, 2018
Associate			
Global Evolution Holdings ApS	\$ <u>6,703,295</u>	\$ <u>6,494,247</u>	\$ <u>-</u>

12) Handling fee income

Name	For the Three Months Ended March 31	
	2019	2018
Other related party		
Cathay Securities Investment Consulting Co., Ltd.	\$ <u>4,544</u>	\$ <u>4,270</u>

13) Premium income

Name	For the Three Months Ended March 31	
	2019	2018
Subsidiary of the Company		
Cathay Medical Care Corporate	\$ 7,395	\$ 11,143
Others	<u>77,455</u>	<u>37,281</u>
	\$ <u>84,850</u>	\$ <u>48,424</u>

14) Operating expenses

Name	For the Three Months Ended March 31	
	2019	2018
Associate		
Symphox Information Co., Ltd.	\$ 231,552	\$ 230,846
Other related parties		
Seaward Card Co., Ltd.	74,167	89,542
Lin Yuan Property Management Co., Ltd.	195,093	193,849
Cathay Healthcare Management Co., Ltd.	15,961	18,724
Charity Foundation of Cathay Life	<u>-</u>	<u>5,550</u>
	\$ <u>516,773</u>	\$ <u>538,511</u>

15) Compensation of key management personnel

	For the Three Months Ended March 31	
	2019	2018
Short-term employee benefits	\$ 348,111	\$ 315,533
Post-employment benefits	4,856	4,409
Other long-term employee benefits	<u>34</u>	<u>26</u>
	\$ <u>353,001</u>	\$ <u>319,968</u>

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

c. The Company

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

1) Cash in banks

<b>Name</b>	<b>Items</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Subsidiary of the Company				
Cathay United Bank	Cash in bank	\$ 102,240	\$ 139,920	\$ 118,913

Interest income from Cathay United Bank for the three months ended March 31, 2019 and 2018 were \$90 thousand and \$66 thousand, respectively.

2) Accounts receivable

<b>Name</b>	<b>Items</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Subsidiary of the Company				
Cathay Life	Consolidated tax returns, interest, dividends	\$ 376,274	\$ 65,589	\$ 5,176,563
Cathay Century	Consolidated tax returns, dividends	153,985	64,901	270,312
Cathay United Bank	Consolidated tax returns	52,180	-	395,116
Cathay Securities	Consolidated tax returns	28,319	24,916	79,853
Cathay Securities Investment Trust	Consolidated tax returns	126,356	82,083	98,632
Cathay Venture	Consolidated tax returns	<u>28,259</u>	<u>29,331</u>	<u>-</u>
		<u>\$ 765,373</u>	<u>\$ 266,820</u>	<u>\$ 6,020,476</u>

3) Guarantee deposits paid

<b>Name</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Subsidiary of the Company			
Cathay Life	<u>\$ 21,344</u>	<u>\$ 12,588</u>	<u>\$ 12,588</u>

4) Financial assets measured at amortized cost

Name	March 31, 2019	December 31, 2018	March 31, 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 fair value through profit or loss

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

6) Rental agreements

a) Lease liabilities

Name	March 31, 2019	December 31, 2018	March 31, 2018
Subsidiary of the Company			
Cathay Life	<u>\$ 87,096</u>	<u>\$ -</u>	<u>\$ -</u>

b) Interest expense

Name	For the Three Months Ended March 31	
	2019	2018
Subsidiary of the Company		
Cathay Life	<u>\$ 352</u>	<u>\$ -</u>

7) Payables

Name	Items	March 31, 2019	December 31, 2018	March 31, 2018
Subsidiary of the Company				
Cathay Life	Consolidated tax returns	\$ 9,828,035	\$ 8,998,563	\$ -
Cathay United Bank	Consolidated tax returns	<u>-</u>	<u>485,773</u>	<u>-</u>
		<u>\$ 9,828,035</u>	<u>\$ 9,484,336</u>	<u>\$ -</u>

8) Interest income

Name	For the Three Months Ended March 31	
	2019	2018
Subsidiary of the Company		
Cathay Life	\$ 310,685	\$ 333,617
Cathay Century	<u>-</u>	<u>4,586</u>
	<u>\$ 310,685</u>	<u>\$ 338,203</u>

9) Operating expenses

Name	For the Three Months Ended March 31	
	2019	2018
Subsidiary of the Company		
Cathay Life	<u>\$ -</u>	<u>\$ 14,916</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 Three Months Ended March 31	
		2019	2018
Subsidiary of associate			
Ally Logistic Property Co., Ltd.	Wuri E-commerce Building, etc.	<u>\$ -</u>	<u>\$ 186,771</u>
Other related party			
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	424,542	302,429
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	296,515	65,766
		<u>721,057</u>	<u>368,195</u>
		<u>\$ 721,057</u>	<u>\$ 554,966</u>



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

The total amounts of contracted projects for real estate as of March 31, 2019, December 31, 2018 and March 31, 2018, between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were \$1,838,045 thousand, \$1,838,045 thousand and \$1,850,813 thousand, respectively.

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

ii. Real-estate rental income (from related parties)

Name	<b>Rental Income</b>	
	<b>For the Three Months Ended</b>	
	<b>March 31</b>	
	<b>2019</b>	<b>2018</b>
Associate's subsidiary		
Ally Logistic Property Co., Ltd.	\$ 142,932	\$ 104,828
Subsidiary		
Cathay United Bank	<u>126,783</u>	<u>165,353</u>
	<u>\$ 269,715</u>	<u>\$ 270,181</u>

Name	<b>Guarantee Deposits Received</b>		
	<b>December 31,</b>		
	<b>March 31, 2019</b>	<b>2018</b>	<b>March 31, 2018</b>
Subsidiary			
Cathay United Bank	\$ 189,738	\$ 189,738	\$ 164,798
Other related party			
Cathay Healthcare Management Co., Ltd.	<u>184,170</u>	<u>206,166</u>	<u>218,252</u>
	<u>\$ 373,908</u>	<u>\$ 395,904</u>	<u>\$ 383,050</u>

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

b) Cash in banks

Name	Item	March 31, 2019	December 31, 2018	March 31, 2018
Subsidiary				
Cathay United Bank	Time deposits	\$ 2,265,800	\$ 2,715,620	\$ 2,003,000
	Cash in bank	18,338,703	28,726,895	25,186,485
	Checking deposits	294,976	268,337	228,545
	Security deposits	6	6	6
Indovina Bank Limited	Time deposits	1,063,200	1,536,338	12,780
	Cash in bank	<u>7,717</u>	<u>8,344</u>	<u>5,650</u>
		<u>\$ 21,970,402</u>	<u>\$ 33,255,540</u>	<u>\$ 27,436,466</u>

Interest income from Cathay United Bank for the three months ended March 31, 2019 and 2018 were \$18,382 thousand and \$7,441 thousand, respectively.

Interest income from Indovina Bank Limited for the three months ended March 31, 2019 and 2018 were \$25,486 thousand and \$110 thousand, respectively.

As of March 31, 2019, December 31, 2018 and March 31, 2018, amounts of time deposit pledged were \$3,000 thousand, \$3,000 thousand and \$3,000 thousand, respectively.

c) Loans

Name	For the Three Months Ended March 31, 2019		
	Maximum	Rate	Ending Balance
Other related party	<u>\$ 1,012,392</u>	1.03%-3.44%	<u>\$ 974,374</u>
Name	For the Three Months Ended March 31, 2018		
	Maximum	Rate	Ending Balance
Other related party	<u>\$ 884,639</u>	1.03%-3.45%	<u>\$ 827,973</u>

Interest income from other related parties for the three months ended March 31, 2019 and 2018 were \$3,844 thousand and \$3,236 thousand, respectively.

d) Balance of beneficiary certificates purchased from related parties

Name		March 31, 2019	December 31, 2018	March 31, 2018
Subsidiary's associates				
Global Evolution	Market value	<u>\$ 2,799,199</u>	<u>\$ 2,138,492</u>	<u>\$ -</u>
Holding ApS	Cost	<u>\$ 2,707,877</u>	<u>\$ 2,142,144</u>	<u>\$ -</u>

e) Discretionary account management balance

<b>Name</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Subsidiary's associates			
Global Evolution Holding ApS	\$ 6,703,295	\$ 6,494,247	\$ -
Fellow subsidiaries			
Cathay Securities Investment Trust Co., Ltd.	<u>235,789,632</u>	<u>210,965,710</u>	<u>247,581,133</u>
	<u>\$ 242,492,927</u>	<u>\$ 217,459,957</u>	<u>\$ 247,581,133</u>

f) Other receivables

<b>Name</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Parent company			
Cathay Financial Holding Co., Ltd. (Note)	<u>\$ 9,828,035</u>	<u>\$ 8,998,563</u>	<u>\$ -</u>

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

g) Guarantee deposits paid

<b>Name</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Fellow subsidiaries			
Cathay Futures Co., Ltd.	<u>\$ 2,450,591</u>	<u>\$ 1,511,584</u>	<u>\$ 1,936,421</u>

For the three months ended March 31, 2019 and 2018, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were \$350 thousand and \$368 thousand, respectively.

h) Guarantee deposits received and reinsurance assets

<b>Name</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Associate and its subsidiaries			
Ally Logistic Property Co., Ltd.	<u>\$ 160,310</u>	<u>\$ 139,386</u>	<u>\$ 337,790</u>
Other related party			
San Ching Engineering Co., Ltd.	440,700	440,700	456,980
Cathay Hospitality Management Co., Ltd.	256,883	256,883	104,537
Cathay Hospitality Consulting Co., Ltd.	<u>107,074</u>	<u>107,074</u>	<u>-</u>
	<u>804,657</u>	<u>804,657</u>	<u>561,517</u>
	<u>\$ 964,967</u>	<u>\$ 944,043</u>	<u>\$ 899,307</u>

i) Other payables

Name	March 31, 2019	December 31, 2018	March 31, 2018
Parent company			
Cathay Financial Holding Co., Ltd. (Note)	\$ 376,274	\$ 65,589	\$ 5,176,563
Fellow subsidiaries			
Cathay United Bank	<u>656,257</u>	<u>89,605</u>	<u>613,733</u>
	<u>\$ 1,032,531</u>	<u>\$ 155,194</u>	<u>\$ 5,790,296</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.

j) Bonds payable

Name	March 31, 2019	December 31, 2018	March 31, 2018
Parent company			
Cathay Financial Holding Co., Ltd.	<u>\$ 35,000,000</u>	<u>\$ 35,000,000</u>	<u>\$ 35,000,000</u>

k) Preferred stock liabilities

Name	March 31, 2019	December 31, 2018	March 31, 2018
Parent company			
Cathay Financial Holding Co., Ltd.	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,000,000</u>

l) Other operating costs

Name	For the Three Months Ended March 31	
	2019	2018
Fellow subsidiaries		
Cathay United Bank	\$ 289,442	\$ 242,682
Cathay Securities Investment Trust Co., Ltd.	<u>44,934</u>	<u>101,941</u>
	<u>\$ 334,376</u>	<u>\$ 344,623</u>

m) Finance costs

Name	For the Three Months Ended March 31	
	2019	2018
The Company		
Cathay Financial Holding Co., Ltd.	<u>\$ 310,685</u>	<u>\$ 333,617</u>

Finance costs consist of interest expenses accrued from bond payable.

n) Operating expenses

Name	For the Three Months Ended March 31	
	2019	2018
Subsidiaries		
Cathay United Bank	\$ 2,106,459	\$ 1,677,009
Other related party		
Lin Yuan Property Management Co., Ltd.	<u>195,093</u>	<u>193,849</u>
	<u>\$ 2,301,552</u>	<u>\$ 1,870,858</u>

o) Non-operating income

Name	For the Three Months Ended March 31	
	2019	2018
Fellow subsidiaries		
Cathay Century Insurance Co., Ltd.	<u>\$ 144,720</u>	<u>\$ 135,913</u>

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

p) Other disclosures

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

Item	March 31, 2019	December 31, 2018	March 31, 2018
CS contracts.	<u>US\$ 3,665,000</u>	<u>US\$ 3,752,000</u>	<u>US\$ 4,144,000</u>

2) Cathay United Bank and its subsidiaries

a) Loans and deposits

March 31, 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 01.01-03.31	Allowance for Bad Debt Expense - Ending Balance
				Normal Loans	Nonperforming Loans				
Consumer loans	12	\$ 31,210	\$ 4,163	V	\$ -	None	None	\$ 20	\$ 124
Self-used housing mortgage loans	225	1,750,425	1,636,157	V	-	Real estate	None	539	20,676
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 01.01-03.31	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

### March 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 01.01-03.31	Allowance for Bad Debt Expense - Ending Balance
				Normal Loans	Nonperforming Loans				
Consumer loans	8	\$ 17,575	\$ 2,646	V	\$ -	None	None	\$ 15	\$ 39
Self-used housing mortgage loans	195	1,573,507	1,472,954	V	-	Real estate	None	(451 )	19,076

### Interest Revenue For the Three Months Ended March 31

	<u>2019</u>	<u>2018</u>
Other related parties		
Cathay Real Estate Development Co., Ltd.	\$ 470	\$ -
Others	<u>6,756</u>	<u>6,190</u>
	<u>\$ 7,226</u>	<u>\$ 6,190</u>

### Deposits

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
The Company			
Cathay Financial Holding	\$ 102,240	\$ 139,920	\$ 118,913
Subsidiary			
Cathay Life Insurance	20,633,677	30,744,095	27,387,862
Cathay Century Insurance	2,069,221	2,724,193	1,514,519
Cathay Securities	2,855,941	2,550,090	3,032,972
Cathay Futures Co., Ltd.	1,697,977	1,345,519	1,284,386
Cathay Venture	36,057	113,380	28,030
Cathay Securities Investment Trust	132,853	149,076	131,472
Cathay Securities Investment Consulting Co., Ltd.	207,981	187,533	170,627
Cathay Life Insurance (Vietnam) Co., Ltd.	1,070,933	1,809,689	18,430
Cathay Insurance (Vietnam) Co., Ltd	168,495	147,705	156,229
Lin Yuan (Shanghai) Real Estate Co., Ltd.	704,115	623,035	-
Associate			
Symphox Information Co., Ltd.	124,740	122,139	88,892
Xin-Ri-Tai Energy Corp.	95,979	137,979	221,774
Other related parties			
Cathay United Bank Culture and Charity Foundation	541,501	541,888	549,768
Cathay Life Insurance Employees' Welfare Committee	2,261,408	2,221,665	3,218,071
Cathay Real Estate Development Employees' Welfare Committee	384,346	386,529	362,235
Cathay Real Estate Development Co., Ltd.	297,458	199,127	319,155
Others	<u>8,918,358</u>	<u>7,457,000</u>	<u>12,461,258</u>
	<u>\$ 42,303,280</u>	<u>\$ 51,600,562</u>	<u>\$ 51,064,593</u>

		<b>Interest Expense</b>	
		<b>For the Three Months Ended</b>	
		<b>March 31</b>	
		<b>2019</b>	<b>2018</b>
The Company			
Cathay Financial Holding Co., Ltd.		\$ (90)	\$ (66)
Subsidiary			
Cathay Life Insurance Co., Ltd.		(13,648)	(7,318)
Cathay Century Insurance Co., Ltd.		(2,152)	(1,763)
Cathay Securities Co., Ltd.		(974)	(1,055)
Cathay Futures Co., Ltd.		(1,813)	(2,587)
Cathay Venture Inc.		(1)	(10)
Cathay Securities Investment Trust Co., Ltd.		(40)	(53)
Cathay Securities Investment Consulting Co., Ltd.		(163)	(147)
Lin Yuan (Shanghai) Real Estate Co., Ltd.		(4,864)	-
Cathay Life Insurance (Vietnam) Co., Ltd.		(18,695)	(110)
Cathay Insurance (Vietnam) Co., Ltd.		(2,248)	(1,378)
Associate			
Symphox Information Co., Ltd.		(177)	(150)
Xin-Ri-Tai Energy Corp.		(14)	(120)
Other related parties			
Cathay Real Estate Development Co., Ltd.		(13)	(11)
Cathay United Bank Culture and Charity Foundation		(1,394)	(1,412)
Cathay Life Insurance Employees' Welfare Committee		(5,489)	(5,799)
Cathay Real Estate Development Employees' Welfare Committee		(1,028)	(919)
Others		(20,117)	(16,345)
		<u>\$ (72,920)</u>	<u>\$ (39,243)</u>

<b>Items</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
<u>Due from commercial banks</u>			
Other related parties			
Vietinbank	\$ 5,391,452	\$ 5,309,375	\$ 5,226,749
<u>Due to commercial banks</u>			
Other related parties			
Vietinbank	5,349,695	5,360,670	5,197,946

Items	Interest Income (Expense)	
	For the Three Months Ended	
	March 31	
	2019	2018
<u>Due from commercial banks</u>		
Other related parties		
Vietinbank	\$ 1,330	\$ 1,300
<u>Due to commercial banks</u>		
Other related parties		
Vietinbank	(1,312)	(1,291)

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

b) Derivatives

March 31, 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)	2018.06.28-2020.03.23	\$ 112,973,625	\$ 2,609,378	Valuation adjustment for financial assets at FVTPL	\$ 2,157,861
					Valuation adjustment for FVTPL financial liabilities	-
Cathay Century Insurance Co., Ltd.	SWAP - exchange between customers (USD)	2018.05.07-2019.07.31	2,610,878	47,900	Valuation adjustment for financial assets at FVTPL	31,039
					Valuation adjustment for FVTPL financial liabilities	-

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)

March 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)	2017.06.05-2019.02.01	\$ 120,673,280	\$ (1,337,700)	Valuation adjustment for financial assets at FVTPL	\$ 7,462
					Valuation adjustment for FVTPL financial liabilities	(1,800,614)
Cathay Century Insurance Co., Ltd.	SWAP - exchange between customers (USD)	2016.04.07-2018.10.11	2,582,944	(43,180)	Valuation adjustment for FVTPL financial liabilities	(54,685)

c) Lease agreements

	Lease Liabilities		
	December 31,		
	March 31, 2019	2018	March 31, 2018
Subsidiary			
Cathay Life Insurance Co., Ltd.	\$ 2,171,374	\$ -	\$ -



Items	March 31, 2019	December 31, 2018	Payment Term
<u>Rental expense</u>			
Subsidiary			
Cathay Life Insurance Co., Ltd.	\$ 57,222	\$ 165,353	Monthly

<u>Refundable Deposits</u>			
Items	March 31, 2019	December 31, 2018	Payment Term
Subsidiary			
Cathay Life Insurance Co., Ltd.	\$ 189,738	\$ 189,738	\$ 164,798

d) Others

Items	<u>For the Three Months Ended March 31</u>	
	2019	2018
<u>Commission and handling fee income</u>		
Subsidiary		
Cathay Life Insurance Co., Ltd.	\$ 2,395,810	\$ 1,919,500

Commission and handling fee expense

Associate		
Symphox Information Co., Ltd.	142,060	156,273

Items	March 31, 2019	December 31, 2018	March 31, 2018
<u>Related party receivables for allocation of integrated income tax systems account</u>			
The Company			
Cathay Financial Holding Co., Ltd.	\$ -	\$ 485,773	\$ -

Related party receivables for insurance commission

Subsidiary			
Cathay Life Insurance Co., Ltd.	656,257	89,605	613,733

Accounts payable

Associate			
Symphox Information Co., Ltd.	138,348	19,680	124,842

Related party payables for allocation of integrated income tax systems account

The Company			
Cathay Financial Holding Co., Ltd.	52,180	-	395,116

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	For the Three Months Ended March 31	
		2019	2018
Net premium income	Subsidiary of the Company	<u>\$ 132,625</u>	<u>\$ 120,623</u>
Operating costs			
Marketing costs	Subsidiary of the Company Cathay Life	<u>\$ 143,193</u>	<u>\$ 134,353</u>

b) Payables to related parties

Items	Name	March 31, 2019	December 31, 2018	March 31, 2018
Current tax liabilities	The Company Cathay Financial Holdings	<u>\$ 153,985</u>	<u>\$ 64,901</u>	<u>\$ 270,312</u>

c) Cash in bank

Items	Name	March 31, 2019	December 31, 2018	March 31, 2018
Checking deposits and demand deposits	Subsidiary Cathay United Bank	\$ 1,451,021	\$ 2,100,993	\$ 896,319
Time deposits	Subsidiary Cathay United Bank	618,200	623,200	618,200
	Indovina Bank Limited (Vietnam)	<u>152,608</u>	<u>144,687</u>	<u>145,204</u>
		<u>\$ 2,221,829</u>	<u>\$ 2,868,880</u>	<u>\$ 1,659,723</u>

As of March 31, 2019, December 31, 2018 and March 31, 2018, time deposits pledged and recognized as guarantee deposits were \$23,133 thousand, \$28,108 thousand and \$22,821 thousand, respectively.

d) Interest revenue

	For the Three Months Ended March 31	
	2019	2018
Subsidiaries	<u>\$ 4,778</u>	<u>\$ 3,141</u>

e) Discretionary account management balance

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Subsidiary of the Company			
Cathay Securities Investment Trust	<u>\$ 938,552</u>	<u>\$ 848,925</u>	<u>\$ 906,383</u>

f) Prepayments for investment

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
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 the capital increase in Cathay Insurance Company Ltd. (China) in the amount of CNY245,000 thousand on September 17, 2018. The Company's payment was approved by the Investment Commission, Ministry of Economic Affairs on November 23, 2018 and was authorized by the China Banking Regulatory Commission on January 23, 2019.

g) Preferred stock liabilities

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

h) Foreign exchange forward contracts

As of March 31, 2019, December 31, 2018 and March 31, 2018, the nominal amount of the derivative financial instrument transactions with related parties are listed below:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Subsidiary of the Company			
Cathay United Bank	US\$ 84,700 EUR 750	US\$ 88,700 EUR 750	US\$ 88,700 EUR 4,850

4) Cathay Securities and its subsidiaries

a) Cash in bank

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Subsidiary			
Cathay United Bank	<u>\$ 3,291,534</u>	<u>\$ 3,836,853</u>	<u>\$ 3,862,548</u>

b) Interest income

		<b>For the Three Months Ended March 31</b>	
		<b>2019</b>	<b>2018</b>
Subsidiary			
Cathay United Bank		<u>\$ 1,813</u>	<u>\$ 3,642</u>

c) Customer's margin accounts

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Subsidiary			
Cathay United Bank	<u>\$ 1,262,384</u>	<u>\$ 58,822</u>	<u>\$ 454,873</u>

d) Futures trader's equity

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Fellow subsidiaries			
Cathay Life	\$ 2,450,591	\$ 1,511,584	\$ 1,936,421
Cathay Securities Investment Trust (Note)	<u>1,920,545</u>	<u>994,480</u>	<u>978,776</u>
	<u>\$ 4,371,136</u>	<u>\$ 2,506,064</u>	<u>\$ 2,915,197</u>

Note: The counterparty includes investment trusts managed by Cathay Securities Investment Trust.

5) Cathay Securities Investment Trust

a) Cash and cash equivalents

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Subsidiary			
Cathay United Bank	<u>\$ 83,292</u>	<u>\$ 101,890</u>	<u>\$ 79,922</u>

b) Accounts receivables

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Fund managed by Cathay Securities	<u>\$ 178,412</u>	<u>\$ 154,280</u>	<u>\$ 152,607</u>

c) Accounts payables

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Cathay Financial Holding (Note)	<u>\$ 126,356</u>	<u>\$ 82,083</u>	<u>\$ 98,632</u>

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

d) Operating income

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Fund managed by Cathay Securities	\$ 495,585	\$ 439,646
Subsidiary		
Cathay Life	<u>44,934</u>	<u>101,941</u>
	<u>\$ 540,519</u>	<u>\$ 541,587</u>

6) Cathay Venture

a) Cash and cash equivalents

	<b>Items</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Subsidiary				
Cathay United Bank	Cash in bank	<u>\$ -</u>	<u>\$ 1,022</u>	<u>\$ 22,051</u>
	Security deposits	<u>\$ 36,057</u>	<u>\$ 112,359</u>	<u>\$ 5,979</u>

b) Interest income

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Subsidiary		
Cathay United Bank	<u>\$ 1</u>	<u>\$ 10</u>

c) Financial assets at fair value through profit or loss - non-current

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Other related party			
Cathay Healthcare Management Co., Ltd.	<u>\$ 202,376</u>	<u>\$ 180,180</u>	<u>\$ 113,355</u>

## 29. PLEDGED ASSETS

The Group's pledged assets are summarized below:

Items	Description	March 31, 2019	December 31, 2018	March 31, 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	\$ 15,490,288	\$ 16,515,144	\$ 15,280,996
Financial assets at fair value through profit and loss	Collateral for securities lending and guarantees for future transactions	2,781,750	1,179,454	2,180,981
Financial assets at fair value through other comprehensive income	Business reserves and collaterals	14,319	14,353	261,378
Financial assets at amortized cost	Business reserves and collaterals	64,441,414	64,423,052	71,746,950
Investment properties	Short-term loans	<u>290,341</u>	<u>290,341</u>	<u>290,341</u>
		<u>\$ 83,018,112</u>	<u>\$ 82,422,344</u>	<u>\$ 89,760,646</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 and \$3,090,000 thousand separately. The case has been pending in the court since July 2007, and Cathay United Bank won favorable decisions in both 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 March 31, 2019, December 31, 2018 and March 31, 2018 Cathay United Bank and its subsidiaries had the following entrusted item and guarantees:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Trust and security held for safekeeping	\$ 752,645,748	\$ 750,988,804	\$ 699,742,983
Travelers checks for sale	277,506	299,765	332,606
Bills for collection	35,622,519	36,044,907	40,123,245
Book-entry for government bonds and depository for short-term marketable securities under management	406,756,292	400,999,309	441,359,848
Entrusted financial management business	20,881,895	21,016,659	8,785,096
Guarantees on duties and contracts	14,154,307	13,534,956	7,322,523
Unused commercial letters of credit	6,190,470	6,008,561	5,955,557
Irrevocable loan commitments	115,637,487	155,229,226	153,205,922
Unused credit card lines commitments	602,656,736	592,059,512	566,626,973
Underwriting securities	3,380,000	1,000,000	21,840,000
Financial guarantee contracts	1,927,062	2,511,838	2,272,075

- c. As of March 31, 2019, the maximum remaining capital commitments for the contracted private equity fund of Cathay Life was NT\$1,950,900 thousand, US\$2,372,649 thousand, EUR379,194 thousand and GBP1,557 thousand.

**31. FINANCIAL STATEMENTS OF CATHAY FINANCIAL HOLDING CO., LTD.**
**Cathay Financial Holding Co., Ltd.**
**Balance Sheets**  
**(In Thousands of New Taiwan Dollars)**

<b>ASSETS</b>	<b>March 31, 2019 (Reviewed)</b>	<b>December 31, 2018 (Audited)</b>	<b>March 31, 2018 (Reviewed)</b>	<b>LIABILITIES AND EQUITY</b>	<b>March 31, 2019 (Reviewed)</b>	<b>December 31, 2018 (Audited)</b>	<b>March 31, 2018 (Reviewed)</b>
CASH AND CASH EQUIVALENTS	\$ 107,835	\$ 445,353	\$ 124,491	COMMERCIAL PAPER PAYABLE, NET	\$ 59,460,000	\$ 59,260,000	\$ 42,310,000
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	35,374,500	35,444,500	35,574,000	PAYABLES	9,972,332	9,894,697	142,294
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	101,843	102,304	92,658	CURRENT TAX LIABILITIES	1,740,033	1,719,191	14,325,533
FINANCIAL ASSETS MEASURED AT AMORTIZED COST	-	-	5,997,826	PROVISIONS	742,214	739,257	936,347
RECEIVABLES, NET	765,373	266,902	6,023,945	LEASE LIABILITIES	95,539	-	-
CURRENT TAX ASSETS	6,433,314	6,428,841	4,349,714	DEFERRED TAX LIABILITIES	266,714	266,714	266,713
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET	680,328,923	548,662,186	604,852,362	OTHER LIABILITIES	<u>164,081</u>	<u>164,069</u>	<u>163,964</u>
PROPERTY AND EQUIPMENT, NET	12,699	11,767	11,208	Total liabilities	<u>72,440,913</u>	<u>72,043,928</u>	<u>58,144,851</u>
RIGHT-OF-USE ASSETS	95,339	-	-	EQUITY			
INTANGIBLE ASSETS, NET	-	1,330	5,319	Share capital			
DEFERRED TAX ASSETS	352,939	352,601	358,780	Ordinary shares	125,632,102	125,632,102	125,632,102
OTHER ASSETS	<u>60,492</u>	<u>59,474</u>	<u>35,438</u>	Preference shares	15,333,000	15,333,000	8,333,000
TOTAL	<u>\$ 723,633,257</u>	<u>\$ 591,775,258</u>	<u>\$ 657,425,741</u>	Capital surplus	165,440,915	165,449,364	130,425,473
				Retained earnings			
				Legal reserve	40,976,121	40,976,121	35,339,841
				Special reserve	149,346,119	149,346,119	149,106,971
				Unappropriated earnings	107,724,634	95,553,376	114,628,150
				Other equity	<u>46,739,453</u>	<u>(72,558,752)</u>	<u>35,815,353</u>
				Total equity	<u>651,192,344</u>	<u>519,731,330</u>	<u>599,280,890</u>
				TOTAL	<u>\$ 723,633,257</u>	<u>\$ 591,775,258</u>	<u>\$ 657,425,741</u>



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

**Statements of Comprehensive Income**  
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**  
**(Reviewed, Not Audited)**

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
<b>REVENUE</b>		
Share of gain of subsidiaries, associates and joint ventures accounted for using the equity method	\$ 13,418,414	\$ 22,474,478
Other operating income	<u>311,104</u>	<u>937,609</u>
Total revenue	<u>13,729,518</u>	<u>23,412,087</u>
<b>EXPENSES AND LOSSES</b>		
Operating expenses	(228,745)	(298,070)
Other expenses and losses	<u>(178,388)</u>	<u>(60,126)</u>
Total expenses and losses	<u>(407,133)</u>	<u>(358,196)</u>
<b>INCOME BEFORE TAX</b>	13,322,385	23,053,891
<b>INCOME TAX (EXPENSE) BENEFIT</b>	<u>(109,233)</u>	<u>13,492</u>
<b>NET INCOME</b>	<u>13,213,152</u>	<u>23,067,383</u>
<b>OTHER COMPREHENSIVE INCOME</b>		
Items that will not be reclassified subsequently to profit or loss:		
(Loss) gain on equity instruments at fair value through other comprehensive income	(461)	1,521
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	5,014,620	761,170
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>113,242,152</u>	<u>(59,433,039)</u>
Other comprehensive income (loss) for the period, net of income tax	<u>118,256,311</u>	<u>(58,669,347)</u>
<b>TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD</b>	<u>\$ 131,469,463</u>	<u>\$ (35,601,964)</u>
<b>EARNINGS PER SHARE</b>		
Basic	<u>\$1.05</u>	<u>\$1.84</u>

Cathay Financial Holding Co., Ltd.

Statements of Changes in Equity  
(In Thousands of New Taiwan Dollars)  
(Reviewed, Not Audited)

	Other Equity														
	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 Using the Overlay Benefit Plans	Gains on Property Revaluation	Other Comprehensive Income (Loss) on Reclassification Using Overlay Approach	Total Equity
	Share Capital		Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings									
	Ordinary Shares	Preference shares													
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
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	(26,632)	-	-	-	-	-	-	-	-	-	-	-	(26,632)
Net income for the three months ended March 31, 2018	-	-	-	-	-	23,067,383	-	-	-	-	-	-	-	-	23,067,383
Other comprehensive income (loss) for the three months ended March 31, 2018, net of income tax	-	-	-	-	-	-	(677,890)	(36,764,790)	-	(27,177)	609,273	42,310	874	(21,851,947)	(58,669,347)
Total comprehensive income (loss) for three months ended March 31, 2018	-	-	-	-	-	23,067,383	(677,890)	(36,764,790)	-	(27,177)	609,273	42,310	874	(21,851,947)	(35,601,964)
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	(4,082,934)	-	4,082,934	-	-	-	-	-	-	-
BALANCE AT MARCH 31, 2018	<u>\$ 125,632,102</u>	<u>\$ 8,333,000</u>	<u>\$ 130,425,473</u>	<u>\$ 35,339,841</u>	<u>\$ 149,106,971</u>	<u>\$ 114,628,150</u>	<u>\$ (11,501,132)</u>	<u>\$ 4,661,620</u>	<u>\$ -</u>	<u>\$ 176,470</u>	<u>\$ (581,754)</u>	<u>\$ (1,407,369)</u>	<u>\$ 10,377,688</u>	<u>\$ 34,089,830</u>	<u>\$ 599,280,890</u>
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
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	(8,449)	-	-	-	-	-	-	-	-	-	-	-	(8,449)
Net income for the three months ended March 31, 2019	-	-	-	-	-	13,213,152	-	-	-	-	-	-	-	-	13,213,152
Other comprehensive income (loss) for the three months ended March 31, 2019, net of income tax	-	-	-	-	-	-	1,735,222	40,670,463	-	69,816	(972,621)	7,721	664,254	76,081,456	118,256,311
Total comprehensive income (loss) for three months ended March 31, 2019	-	-	-	-	-	13,213,152	1,735,222	40,670,463	-	69,816	(972,621)	7,721	664,254	76,081,456	131,469,463
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	(1,041,894)	-	1,041,894	-	-	-	-	-	-	-
BALANCE AT MARCH 31, 2019	<u>\$ 125,632,102</u>	<u>\$ 15,333,000</u>	<u>\$ 165,440,915</u>	<u>\$ 40,976,121</u>	<u>\$ 149,346,119</u>	<u>\$ 107,724,634</u>	<u>\$ (10,414,649)</u>	<u>\$ 24,125,411</u>	<u>\$ -</u>	<u>\$ 243,105</u>	<u>\$ (198,537)</u>	<u>\$ (1,313,417)</u>	<u>\$ 11,032,165</u>	<u>\$ 23,265,375</u>	<u>\$ 651,192,344</u>

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

**Statements of Cash Flows**  
**(In Thousands of New Taiwan Dollars)**  
**(Reviewed, Not Audited)**

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 13,322,385	\$ 23,053,891
Adjustments for:		
Depreciation expenses	15,064	657
Amortization expenses	1,330	1,330
Loss (gain) on of financial assets and liabilities at fair value through profit or loss	70,000	(598,500)
Interest income	(310,783)	(338,381)
Interest expenses	97,895	49,524
Share of gain of associates accounted for using the equity method	(13,418,414)	(22,474,478)
Loss on disposal of property and equipment	-	89
Reversal of impairment loss	-	(699)
Unrealized foreign exchange loss	-	2,909
Changes in operating assets and liabilities		
Increase in other assets	(6,844)	(572)
Decrease in payables	(203,412)	(101,095)
Increase in provisions	2,957	2,881
Increase in other liabilities	<u>12</u>	<u>162</u>
Cash used in operations	(429,810)	(402,282)
Interest received	180	366
Interest paid	(83,313)	(52,594)
Income taxes paid	<u>(23)</u>	<u>(61)</u>
Net cash used in operating activities	<u>(512,966)</u>	<u>(454,571)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(1,608)	(706)
Increase in other assets	<u>(8,756)</u>	<u>-</u>
Net cash flows used in investing activities	<u>(10,364)</u>	<u>(706)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in commercial paper payable	200,000	(630,000)
Repayments of the principal portion of lease liabilities	<u>(14,188)</u>	<u>-</u>
Net cash flows generated from (used in) financing activities	<u>185,812</u>	<u>(630,000)</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>	<u>-</u>	<u>(2,909)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(337,518)	(1,088,186)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNINGS OF THE PERIOD</b>	<u>445,353</u>	<u>1,212,677</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<u>\$ 107,835</u>	<u>\$ 124,491</u>

### 32. THE MAJOR SUBSIDIARIES' CONDENSED BALANCE SHEETS AND STATEMENTS OF COMPREHENSIVE INCOME

#### a. Condensed balance sheets

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

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

Assets	March 31, 2019	December 31, 2018	March 31, 2018	Liabilities	March 31, 2019	December 31, 2018	March 31, 2018
Cash and cash equivalents	\$ 223,465,262	\$ 164,504,001	\$ 249,560,031	Payables	\$ 21,521,025	\$ 27,799,042	\$ 35,239,963
Receivables	77,509,575	70,860,435	57,581,758	Financial liabilities at fair value through profit or loss	24,556,672	27,499,106	1,504,046
Financial assets at fair value through profit or loss	1,198,732,887	1,128,633,727	1,143,982,429	Bonds payable	70,000,000	70,000,000	70,000,000
Financial assets at fair value through other comprehensive income	906,508,589	921,964,604	922,640,574	Preference share liabilities	-	-	5,000,000
Financial assets measured at amortized cost	2,370,675,633	2,258,061,756	1,939,208,494	Insurance liabilities	5,355,947,199	5,267,978,184	4,964,581,158
Financial assets for hedging	392,653	216,611	221,211	Reserve for insurance contracts with the nature of financial products	994,133	930,654	633,953
Investments accounted for using the equity method	100,528,405	97,135,294	88,506,530	Reserve for foreign exchange valuation	19,947,665	17,075,289	11,217,192
Other financial assets	1,999,356	1,999,406	3,499,051	Provisions	56,245	56,245	56,245
Investment property	437,019,617	427,098,786	422,979,610	Lease liabilities	9,316,647	-	-
Loans	574,406,885	594,129,442	615,859,148	Deferred tax liabilities	34,799,846	28,476,919	38,002,815
Reinsurance assets	1,477,359	1,480,860	695,847	Other liabilities	7,147,928	8,155,913	24,257,886
Property and equipment	29,784,768	29,848,752	29,519,091	Separate account insurance product liabilities	584,964,841	546,852,734	558,908,649
Right-of-use assets	598,047	-	-	Total liabilities	<u>6,129,252,201</u>	<u>5,994,824,086</u>	<u>5,709,401,907</u>
Intangible assets	33,027,268	33,545,574	35,130,742				
Deferred tax assets	27,392,629	38,165,870	42,994,465	<b>Equity</b>			
Other assets	36,866,837	36,918,943	25,388,463	Ordinary shares	57,265,274	57,265,274	53,065,274
Separate account insurance product assets	<u>584,964,841</u>	<u>546,852,734</u>	<u>558,908,649</u>	Capital surplus	51,527,476	51,535,925	13,741,030
				Retained earnings	336,093,034	331,036,962	335,944,225
				Other equity	<u>31,212,626</u>	<u>(83,245,452)</u>	<u>24,523,657</u>
				Total equity	<u>476,098,410</u>	<u>356,592,709</u>	<u>427,274,186</u>
Total	<u>\$ 6,605,350,611</u>	<u>\$ 6,351,416,795</u>	<u>\$ 6,136,676,093</u>	Total	<u>\$ 6,605,350,611</u>	<u>\$ 6,351,416,795</u>	<u>\$ 6,136,676,093</u>

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

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

<b>Assets</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>	<b>Liabilities</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Cash and cash equivalents	\$ 2,415,051	\$ 1,388,582	\$ 1,251,565	Payables	\$ 1,380,305	\$ 1,478,177	\$ 1,771,329
Receivables	1,102,875	832,546	1,267,308	Current income tax liabilities	499,198	444,535	284,958
Financial assets at fair value through profit or loss	32,512,124	29,502,960	25,577,331	Insurance liabilities	18,304,444	15,555,689	11,998,262
Financial assets measured at amortized cost	137,607	134,286	973,288	Reserve for insurance contracts with the nature of financial instruments	9,192,662	8,388,059	8,276,653
Loans	558,197	460,032	218,685	Lease liabilities	371,101	-	-
Reinsurance assets	65,381	38,050	37,449	Other liabilities	102,391	76,453	44,208
Property and equipment	135,931	143,339	115,762	Separate account insurance product liabilities	122,874	111,527	138,030
Right-of-use assets	372,747	-	-	Total liabilities	<u>29,972,975</u>	<u>26,054,440</u>	<u>22,513,440</u>
Intangible assets	36,392	38,541	22,669	<b>Equity</b>			
Other assets	3,268,130	3,187,274	2,999,346	Ordinary shares	13,497,155	13,497,155	13,497,155
Separate account insurance product assets	<u>122,874</u>	<u>111,527</u>	<u>138,030</u>	Retained earnings	(3,357,706)	(3,502,959)	(3,474,951)
				Other equity	<u>614,885</u>	<u>(211,499)</u>	<u>65,789</u>
				Total equity	<u>10,754,334</u>	<u>9,782,697</u>	<u>10,087,993</u>
Total	<u>\$ 40,727,309</u>	<u>\$ 35,837,137</u>	<u>\$ 32,601,433</u>	Total	<u>\$ 40,727,309</u>	<u>\$ 35,837,137</u>	<u>\$ 32,601,433</u>

**Cathay Life Insurance Company (Vietnam)**

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

<b>Assets</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>	<b>Liabilities</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Cash and cash equivalents	\$ 2,047,430	\$ 2,903,659	\$ 265,639	Payables	\$ 80,153	\$ 103,318	\$ 60,706
Receivables	418,430	502,968	266,969	Current income tax liabilities	-	-	986
Financial assets at fair value through profit or loss	10,277,293	8,881,532	7,628,903	Insurance liabilities	3,479,711	3,238,790	2,309,787
Financial assets measured at amortized cost	225,930	477,000	178,920	Lease liabilities	122,800	-	-
Loans	49,594	45,374	30,759	Other liabilities	<u>164</u>	<u>195</u>	<u>271</u>
Property and equipment	10,162	10,781	12,718	Total liabilities	<u>3,682,828</u>	<u>3,342,303</u>	<u>2,371,750</u>
Right-of-use assets	121,719	-	-	<b>Equity</b>			
Intangible assets	4,720	388	274	Ordinary shares	9,090,730	9,090,730	5,410,990
Other assets	<u>90,006</u>	<u>85,851</u>	<u>68,262</u>	Retained earnings	156,274	124,494	266,106
				Other equity	<u>315,452</u>	<u>350,026</u>	<u>403,598</u>
				Total equity	<u>9,562,456</u>	<u>9,565,250</u>	<u>6,080,694</u>
Total	<u>\$ 13,245,284</u>	<u>\$ 12,907,553</u>	<u>\$ 8,452,444</u>	Total	<u>\$ 13,245,284</u>	<u>\$ 12,907,553</u>	<u>\$ 8,452,444</u>

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

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

<b>Assets</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>	<b>Liabilities</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Current assets	\$ 1,156,972	\$ 1,065,285	\$ 910,721	Current liabilities	\$ 1,544	\$ 1,621	\$ 1,187
Investment property	7,352,801	7,175,348	7,334,202	Deferred tax liabilities	432,082	410,120	362,727
Property and equipment	<u>2</u>	<u>4</u>	<u>78</u>	Other liabilities	<u>88,663</u>	<u>91,550</u>	<u>89,119</u>
				Total liabilities	<u>522,289</u>	<u>503,291</u>	<u>453,033</u>
				<b>Equity</b>			
				Ordinary shares	7,223,435	7,223,435	7,223,435
				Retained earnings	948,863	890,272	663,203
				Other equity	<u>(184,812)</u>	<u>(376,361)</u>	<u>(94,670)</u>
				Total equity	<u>7,987,486</u>	<u>7,737,346</u>	<u>7,791,968</u>
Total	<u>\$ 8,509,775</u>	<u>\$ 8,240,637</u>	<u>\$ 8,245,001</u>	Total	<u>\$ 8,509,775</u>	<u>\$ 8,240,637</u>	<u>\$ 8,245,001</u>

**Cathay Woolgate Exchange Holding 1 Limited**

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

<b>Assets</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>	<b>Liabilities</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Current assets	\$ 2,600,589	\$ 2,431,476	\$ 2,335,086	Current liabilities	\$ 74,621	\$ 104,856	\$ 77,241
Investment property	<u>11,001,835</u>	<u>10,658,651</u>	<u>12,223,351</u>	Total liabilities	<u>74,621</u>	<u>104,856</u>	<u>77,241</u>
				<b>Equity</b>			
				Ordinary shares	16,654,013	16,654,013	16,654,013
				Retained earnings	619,879	495,404	1,307,486
				Other equity	<u>(3,746,089)</u>	<u>(4,164,146)</u>	<u>(3,480,303)</u>
				Total equity	<u>13,527,803</u>	<u>12,985,271</u>	<u>14,481,196</u>
Total	<u>\$ 13,602,424</u>	<u>\$ 13,090,127</u>	<u>\$ 14,558,437</u>	Total	<u>\$ 13,602,424</u>	<u>\$ 13,090,127</u>	<u>\$ 14,558,437</u>

**Cathay Woolgate Exchange Holding 2 Limited**

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

<b>Assets</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>	<b>Liabilities</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Current assets	\$ 26,157	\$ 24,448	\$ 24,132	Current liabilities	\$ 826	\$ 973	\$ 878
Investment property	<u>111,130</u>	<u>107,663</u>	<u>123,468</u>	Total liabilities	<u>826</u>	<u>973</u>	<u>878</u>
				<b>Equity</b>			
				Ordinary shares	168,222	168,222	168,222
				Retained earnings	6,095	4,994	13,665
				Other equity	<u>(37,856)</u>	<u>(42,078)</u>	<u>(35,165)</u>
				Total equity	<u>136,461</u>	<u>131,138</u>	<u>146,722</u>
Total	<u>\$ 137,287</u>	<u>\$ 132,111</u>	<u>\$ 147,600</u>	Total	<u>\$ 137,287</u>	<u>\$ 132,111</u>	<u>\$ 147,600</u>

**Cathay Walbrook Holding 1 Limited**

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

<b>Assets</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>	<b>Liabilities</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Current assets	\$ 826,367	\$ 715,710	\$ 628,965	Current liabilities	\$ 118,368	\$ 97,272	\$ 95,631
Investment property	<u>21,531,169</u>	<u>20,859,540</u>	<u>22,406,476</u>	Non-current liabilities	<u>13,159,031</u>	<u>12,748,557</u>	<u>13,408,941</u>
				Total liabilities	<u>13,277,399</u>	<u>12,845,829</u>	<u>13,504,572</u>
				<b>Equity</b>			
				Ordinary shares	10,189,090	10,189,090	10,189,090
				Retained earnings	529,510	459,840	803,717
				Other equity	<u>(1,638,463)</u>	<u>(1,919,509)</u>	<u>(1,461,938)</u>
				Total equity	<u>9,080,137</u>	<u>8,729,421</u>	<u>9,530,869</u>
Total	<u>\$ 22,357,536</u>	<u>\$ 21,575,250</u>	<u>\$ 23,035,441</u>	Total	<u>\$ 22,357,536</u>	<u>\$ 21,575,250</u>	<u>\$ 23,035,441</u>

**Cathay Walbrook Holding 2 Limited**

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

<b>Assets</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>	<b>Liabilities</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Current assets	\$ 40,591	\$ 34,867	\$ 31,021	Current liabilities	\$ 6,146	\$ 4,953	\$ 5,181
Investment property	<u>1,133,219</u>	<u>1,097,871</u>	<u>1,179,288</u>	Non-current liabilities	<u>692,581</u>	<u>670,977</u>	<u>705,734</u>
				Total liabilities	<u>698,727</u>	<u>675,930</u>	<u>710,915</u>
				<b>Equity</b>			
				Ordinary shares	536,268	536,268	536,268
				Retained earnings	24,854	21,286	39,916
				Other equity	<u>(86,039)</u>	<u>(100,746)</u>	<u>(76,790)</u>
				Total equity	<u>475,083</u>	<u>456,808</u>	<u>499,394</u>
Total	<u>\$ 1,173,810</u>	<u>\$ 1,132,738</u>	<u>\$ 1,210,309</u>	Total	<u>\$ 1,173,810</u>	<u>\$ 1,132,738</u>	<u>\$ 1,210,309</u>

**Conning Holdings Limited**

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

<b>Assets</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>	<b>Liabilities</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Current assets	\$ 3,987,270	\$ 5,211,249	\$ 2,885,047	Current liabilities	\$ 2,541,137	\$ 3,589,885	\$ 8,458,140
Financial assets at fair value through profit or loss	907,831	732,967	1,384,830	Provisions	160,290	169,031	-
Financial assets at fair value through other comprehensive income	4,514	3,642	3,450	Lease liabilities	946,410	-	-
Financial assets measured at amortized cost	-	-	7,575,011	Deferred tax liabilities	373,814	382,176	370,330
Investments accounted for using the equity method	2,864,794	2,711,174	-	Other non-current liabilities	<u>319,641</u>	<u>424,208</u>	<u>314,658</u>
Property and equipment	583,138	555,709	243,069	Total liabilities	<u>4,341,292</u>	<u>4,565,300</u>	<u>9,143,128</u>
Right-of-use assets	899,661	-	-	<b>Equity</b>			
Intangible assets	10,385,830	10,460,456	10,226,070	Ordinary shares	99,343	99,343	93,791
Deferred tax assets	71,330	86,585	90,581	Capital surplus	15,624,196	15,624,196	14,413,268
Other non-current assets	<u>271,637</u>	<u>276,065</u>	<u>236,884</u>	Retained earnings	247,218	151,020	143,245
				Other equity	(1,006,592)	(1,047,381)	(1,751,379)
				Non-controlling interests	<u>670,548</u>	<u>645,369</u>	<u>602,889</u>
				Total equity	<u>15,634,713</u>	<u>15,472,547</u>	<u>13,501,814</u>
Total	<u>\$ 19,976,005</u>	<u>\$ 20,037,847</u>	<u>\$ 22,644,942</u>	Total	<u>\$ 19,976,005</u>	<u>\$ 20,037,847</u>	<u>\$ 22,644,942</u>



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

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

<b>Assets</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>	<b>Liabilities</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Cash and cash equivalents	\$ 10,375,226	\$ 10,045,082	\$ 8,664,725	Payables	\$ 2,004,803	\$ 2,482,859	\$ 2,007,144
Receivables	2,086,109	2,256,600	1,685,928	Current income tax liabilities	163,075	73,991	247,125
Financial assets at fair value through profit or loss	6,674,768	5,887,384	9,288,599	Financial liabilities at fair value through profit or loss	59,431	50,041	515
Financial assets at fair value through other comprehensive income	1,168,687	1,451,444	1,499,919	Preference share liabilities	-	-	1,000,000
Financial assets measured at amortized cost	7,831,762	8,017,014	7,991,203	Lease liabilities	78,575	-	-
Investments accounted for using the equity method	2,850,030	1,684,638	1,689,859	Insurance liabilities	23,751,795	23,433,602	22,428,860
Loans	231,446	236,816	225,955	Provisions	440,032	440,082	427,118
Reinsurance assets	6,039,486	5,859,867	5,788,720	Deferred tax liabilities	280,599	298,914	275,431
Property and equipment	110,074	115,426	64,977	Other liabilities	<u>532,342</u>	<u>722,673</u>	<u>451,703</u>
Right-of-use assets	78,780	-	-	Total liabilities	<u>27,310,652</u>	<u>27,502,162</u>	<u>26,837,896</u>
Intangible assets	62,319	65,246	43,776	<b>Equity</b>			
Deferred tax assets	109,841	147,546	142,703	Ordinary shares	3,057,052	3,057,052	3,057,052
Other assets	<u>691,572</u>	<u>1,760,175</u>	<u>668,118</u>	Capital surplus	502,500	502,500	502,500
				Retained earnings	7,760,256	7,278,171	7,605,915
				Other equity	<u>(320,360)</u>	<u>(812,647)</u>	<u>(248,881)</u>
				Total equity	<u>10,999,448</u>	<u>10,025,076</u>	<u>10,916,586</u>
Total	<u>\$ 38,310,100</u>	<u>\$ 37,527,238</u>	<u>\$ 37,754,482</u>	Total	<u>\$ 38,310,100</u>	<u>\$ 37,527,238</u>	<u>\$ 37,754,482</u>

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

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

<b>Assets</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>	<b>Liabilities</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Cash and cash equivalents	\$ 166,549	\$ 140,839	\$ 111,950	Payables	\$ 110,246	\$ 70,307	\$ 53,203
Receivables	108,564	102,179	50,059	Insurance liabilities	308,717	352,073	353,806
Financial assets measured at amortized cost	510,760	509,226	517,944	Deferred tax liabilities	134	134	103
Reinsurance assets	211,489	249,311	257,184	Lease liabilities	11,906	-	-
Property and equipment	6,341	6,759	5,198	Other liabilities	<u>10,785</u>	<u>10,668</u>	<u>9,814</u>
Right-of-use assets	11,906	-	-	Total liabilities	<u>441,788</u>	<u>433,182</u>	<u>416,926</u>
Intangible assets	3,121	149	1,553	<b>Equity</b>			
Other assets	<u>46,927</u>	<u>38,543</u>	<u>42,875</u>	Ordinary shares	845,585	845,585	845,585
				Retained earnings	(89,191)	(97,383)	(113,704)
				Other equity	<u>(132,525)</u>	<u>(134,378)</u>	<u>(162,044)</u>
				Total equity	<u>623,869</u>	<u>613,824</u>	<u>569,837</u>
Total	<u>\$ 1,065,657</u>	<u>\$ 1,047,006</u>	<u>\$ 986,763</u>	Total	<u>\$ 1,065,657</u>	<u>\$ 1,047,006</u>	<u>\$ 986,763</u>

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

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

<b>Assets</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>	<b>Liabilities</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Cash and cash equivalents	\$ 63,797,235	\$ 66,762,454	\$ 78,811,233	Due to the Central Bank and other banks	\$ 83,280,204	\$ 67,728,200	\$ 102,414,717
Due from the Central Bank and call loans to other banks	113,891,670	102,596,003	100,808,587	Financial liabilities at fair value through profit or loss	103,064,307	102,960,537	91,534,675
Financial assets at fair value through profit or loss	245,150,661	246,407,565	300,731,083	Securities sold under repurchase agreements	43,978,185	55,974,509	99,285,174
Financial assets at fair value through other comprehensive income	208,136,770	180,253,805	197,044,953	Payables	27,961,083	23,816,109	19,769,010
Financial assets measured at amortized cost	384,276,254	419,828,413	346,232,153	Current income tax liabilities	177,186	87,061	391,261
Securities purchased under resale agreements	52,317,476	40,462,461	73,179,618	Deposits and remittances	2,194,901,013	2,174,157,863	2,074,822,558
Receivables	89,081,417	85,277,180	85,088,529	Financial debentures payable	55,600,000	55,600,000	59,500,000
Discounts and loans	1,560,794,129	1,533,747,366	1,467,300,374	Other financial liabilities	74,034,280	76,509,334	70,085,247
Investments accounted for using the equity method	25,618,742	25,501,114	9,129,567	Provisions	3,331,619	3,389,976	3,313,204
Other financial assets	1,038	1,271	2,849	Lease liabilities	4,113,644	-	-
Property and equipment	24,709,512	24,755,100	24,502,866	Deferred tax liabilities	2,365,395	1,645,038	1,606,922
Right-of-use assets	4,043,890	-	-	Other liabilities	<u>7,679,519</u>	<u>7,187,344</u>	<u>9,538,580</u>
Investment property	1,439,686	1,439,686	1,547,372	Total liabilities	<u>2,600,486,435</u>	<u>2,569,055,971</u>	<u>2,532,261,348</u>
Intangible assets	7,584,291	7,509,044	7,429,616	<b>Equity</b>			
Deferred tax assets	2,380,398	1,861,573	1,791,171	Ordinary shares	91,197,623	91,197,623	78,604,060
Other assets	<u>28,993,987</u>	<u>34,418,482</u>	<u>25,012,415</u>	Capital surplus	33,610,983	33,610,983	33,610,983
				Retained earnings	81,961,854	75,580,519	72,678,796
				Other equity	<u>4,960,261</u>	<u>1,376,421</u>	<u>1,457,199</u>
				Total equity	<u>211,730,721</u>	<u>201,765,546</u>	<u>186,351,038</u>
Total	<u>\$ 2,812,217,156</u>	<u>\$ 2,770,821,517</u>	<u>\$ 2,718,612,386</u>	Total	<u>\$ 2,812,217,156</u>	<u>\$ 2,770,821,517</u>	<u>\$ 2,718,612,386</u>

**Indovina Bank Limited**

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

<b>Assets</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>	<b>Liabilities</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Cash and cash equivalents	\$ 6,097,194	\$ 7,227,395	\$ 5,709,377	Due to the Central Bank and other banks	\$ 19,069,830	\$ 17,064,034	\$ 15,137,843
Due from the Central Bank and call loans to other banks	5,379,185	5,987,001	6,221,555	Financial liabilities at fair value through profit or loss	-	-	96,243
Financial assets at fair value through profit or loss	4,141,854	3,517,852	1,357,787	Payables	1,810,667	803,520	618,024
Financial assets at fair value through other comprehensive income	8,685,453	6,751,075	7,203,348	Current income tax liabilities	89,315	15,349	2,160
Financial assets measured at amortized cost	1,083,460	1,194,094	2,416,109	Deposits and remittances	39,802,464	38,981,124	35,198,672
Securities purchased under resale agreements	5,001,701	3,711,200	4,814,926	Provisions	4,835	15,349	-
Receivables	312,618	236,705	189,714	Deferred tax liabilities	-	-	205,215
Loans	37,011,284	35,458,419	30,511,685	Lease liabilities	64,208	-	-
Property and equipment	342,442	358,040	363,584	Other liabilities	<u>70,755</u>	<u>44,371</u>	<u>81,129</u>
Intangible assets	26,547	16,095	13,035	Total liabilities	<u>60,912,074</u>	<u>56,923,747</u>	<u>51,339,286</u>
Deferred tax assets	24,798	10,969	-	<b>Equity</b>			
Right-of-use assets	78,972	-	-	Ordinary shares	6,094,911	6,094,911	6,094,911
Other assets	<u>526,571</u>	<u>537,864</u>	<u>514,406</u>	Retained earnings	1,334,194	1,671,965	2,036,369
				Other equity	<u>370,900</u>	<u>316,086</u>	<u>(155,040)</u>
				Total equity	<u>7,800,005</u>	<u>8,082,962</u>	<u>7,976,240</u>
Total	<u>\$ 68,712,079</u>	<u>\$ 65,006,709</u>	<u>\$ 59,315,526</u>	Total	<u>\$ 68,712,079</u>	<u>\$ 65,006,709</u>	<u>\$ 59,315,526</u>

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

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

<b>Assets</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>	<b>Liabilities</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Cash and cash equivalents	\$ 3,126,469	\$ 1,915,910	\$ 2,458,770	Due to the Central Bank and other banks	\$ 73,864	\$ -	\$ -
Due from the Central Bank and call loans to other banks	1,726,571	3,330,578	1,589,313	Payables	327,418	127,987	128,934
Financial assets at fair value through other comprehensive income	789	786	745	Current income tax liabilities	19,355	53,237	10,861
Receivables	148,192	134,914	120,658	Deposits and remittances	8,674,556	8,952,862	7,144,897
Loans	6,952,529	6,787,997	5,883,265	Provisions	580	430	-
Property and equipment	187,608	159,357	158,448	Deferred tax liabilities	9,932	9,902	8,148
Current tax assets	4,649	-	-	Lease liabilities	90,510	-	-
Right-of-use assets	90,528	-	-	Other liabilities	<u>17,657</u>	<u>20,383</u>	<u>34,506</u>
Intangible assets	37,752	63,118	54,752	Total liabilities	<u>9,213,872</u>	<u>9,164,801</u>	<u>7,327,346</u>
Other assets	<u>58,402</u>	<u>57,197</u>	<u>55,368</u>	<b>Equity</b>			
				Ordinary shares	3,020,769	3,020,769	3,020,769
				Retained earnings	47,967	223,500	98,869
				Other equity	<u>50,881</u>	<u>40,787</u>	<u>(125,665)</u>
				Total equity	<u>3,119,617</u>	<u>3,285,056</u>	<u>2,993,973</u>
Total	<u>\$ 12,333,489</u>	<u>\$ 12,449,857</u>	<u>\$ 10,321,319</u>	Total	<u>\$ 12,333,489</u>	<u>\$ 12,449,857</u>	<u>\$ 10,321,319</u>

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

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

<b>Assets</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>Liabilities</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Cash and cash equivalents	\$ 2,728,252	\$ 2,510,637	Due to the Central Bank and other banks	\$ 21,436,978	\$ 20,372,825
Due from the Central Bank and call loans to other banks	4,771,219	5,483,627	Financial liabilities at fair value through profit or loss	350,019	447,241
Financial assets at fair value through profit or loss	965,280	759,799	Payables	2,488,189	301,361
Financial assets at fair value through other comprehensive income	14,980,383	13,567,235	Current income tax liabilities	44,470	29,171
Securities purchased under resale agreements	1,346,760	438,471	Deposits and remittances	4,721,587	5,569,841
Receivables	2,624,349	465,933	Other financial liabilities	492,438	-
Discounts and loans	18,283,314	19,329,468	Provisions	11,436	15,672
Property and equipment	63,289	82,396	Lease liabilities	72,542	-
Right-of-use assets	72,331	-	Deferred tax liabilities	-	2,828
Intangible assets	113,847	107,821	Other liabilities	<u>22,333</u>	<u>58,985</u>
Deferred tax assets	31,968	-	Total liabilities	<u>29,639,992</u>	<u>26,797,924</u>
Other assets	<u>55,844</u>	<u>47,706</u>			
			<b>Equity</b>		
			Ordinary shares	14,377,562	14,377,562
			Capital surplus	2,522,670	2,522,670
			Retained earnings	146,996	135,424
			Other equity	<u>(650,384)</u>	<u>(1,040,487)</u>
			Total equity	<u>16,396,844</u>	<u>15,995,169</u>
Total	<u>\$ 46,036,836</u>	<u>\$ 42,793,093</u>	Total	<u>\$ 46,036,836</u>	<u>\$ 42,793,093</u>

Note: Cathay United Bank (China) Co., Ltd. was included in the consolidated financial statements as a subsidiary on September 3, 2018.

**Cathay Securities Corporation**

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

<b>Assets</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>	<b>Liabilities</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Current assets	\$ 22,367,732	\$ 20,551,688	\$ 24,628,227	Current liabilities	\$ 17,313,013	\$ 15,537,861	\$ 19,582,738
Financial assets at fair value through other comprehensive income - non-current	135	106	110	Lease liabilities - non-current	70,664	-	-
Investments accounted for using the equity method	2,007,145	1,923,564	1,559,375	Deferred tax liabilities	587	1,129	18,236
Property and equipment	120,965	126,491	144,878	Other non-current liabilities	<u>28,097</u>	<u>30,471</u>	<u>25,327</u>
Right-of-use assets	119,780	-	-	Total liabilities	<u>17,412,361</u>	<u>15,569,461</u>	<u>19,626,301</u>
Intangible assets	56,251	52,757	49,965	<b>Equity</b>			
Deferred tax assets	29,564	37,894	6,541	Ordinary shares	5,700,086	5,700,086	5,510,000
Other non-current assets	<u>621,056</u>	<u>602,950</u>	<u>577,183</u>	Capital surplus	491,766	491,766	491,766
				Retained earnings	1,354,039	1,258,708	1,080,379
				Other equity	<u>364,376</u>	<u>275,429</u>	<u>257,833</u>
				Total equity	<u>7,910,267</u>	<u>7,725,989</u>	<u>7,339,978</u>
Total	<u>\$ 25,322,628</u>	<u>\$ 23,295,450</u>	<u>\$ 26,966,279</u>	Total	<u>\$ 25,322,628</u>	<u>\$ 23,295,450</u>	<u>\$ 26,966,279</u>

**Cathay Futures Co., Ltd.**

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

<b>Assets</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>	<b>Liabilities</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Current assets	\$ 9,927,260	\$ 7,515,226	\$ 6,561,238	Current liabilities	\$ 9,570,489	\$ 7,159,143	\$ 6,242,340
Financial assets at fair value through other comprehensive income - non-current	412,176	326,429	336,647	Deferred tax liabilities	6,821	6,821	7,265
Property and equipment	67,503	68,306	69,773	Other non-current liabilities	<u>4,443</u>	<u>1,675</u>	<u>1,675</u>
Investment property	290,341	290,341	290,341	Total liabilities	<u>9,581,753</u>	<u>7,167,639</u>	<u>6,251,280</u>
Right-of-use assets	9,544	-	-	<b>Equity</b>			
Intangible assets	26,860	26,461	30,203	Ordinary shares	667,000	667,000	667,000
Other non-current assets	<u>150,506</u>	<u>148,795</u>	<u>155,233</u>	Retained earnings	254,034	245,263	219,177
				Other equity	<u>381,403</u>	<u>295,656</u>	<u>305,978</u>
				Total equity	<u>1,302,437</u>	<u>1,207,919</u>	<u>1,192,155</u>
Total	<u>\$ 10,884,190</u>	<u>\$ 8,375,558</u>	<u>\$ 7,443,435</u>	Total	<u>\$ 10,884,190</u>	<u>\$ 8,375,558</u>	<u>\$ 7,443,435</u>

**Cathay Securities (Hong Kong) Limited**

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

<b>Assets</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>	<b>Liabilities</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Current assets	\$ 2,924,112	\$ 1,334,030	\$ 965,103	Current liabilities	\$ 2,357,970	\$ 691,159	\$ 694,402
Property and equipment	16,245	17,811	14,392	Non-current liabilities	<u>16,163</u>	<u>-</u>	<u>-</u>
Right-of-use assets	30,857	-	-	Total liabilities	<u>2,374,133</u>	<u>691,159</u>	<u>694,402</u>
Intangible assets	1,940	1,937	1,831				
Other non-current assets	<u>97,180</u>	<u>35,216</u>	<u>61,388</u>	<b>Equity</b>			
				Ordinary shares	1,108,244	1,108,244	728,544
				Retained earnings	(376,445)	(373,892)	(314,546)
				Other equity	<u>(35,598)</u>	<u>(36,517)</u>	<u>(65,686)</u>
				Total equity	<u>696,201</u>	<u>697,835</u>	<u>348,312</u>
Total	<u>\$ 3,070,334</u>	<u>\$ 1,388,994</u>	<u>\$ 1,042,714</u>	Total	<u>\$ 3,070,334</u>	<u>\$ 1,388,994</u>	<u>\$ 1,042,714</u>

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

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

<b>Assets</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>	<b>Liabilities</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Current assets	\$ 2,388,066	\$ 2,265,450	\$ 2,104,479	Current liabilities	\$ 436,325	\$ 471,774	\$ 381,249
Financial assets at fair value through other comprehensive income - non-current	9,330	9,318	9,918	Non-current liabilities	<u>131,036</u>	<u>137,156</u>	<u>132,869</u>
Investments accounted for using the equity method	501,484	506,230	564,728	Total liabilities	<u>567,361</u>	<u>608,930</u>	<u>514,118</u>
Property and equipment	41,529	45,880	49,930				
Right-of-use assets	36,510	-	-	<b>Equity</b>			
Intangible assets	13,389	13,735	7,347	Ordinary shares	1,500,000	1,500,000	1,500,000
Deferred tax assets	22,125	23,303	19,358	Capital surplus	13,908	13,908	13,908
Other non-current assets	<u>306,253</u>	<u>304,793</u>	<u>253,815</u>	Retained earnings	1,296,918	1,116,659	1,019,635
				Other equity	<u>(59,501)</u>	<u>(70,788)</u>	<u>(38,086)</u>
				Total equity	<u>2,751,325</u>	<u>2,559,779</u>	<u>2,495,457</u>
Total	<u>\$ 3,318,686</u>	<u>\$ 3,168,709</u>	<u>\$ 3,009,575</u>	Total	<u>\$ 3,318,686</u>	<u>\$ 3,168,709</u>	<u>\$ 3,009,575</u>

**Cathay Private Equity Co., Ltd.**

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

<b>Assets</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>	<b>Liabilities</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Current assets	\$ 45,782	\$ 48,145	\$ 49,753	Current liabilities	\$ 3,581	\$ 611	\$ 243
Other non-current assets	<u>4,921</u>	<u>626</u>	<u>94</u>	Total liabilities	<u>3,581</u>	<u>611</u>	<u>243</u>
				<b>Equity</b>			
				Ordinary shares	50,000	50,000	50,000
				Retained earnings	<u>(2,878)</u>	<u>(1,840)</u>	<u>(396)</u>
				Total equity	<u>47,122</u>	<u>48,160</u>	<u>49,604</u>
Total	<u>\$ 50,703</u>	<u>\$ 48,771</u>	<u>\$ 49,847</u>	Total	<u>\$ 50,703</u>	<u>\$ 48,771</u>	<u>\$ 49,847</u>

**Cathay Venture Inc.**

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

<b>Assets</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>	<b>Liabilities</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Current assets	\$ 238,230	\$ 239,721	\$ 752,772	Current liabilities	\$ 203,365	\$ 62,904	\$ 29,742
Financial assets at fair value through profit or loss - non-current	3,547,135	3,229,147	2,631,396	Non-current liabilities	<u>6,306</u>	<u>6,076</u>	<u>5,644</u>
Investments accounted for using the equity method	282,024	279,048	274,957	Total liabilities	<u>209,671</u>	<u>68,980</u>	<u>35,386</u>
Property and equipment	3,634	3,842	2,896	<b>Equity</b>			
Deferred tax assets	51,554	51,627	16,834	Ordinary shares	3,359,087	3,359,087	3,173,235
Other non-current assets	<u>1,126</u>	<u>1,126</u>	<u>1,126</u>	Capital surplus	128,625	128,625	128,625
				Retained earnings	426,414	247,913	343,033
				Other equity	<u>(94)</u>	<u>(94)</u>	<u>(298)</u>
				Total equity	<u>3,914,032</u>	<u>3,735,531</u>	<u>3,644,595</u>
Total	<u>\$ 4,123,703</u>	<u>\$ 3,804,511</u>	<u>\$ 3,679,981</u>	Total	<u>\$ 4,123,703</u>	<u>\$ 3,804,511</u>	<u>\$ 3,679,981</u>

b. Condensed statements of comprehensive income

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

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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 234,028,857	\$ 196,767,042
Operating costs	(221,899,923)	(177,832,339)
Operating expenses	<u>(5,731,387)</u>	<u>(5,534,890)</u>
Operating income	6,397,547	13,399,813
Non-operating income and expenses	<u>356,607</u>	<u>323,662</u>
Profit before income tax	6,754,154	13,723,475
Income tax (expense) benefit	<u>(423,786)</u>	<u>2,956,485</u>
Net income	6,330,368	16,679,960
Other comprehensive income (loss)	<u>113,183,782</u>	<u>(57,602,466)</u>
Total comprehensive income (loss)	<u>\$ 119,514,150</u>	<u>\$ (40,922,506)</u>
Earnings per share		
Basic	<u>\$1.11</u>	<u>\$3.14</u>

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

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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 4,162,748	\$ 3,610,853
Operating costs	(3,452,150)	(2,959,374)
Operating expenses	<u>(461,972)</u>	<u>(428,034)</u>
Operating income	248,626	223,445
Non-operating income and expenses	<u>475</u>	<u>(281)</u>
Profit before income tax	249,101	223,164
Income tax expense	<u>(103,848)</u>	<u>(175,473)</u>
Net income	145,253	47,691
Other comprehensive income	<u>826,384</u>	<u>53,204</u>
Total comprehensive income	<u>\$ 971,637</u>	<u>\$ 100,895</u>
Earnings per share		
Basic	Note	Note

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



**Cathay Life Insurance Company (Vietnam)**

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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 473,716	\$ 314,079
Operating costs	(293,720)	(423,179)
Operating expenses	<u>(149,198)</u>	<u>(103,054)</u>
Operating income (expense)	30,798	(212,154)
Non-operating income and expenses	<u>982</u>	<u>813</u>
Profit (loss) before income tax	31,780	(211,341)
Income tax expense	<u>-</u>	<u>(995)</u>
Net income (loss)	31,780	(212,336)
Other comprehensive (loss) income	<u>(34,574)</u>	<u>327,411</u>
Total comprehensive (loss) income	<u>\$ (2,794)</u>	<u>\$ 115,075</u>
Earnings per share		
Basic	Note	Note

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

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

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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 70,958	\$ 61,981
Operating expenses	<u>(581)</u>	<u>(1,638)</u>
Operating income	70,377	60,343
Non-operating income and expenses	<u>(6)</u>	<u>(5)</u>
Profit before income tax	70,371	60,338
Income tax expense	<u>(11,780)</u>	<u>(11,726)</u>
Net income	58,591	48,612
Other comprehensive income	<u>191,549</u>	<u>215,500</u>
Total comprehensive income	<u>\$ 250,140</u>	<u>\$ 264,112</u>
Earnings per share		
Basic	Note	Note

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

**Cathay Woolgate Exchange Holding 1 Limited**

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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 179,977	\$ 174,653
Operating expenses	<u>(122)</u>	<u>(124)</u>
Operating revenue	179,855	174,529
Income tax expense	<u>(55,380)</u>	<u>(33,065)</u>
Net income	124,475	141,464
Other comprehensive income	<u>418,057</u>	<u>248,116</u>
Total comprehensive income	<u>\$ 542,532</u>	<u>\$ 389,580</u>
Earnings per share		
Basic	Note	Note

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

**Cathay Woolgate Exchange Holding 2 Limited**

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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 1,816	\$ 1,763
Operating expenses	<u>(120)</u>	<u>(123)</u>
Operating revenue	1,696	1,640
Income tax expense	<u>(595)</u>	<u>(253)</u>
Net income	1,101	1,387
Other comprehensive income	<u>4,222</u>	<u>2,514</u>
Total comprehensive income	<u>\$ 5,323</u>	<u>\$ 3,901</u>
Earnings per share		
Basic	Note	Note

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

**Cathay Walbrook Holding 1 Limited**

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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 212,275	\$ 111,440
Operating costs	(125,067)	(114,591)
Operating expenses	<u>(120)</u>	<u>(302)</u>
Profit (loss) before income tax	87,088	(3,453)
Income tax expense	<u>(17,418)</u>	<u>-</u>
Net income (loss)	69,670	(3,453)
Other comprehensive income	<u>281,046</u>	<u>164,706</u>
Total comprehensive income	<u>\$ 350,716</u>	<u>\$ 161,253</u>
Earnings per share		
Basic	Note	Note

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

**Cathay Walbrook Holding 2 Limited**

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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 11,163	\$ 5,865
Operating costs	(6,583)	(6,031)
Operating expenses	<u>(120)</u>	<u>(165)</u>
Profit (loss) before income tax	4,460	(331)
Income tax expense	<u>(892)</u>	<u>-</u>
Net income (loss)	3,568	(331)
Other comprehensive income	<u>14,707</u>	<u>8,633</u>
Total comprehensive income	<u>\$ 18,275</u>	<u>\$ 8,302</u>
Earnings per share		
Basic	Note	Note

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

**Conning Holdings Limited**

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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 1,816,286	\$ 1,525,648
Operating costs	(151,639)	(147,407)
Operating expenses	<u>(1,479,157)</u>	<u>(1,292,981)</u>
Profit before income tax	185,490	85,260
Income tax expense	<u>(46,206)</u>	<u>(38,972)</u>
Net income	139,284	46,288
Other comprehensive income (loss)	<u>40,703</u>	<u>(327,067)</u>
Total comprehensive income (loss)	<u>\$ 179,987</u>	<u>\$ (280,779)</u>
Earnings per share		
Basic	Note	Note

Note: Conning Holdings Limited is a limited company, therefore there is no information about earnings per share.

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

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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 4,778,010	\$ 4,501,673
Operating costs	(3,260,249)	(3,033,673)
Operating expenses	<u>(937,622)</u>	<u>(871,700)</u>
Operating profit	580,139	596,300
Non-operating income and expenses	<u>(475)</u>	<u>(4,560)</u>
Profit before income tax	579,664	591,740
Income tax expense	<u>(97,579)</u>	<u>(108,993)</u>
Net income	482,085	482,747
Other comprehensive income (loss)	<u>492,287</u>	<u>(95,672)</u>
Total comprehensive income	<u>\$ 974,372</u>	<u>\$ 387,075</u>
Earnings per share		
Basic	<u>\$1.58</u>	<u>\$1.58</u>

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

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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Operating income	\$ 64,288	\$ 53,044
Operating costs	(20,527)	(15,117)
Operating expenses	<u>(36,392)</u>	<u>(35,011)</u>
Operating profit	7,369	2,916
Non-operating income and expenses	<u>823</u>	<u>(23)</u>
Profit from continuing operations before income tax	8,192	2,893
Income tax expense	<u>-</u>	<u>-</u>
Net income	8,192	2,893
Other comprehensive income (loss)	<u>1,853</u>	<u>(22,614)</u>
Total comprehensive income (loss)	<u>\$ 10,045</u>	<u>\$ (19,721)</u>
Earnings per share		
Basic	Note	Note

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

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

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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Interest income	\$ 12,762,806	\$ 11,457,648
Interest expense	<u>(4,784,938)</u>	<u>(4,279,303)</u>
Net interest income	7,977,868	7,178,345
Non-interest income	<u>8,027,296</u>	<u>6,868,081</u>
Total income	16,005,164	14,046,426
Bad debt expense and reserve for loss on guarantees	(661,920)	(479,244)
Operating expenses	<u>(8,224,311)</u>	<u>(6,865,520)</u>
Profit before income tax	7,118,933	6,701,662
Income tax expense	<u>(970,000)</u>	<u>(1,032,000)</u>
Net income	6,148,933	5,669,662
Other comprehensive income (loss)	<u>3,816,242</u>	<u>(981,044)</u>
Total comprehensive income	<u>\$ 9,965,175</u>	<u>\$ 4,688,618</u>
Earnings per share		
Basic	<u>\$0.67</u>	<u>\$0.62</u>

**Indovina Bank Limited**

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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Interest income	\$ 1,076,618	\$ 843,057
Interest expense	<u>(615,523)</u>	<u>(416,173)</u>
Net interest income	461,095	426,884
Non-interest income	<u>280,752</u>	<u>21,524</u>
Total income	<u>741,847</u>	<u>448,408</u>
Bad debt expense and reserve for loss on guarantees	(78,531)	59,691
Operating expenses	<u>(140,382)</u>	<u>(144,357)</u>
Profit before income tax	522,934	363,742
Income tax expense	<u>(73,877)</u>	<u>(96,385)</u>
Net income	449,057	267,357
Other comprehensive income	<u>54,814</u>	<u>20,706</u>
Total comprehensive income	<u>\$ 503,871</u>	<u>\$ 288,063</u>
Earnings per share		
Basic	Note	Note

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

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

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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Interest income	\$ 164,062	\$ 132,158
Interest expense	<u>(26,760)</u>	<u>(26,007)</u>
Net interest income	137,302	106,151
Non-interest income	<u>35,368</u>	<u>17,899</u>
Total income	<u>172,670</u>	<u>124,050</u>
Bad debt expense and reserve for loss on guarantees	(46,021)	(13,672)
Operating expenses	<u>(76,406)</u>	<u>(65,174)</u>
Profit before income tax	50,243	45,204
Income tax expense	<u>(13,779)</u>	<u>(7,811)</u>
Net income	36,464	37,393
Other comprehensive income (loss)	<u>10,094</u>	<u>(74,007)</u>
Total comprehensive income (loss)	<u>\$ 46,558</u>	<u>\$ (36,614)</u>
Earnings per share		
Basic	<u>\$0.36</u>	<u>\$0.38</u>

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

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

**For the Three  
Months Ended  
March 31, 2019**

Interest income	\$ 455,812
Interest expense	<u>(188,290)</u>
Net interest income	267,522
Non-interest income	<u>(106,474)</u>
Total income	<u>161,048</u>
Bad debt expense and reserve for loss on guarantees	36,716
Operating expenses	<u>(173,837)</u>
Profit before income tax	23,927
Income tax expense	<u>(12,355)</u>
Net income	11,572
Other comprehensive income	<u>390,103</u>
Total comprehensive income	<u>\$ 401,675</u>
Earnings per share	
Basic	Note 2

Note 1: Cathay United Bank (China) Co., Ltd. was included in the consolidated financial statements as a subsidiary on September 3, 2018.

Note 2: Cathay United Bank (China) Co., Ltd. is a limited company, therefore there is no information about earnings per share.

**Cathay Securities Corporation**

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

	For the Three Months Ended March 31	
	2019	2018
Revenues	\$ 673,439	\$ 774,147
Service fee expenses	(24,083)	(29,108)
Employee benefit expenses	(271,941)	(270,611)
Share of the profit of associates accounted for using the equity method	5,480	1,013
Operating expenses	(281,216)	(377,982)
Non-operating income and expenses	<u>4,843</u>	<u>5,089</u>
Profit before income tax	106,522	102,548
Income tax expense	<u>(11,191)</u>	<u>(9,612)</u>
Net income	95,331	92,936
Other comprehensive income	<u>88,947</u>	<u>2,010</u>
Total comprehensive income	<u>\$ 184,278</u>	<u>\$ 94,946</u>
Earnings per share		
Basic	<u>\$0.17</u>	<u>\$0.16</u>

**Cathay Futures Co., Ltd.**

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

	For the Three Months Ended March 31	
	2019	2018
Revenues	\$ 72,290	\$ 72,478
Operating expenses	<u>(77,541)</u>	<u>(73,818)</u>
Operating loss	(5,251)	(1,340)
Non-operating income and expenses	<u>16,495</u>	<u>13,253</u>
Profit before income tax	11,244	11,913
Income tax expense	<u>(2,473)</u>	<u>(711)</u>
Net income	8,771	11,202
Other comprehensive income	<u>85,747</u>	<u>8,411</u>
Total comprehensive income	<u>\$ 94,518</u>	<u>\$ 19,613</u>
Earnings per share		
Basic	<u>\$0.13</u>	<u>\$0.17</u>



**Cathay Securities (Hong Kong) Limited**

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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Revenues	\$ 37,297	\$ 26,169
Service fee expenses	(996)	(1,071)
Employee benefit expenses	(12,278)	(10,675)
Operating expenses	(27,924)	(24,194)
Non-operating income and expenses	<u>1,348</u>	<u>353</u>
Loss before income tax	(2,553)	(9,418)
Income tax expense	<u>-</u>	<u>-</u>
Net loss	(2,553)	(9,418)
Other comprehensive income (loss)	<u>919</u>	<u>(9,455)</u>
Total comprehensive loss	<u>\$ (1,634)</u>	<u>\$ (18,873)</u>
Earnings per share		
Basic	Note	Note

Note: Cathay Securities (Hong Kong) Limited is a limited company, therefore there is no information about earnings per share.

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

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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 592,519	\$ 588,716
Operating expenses	<u>(366,348)</u>	<u>(381,520)</u>
Operating profit	226,171	207,196
Non-operating income and expenses	<u>(242)</u>	<u>(4,418)</u>
Profit before income tax	225,929	202,778
Income tax expense	<u>(45,670)</u>	<u>(38,721)</u>
Net income	180,259	164,057
Other comprehensive income	<u>11,287</u>	<u>6,180</u>
Total comprehensive income	<u>\$ 191,546</u>	<u>\$ 170,237</u>
Earnings per share		
Basic	<u>\$1.20</u>	<u>\$1.09</u>

**Cathay Private Equity Co., Ltd.**

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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 655	\$ -
Operating expenses	<u>(1,958)</u>	<u>(369)</u>
Operating loss	(1,303)	(369)
Non-operating income and expenses	<u>6</u>	<u>2</u>
Loss before income tax	(1,297)	(367)
Income tax benefit	<u>259</u>	<u>73</u>
Net loss	<u>(1,038)</u>	<u>(294)</u>
 Total comprehensive loss	 <u>\$ (1,038)</u>	 <u>\$ (294)</u>
 Loss per share		
Basic	<u>\$(0.21)</u>	<u>\$(0.06)</u>

**Cathay Venture Inc.**

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

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Operating revenue	\$ 188,933	\$ 90,781
Operating costs	(7,214)	(7,421)
Operating expenses	(3,506)	(2,875)
Non-operating income and expenses	<u>360</u>	<u>(56)</u>
Profit before income tax	178,573	80,429
Income tax benefit (expense)	<u>(72)</u>	<u>16,146</u>
Net income	178,501	96,575
Other comprehensive income	<u>-</u>	<u>11</u>
 Total comprehensive income	 <u>\$ 178,501</u>	 <u>\$ 96,586</u>
 Earnings per share		
Basic	<u>\$0.53</u>	<u>\$0.29</u>

The above condensed consolidated (standalone) balance sheets and statements of comprehensive income of subsidiaries were audited by auditors in accordance with statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity".

- c. The profitability of the Company, the Group and the investees

For the three months ended March 31, 2019

Unit: %

	Return on Assets		Return on Equity		Net Income Ratio
	Before Tax	After Tax	Before Tax	After Tax	
The Group	0.17	0.14	2.61	2.28	10.83
The Company	2.03	2.01	2.28	2.26	97.51
Cathay Life	0.10	0.10	1.62	1.52	2.70
Cathay Century	1.53	1.27	5.51	4.59	10.09
Cathay United Bank	0.25	0.22	3.44	2.97	38.42
Cathay Securities	0.44	0.39	1.36	1.22	14.16

For the three months ended March 31, 2018

Unit: %

	Return on Assets		Return on Equity		Net Income Ratio
	Before Tax	After Tax	Before Tax	After Tax	
The Group	0.24	0.26	3.48	3.71	19.20
The Company	3.43	3.43	3.74	3.74	98.78
Cathay Life	0.22	0.27	3.06	3.73	8.48
Cathay Century	1.56	1.28	5.52	4.50	10.72
Cathay United Bank	0.25	0.21	3.69	3.09	40.17
Cathay Securities	0.37	0.34	1.41	1.27	12.00

Note: Net income ratio = Net income/Net revenue

### 33. BUSINESS OR TRADING ACTIVITIES WITHIN SUBSIDIARIES

- a. Integration of business activities

By integrating the insurance, securities, banking and other various financial institutions, the Company has become a full-functioning financial platform. Through 675 branches and nearly 30 thousand professional sales representatives across Taiwan, the Company is able to develop its cross-selling marketing strategy and provide a one-stop shopping service for its customers.

- b. Cross utilization of information

In compliance with the “Financial Holding Companies Act”, “Personal Data Protection Act”, “Financial Holding Subsidiaries Cross-selling Activities Acts”, “Self-disciplinary Rules Governing the Activities of the FHC” and other related regulations from FSC, Executive Yuan, the Company has stipulated “Cross-selling Activities Acts between Cathay Financial Holdings and its Subsidiaries”, “Cross-selling Activities Contracts between Cathay Financial Holdings and its Subsidiaries”, “Non-disclosure Agreement of Business Information and Customers’ Personal Data between Cathay Financial Holdings and its subsidiaries”, “Non-disclosure Measures Declaration of Cathay Financial Holdings and its Subsidiaries”, “Cathay Financial Holdings’ Supervision of its Subsidiaries’ Marketing Practices”, and “Points Governing Cathay Financial Holdings’ Data Storage Management Measures” to provide customers with exit mechanism and to cross-utilize customers’ personal data under a safe and secure environment and provide comprehensive and integrated financial service to the customers.

c. Locations and business facilities

In order to provide more comprehensive financial services and comply with the “Financial Holding Subsidiaries Cross-selling Activities Acts”, the Company has applied for and obtained approval from the authorities.

- 1) All the business units of Cathay United Bank (164 branches) may engage in cross-selling activities for the insurance business and securities business. According to the opening regulations, Cathay United Bank on April 29, 2016 may engage in the life insurance business and promote life insurance products.
- 2) Cathay Life may engage in cross-selling activities for banking, property and casualty insurance businesses in all its business and service units (122 locations).
- 3) Cathay Security may engage in cross-selling activities in Cathay Life’s Zhongxiao branch (and other 32 branches). The shared business locations are available for account opening services.

d. Allocation of revenues, costs, expenses, profits and losses

Revenue, costs, expenses, profits or losses arising from integrated business activities between the subsidiaries are allocated to each subsidiary based on the related business features or other reasonable allocation methods.

### 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 operates the permitted businesses of commercial banks provided by the Banking Act of the Republic of China, foreign exchange business, guarantee business, advisory service of foreign currency investments, trust business, offshore banking units and other financial business of investments from returning expatriates.
- 2) Life insurance operating segments: The life insurance operating segment operates the sales of traditional insurance policies, investment-linked insurance policies and floating-rate annuity insurance products.
- 3) Property insurance operating segment: The property insurance operating segment engages 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 responsible for securities brokerage, discretionary and underwriting and is dedicated to the innovation and development of financial products and services by providing a variety of new financial products.
- 5) Other operating segment: Such segment includes assets, liabilities, revenue and expenditure which are not able to be allocated to certain operating segments.

To formulate strategies of the allocation of resources and assessment of performance, the management monitors results of operating segments. The accounting policies are the same as the summary of significant accounting policies in Note 4.

b. Income information of reporting segment

For the three months ended March 31, 2019

Location	Banking Division	Life Insurance Division	Property and Casualty Insurance Division	Securities Division	Other Division	Total
Interest income	\$ 8,892,459	\$ 39,560,456	\$ 131,606	\$ 30,777	\$ (109,132)	\$ 48,506,166
Net income other than interest	2,403,294	69,235,748	1,575,037	630,679	2,735,157	76,579,915
Total income	11,295,753	108,796,204	1,706,643	661,456	2,626,025	125,086,081
Bad debt expenses, commitments and provision for premiums reserve	(749,756)	313,040	-	(108)	-	(436,824)
The net change of insurance liabilities	-	(87,125,997)	(227,306)	-	-	(87,353,303)
Operating expenses	(8,400,648)	(10,033,199)	(769,280)	(535,871)	(2,029,776)	(21,768,774)
Income (loss) from continuing operations before income taxes	2,145,349	11,950,048	710,057	125,477	596,249	15,527,180
Income taxes (expense) benefit	(1,079,667)	(500,267)	(97,579)	(11,191)	(288,463)	(1,977,167)
Consolidated net income	1,065,682	11,449,781	612,478	114,286	307,786	13,550,013

For the three months ended March 31, 2018

Location	Banking Division	Life Insurance Division	Property and Casualty Insurance Division	Securities Division	Other Division	Total
Interest income	\$ 7,725,041	\$ 33,251,806	\$ 132,101	\$ 42,366	\$ (46,931)	\$ 41,104,383
Net income other than interest	6,108,806	69,893,788	1,236,361	688,332	2,112,390	80,039,677
Total income	13,833,847	103,145,594	1,368,462	730,698	2,065,459	121,144,060
Bad debt expenses, commitments and provision for premiums reserve	(433,225)	16,771	-	(53)	-	(416,507)
The net change of insurance liabilities	-	(80,034,554)	125,176	-	-	(79,909,378)
Operating expenses	(6,822,854)	(8,855,526)	(833,259)	(610,937)	(1,897,043)	(19,019,619)
Income (loss) from continuing operations before income taxes	6,577,768	14,272,285	660,379	119,708	168,416	21,798,556
Income taxes (expense) benefit	(1,137,100)	2,806,868	(108,988)	(9,612)	(92,798)	1,458,370
Consolidated net income	5,440,668	17,079,153	551,391	110,096	75,618	23,256,926

Note: All of the internal transactions between 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. Chairman of the board**

- 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 and execute risk 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 and all 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 independent to business.
- 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) The range and types of risk assessment and 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.

- 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 Cathay Financial Holdings.
  - 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 Cathay Financial Holdings.
  - 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 Cathay Financial Holdings.

- 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 Cathay Financial Holdings.
- 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 medium risk 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 Cathay Financial Holdings 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 Three Month Ended March 31, 2019			
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/Morbidity	$\times 1.05 (\times 0.95)$	Decrease (increase)	\$ 691,494	Decrease (increase)	\$ 553,195
Expense	$\times 1.05 (\times 0.95)$	Decrease (increase)	903,947	Decrease (increase)	723,157
Surrender rate	$\times 1.05 (\times 0.95)$	Increase (decrease)	154,337	Increase (decrease)	123,469
Rate of return	+0.1%	Increase	1,387,674	Increase	1,110,139
Rate of return	-0.1%	Decrease	1,388,019	Decrease	1,110,415

		For the Three Month Ended March 31, 2018			
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/Morbidity	$\times 1.05 (\times 0.95)$	Decrease (increase)	\$ 681,733	Decrease (increase)	\$ 545,386
Expense	$\times 1.05 (\times 0.95)$	Decrease (increase)	735,848	Decrease (increase)	588,678
Surrender rate	$\times 1.05 (\times 0.95)$	Increase (decrease)	87,813	Increase (decrease)	70,251
Rate of return	+0.1%	Increase	1,329,821	Increase	1,063,857
Rate of return	-0.1%	Decrease	1,330,152	Decrease	1,064,121

ii. Cathay Lujiazui Life

		For the Three Month Ended March 31, 2019			
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/Morbidity	$\times 1.10 (\times 0.90)$	Decrease (increase)	\$ 41,005	Decrease (increase)	\$ 30,754
Expense	$\times 1.05 (\times 0.95)$	Decrease (increase)	22,504	Decrease (increase)	16,878
Surrender rate	$\times 1.10 (\times 0.90)$	Increase (decrease)	24,406	Increase (decrease)	18,304
Rate of return	+0.25%	Increase	348,556	Increase	261,417
Rate of return	-0.25%	Decrease	382,628	Decrease	286,971

		For the Three Month Ended March 31, 2018			
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/Morbidity	$\times 1.10 (\times 0.90)$	Decrease (increase)	\$ 40,583	Decrease (increase)	\$ 30,437
Expense	$\times 1.05 (\times 0.95)$	Decrease (increase)	21,130	Decrease (increase)	15,848
Surrender rate	$\times 1.10 (\times 0.90)$	Increase (decrease)	26,797	Increase (decrease)	20,097
Rate of return	+0.25%	Increase	147,541	Increase	110,656
Rate of return	-0.25%	Decrease	161,962	Decrease	121,471

iii. Cathay Life (Vietnam)

		For the Three Month Ended March 31, 2019			
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/Morbidity	$\times 1.05 (\times 0.95)$	Decrease (increase)	\$ 241	Decrease (increase)	\$ 193
Expense	$\times 1.05 (\times 0.95)$	Decrease (increase)	9,323	Decrease (increase)	7,458
Surrender rate	$\times 1.10 (\times 0.95)$	Increase (decrease)	1,790	Increase (decrease)	1,432
Rate of return	+0.1%	Increase	3,184	Increase	2,547
Rate of return	-0.1%	Decrease	3,185	Decrease	2,548

For the Three Month Ended March 31, 2018					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 96	Decrease (increase)	\$ 77
Expense	×1.05 (×0.95)	Decrease (increase)	6,406	Decrease (increase)	5,125
Surrender rate	×1.10 (×0.95)	Increase (decrease)	1,340	Increase (decrease)	1,072
Rate of return	+0.1%	Increase	1,979	Increase	1,583
Rate of return	-0.1%	Decrease	1,980	Decrease	1,584

- i) Changes in income before tax listed above referred to the effects of income before tax for the three months ended March 31, 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 and employee training expenses of operating expenses.

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		
2012Q2-2013Q1	\$ 14,569,267	\$ 17,789,762	\$ 18,110,776	\$ 18,165,256	\$ 18,206,847	\$ 18,240,233	\$ 18,263,191	\$ -	\$ -
2013Q2-2014Q1	14,477,781	17,698,383	18,006,950	18,071,883	18,108,996	18,137,596	18,160,321	22,725	22,770
2014Q2-2015Q1	14,551,675	17,833,415	18,170,312	18,237,819	18,237,267	18,268,300	18,291,435	54,168	54,276
2015Q2-2016Q1	15,615,418	19,060,569	19,414,149	19,490,509	19,531,992	19,565,400	19,590,249	99,740	99,939
2016Q2-2017Q1	16,022,652	19,698,946	20,049,004	20,120,214	20,162,750	20,197,314	20,223,168	174,163	174,512
2017Q2-2018Q1	18,053,937	22,165,777	22,559,246	22,640,540	22,690,059	22,728,777	22,757,932	592,155	593,340
2018Q2-2019Q1	19,772,694	24,193,798	24,624,353	24,714,842	24,770,511	24,813,302	24,845,458	5,072,764	5,082,909
Expected future payment								\$ 6,027,746	
Add: Assumed reserve for incurred but not reported claim								51,343	
Reserve for unreported claim								6,079,089	
Add: Reported but not paid claim								3,096,408	
Claims reserve balance								\$ 9,175,497	

ii) Retained business development trend

Accident Year	Development Year							Unreported Claim	Reserve for Unreported Claim
	1	2	3	4	5	6	7		
2012Q2-2013Q1	\$ 14,714,900	\$ 17,996,648	\$ 18,320,914	\$ 18,376,366	\$ 18,418,415	\$ 18,452,269	\$ 18,475,603	\$ -	\$ -
2013Q2-2014Q1	14,594,974	17,834,589	18,147,133	18,212,710	18,250,501	18,279,587	18,302,607	23,020	23,066
2014Q2-2015Q1	14,661,087	17,981,392	18,322,594	18,390,825	18,390,977	18,422,471	18,446,690	55,713	55,824
2015Q2-2016Q1	15,734,806	19,228,641	19,586,570	19,663,817	19,705,913	19,739,805	19,765,859	102,042	102,246
2016Q2-2017Q1	16,103,354	19,813,468	20,168,320	20,240,093	20,283,059	20,317,938	20,344,023	175,703	176,054
2017Q2-2018Q1	18,179,256	22,338,184	22,736,312	22,818,467	22,868,644	22,907,880	22,937,702	599,518	600,718
2018Q2-2019Q1	19,868,021	24,320,618	24,755,068	24,846,322	24,902,606	24,946,013	24,978,980	5,110,959	5,121,181
Expected future payment								\$ 6,079,089	
Add: Reported but not paid claim								3,094,609	
Retained claims reserve balance								\$ 9,173,698	

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	
2012Q2-2013Q1	\$ 373,764	\$ 600,850	\$ 638,521	\$ 648,367	\$ 648,367	\$ 648,367	\$ 648,367	\$ -
2013Q2-2014Q1	219,366	410,567	439,392	446,938	446,938	446,938	446,938	-
2014Q2-2015Q1	260,304	446,686	478,522	484,934	484,934	484,934	484,934	-
2015Q2-2016Q1	267,802	506,115	542,170	542,170	542,170	542,170	542,170	-
2016Q2-2017Q1	302,789	547,324	578,777	585,342	585,342	585,342	585,342	6,565
2017Q2-2018Q1	363,183	394,489	420,538	425,308	425,308	425,308	425,308	30,819
2018Q2-2019Q1	425,796	692,351	738,068	746,439	746,439	746,439	746,439	320,643
Expected future payment								\$ 358,027
Less: Expected reported but not paid claim								(1,589)
Reserve for unreported claim								356,438
Add: Reported but not paid claim								26,755
Claims reserve balance								<u>\$ 383,193</u>

ii) Retained business development trend

Accident Year	Development Year							Expected Future Payment
	1	2	3	4	5	6	7	
2012Q2-2013Q1	\$ 365,019	\$ 592,105	\$ 629,732	\$ 639,575	\$ 639,575	\$ 639,575	\$ 639,575	\$ -
2013Q2-2014Q1	196,590	387,365	416,168	423,712	423,712	423,712	423,712	-
2014Q2-2015Q1	257,678	443,931	475,767	482,050	482,050	482,050	482,050	-
2015Q2-2016Q1	255,481	491,190	527,181	527,181	527,181	527,181	527,181	-
2016Q2-2017Q1	292,313	469,369	498,478	504,237	504,237	504,237	504,237	5,759
2017Q2-2018Q1	350,617	377,240	403,091	407,748	407,748	407,748	407,748	30,508
2018Q2-2019Q1	418,768	673,171	719,301	727,611	727,611	727,611	727,611	308,843
Expected future payment								\$ 345,110
Less: Expected reported but not paid claim								(1,589)
Add: Reported but not paid claim								25,118
Retained claims reserve balance								<u>\$ 368,639</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
2014Q2-2015Q1	656	777	777	780	780
2015Q2-2016Q1	1,490	1,589	1,589	1,589	1,589
2016Q2-2017Q1	2,838	4,568	4,568	4,570	4,570
2017Q2-2018Q1	20,297	29,402	29,402	29,418	29,418
2018Q2-2019Q1	92,201	130,099	130,099	130,166	130,166

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>
March 31, 2019	\$ (155.5)	\$ 165.1	\$ 17,919.9
December 31, 2018	(109.5)	199.3	17,521.6
March 31, 2018	(94.8)	92.5	16,798.4

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) Should understand the various risks that the insurance business faces, ensure the effectiveness of risk management and assume responsibility for the entire risk management.
- ii) Should establish an adequate risk management mechanism and risk management culture, approve an appropriate risk management policy and allocate resources effectively.
- iii) Should not only follow up the risks that each substantial segment of the business faces but also consider the effect of the aggregated risks of each segment; 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

- To formulate risk management policies, frameworks, and organizations; to build quantitative and qualitative management standards, regularly report to the board of directors, reflect timely the execution of risk management and propose necessary steps for improvement.
- To execute risk management decisions from the board of directors and review development, establishment and effectiveness of risk management mechanism for the Group as a whole on a regular basis.
- To assist and supervise various departments in risk management activities.
- To adjust risk category, allotment, and attribution in response to changes in the environment.

- To coordinate the interaction and communication of risk management function across departments.

ii) Chief risk officer

The Chief Risk Officer's appointment and removal are approved by the board of directors, which maintain the independence, and he could not concurrently play a business and financial role, and has the right to acquire any overview data that may affect the Group's risk profile.

- Overall management of the Group's overall risk management related business.
- Discuss important company decisions and risk management point of view to give appropriate recommendations.

iii) Risk management department

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

Responsibility of the risk management division:

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

iii. Business unit

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

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

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

- To identify risk and report risk exposure.
- To evaluate (quantitative or qualitative) the degree of influence when risks occur and pass the risk information in a timely and correct manner.

- To review each risk item and its limit on a regular basis to ensure the effective execution of risk limit within the business unit.
- To oversee risk exposure and report when over-limit occur, including measures taken against it.
- To assist in the development of the risk model to ensure the evaluation of risk, use of the model, and its assumptions are conducted on a reasonable basis and is consistent with actual practice.
- To ensure effective execution of internal control within the business unit to comply with relevant regulations and risk management policies of Cathay Century and its subsidiaries.
- To assist in collecting information regarding operational risk.

iv. Audit department

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

b) Scope and nature of risk reporting and evaluation system of property insurance

i. Risk reporting

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

ii. Scope and nature of risk evaluation system

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

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

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

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

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

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

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

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

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

Insurance by Type	For the Year Ended December 31	
	2019	2018
Fire insurance	\$ 1,182,000	\$ 1,233,000
Marine insurance	1,182,000	1,233,000
Engineering insurance	1,182,000	1,233,000
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
Accident insurance	250,000	1,233,000

- f) Asset-liability management strategy

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

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

- g) Management, supervision, control process when additional liability or commitment to equity contribution is required for the property insurance business

Cathay Century and its subsidiaries have established a management mechanism for capital adequacy, which includes capital adequacy indicators for regular review, and every six months a capital adequacy management report will be compiled to implement capital adequacy management.

If the capital adequacy ratio exceeds control standard (risk limit) or in the case of unusual events, related departments will meet together to study counter-measures and report to the parent company, Cathay Financial Holdings, to review the impact on Cathay Century and its subsidiaries' capital adequacy ratio.

## 2) Accounts receivable and accounts payable under insurance contracts

### a) Accounts receivable

Insurance by Type	Premiums Receivable		
	March 31, 2019	December 31, 2018	March 31, 2018
Fire insurance	\$ 501,861	\$ 683,291	\$ 451,708
Marine insurance	280,811	280,529	224,412
Land and air insurance	62,744	161,746	75,445
Liability insurance	187,538	209,834	167,332
Financial guarantee insurance	44,460	30,796	39,873
Other property insurance	222,889	253,298	195,482
Accident insurance	124,326	113,629	144,113
Health insurance	8,173	7,979	7,524
Compulsory automobile liability insurance	13,619	19,090	17,549
	1,446,421	1,760,192	1,323,438
Less: Allowance for impairment loss	(53,370)	(74,252)	(69,785)
Net amount	<u>\$ 1,393,051</u>	<u>\$ 1,685,940</u>	<u>\$ 1,253,653</u>

Aging analysis of account receivables:

	March 31, 2019	December 31, 2018	March 31, 2018
Up to 90 days	\$ 1,017,373	\$ 1,533,285	\$ 996,665
Over 90 days	<u>429,048</u>	<u>226,907</u>	<u>326,773</u>
	<u>\$ 1,446,421</u>	<u>\$ 1,760,192</u>	<u>\$ 1,323,438</u>

The overdue amounts as of March 31, 2019, December 31, 2018 and March 31, 2018 in the above premiums receivable were \$429,048 thousand, \$226,131 thousand and \$326,496 thousand, respectively, and their allowances for doubtful accounts were \$43,681 thousand, \$58,942 thousand and \$59,915 thousand, respectively.

b) Liability on policyholders' outstanding claims and incurred but not reported (IBNR) claims

Liability on policyholders' settled claims

Insurance by Type	Settled Claims		
	March 31, 2019	December 31, 2018	March 31, 2018
Fire insurance	\$ 25,587	\$ 44,225	\$ 37,779
Marine insurance	8,608	12,631	22,101
Land and air insurance	53,931	46,598	51,311
Liability insurance	45,914	53,431	25,338
Financial guarantee insurance	11	188	489
Other property insurance	19,151	19,525	21,375
Accident insurance	18,866	18,497	11,589
Health insurance	-	-	-
Compulsory automobile liability insurance	<u>146,086</u>	<u>154,031</u>	<u>163,680</u>
	318,154	349,126	333,662
Less: Allowance for impairment loss	<u>(3,182)</u>	<u>(3,491)</u>	<u>(3,337)</u>
Net amount	<u>\$ 314,972</u>	<u>\$ 345,635</u>	<u>\$ 330,325</u>

c) Accounts payable

Insurance by Type	March 31, 2019		
	Commission Payable and Fee	Accrued Expense	Total
Fire insurance	\$ 30,042	\$ 12,181	\$ 42,223
Marine insurance	7,650	15,163	22,813
Land and air insurance	47,895	81,548	129,443
Liability insurance	14,432	19,981	34,413
Financial guarantee insurance	5,366	684	6,050
Other property insurance	6,230	12,688	18,918
Accident insurance	9,152	31,557	40,709
Health insurance	2,755	3,882	6,637
Compulsory automobile liability insurance	<u>25,167</u>	<u>-</u>	<u>25,167</u>
	<u>\$ 148,689</u>	<u>\$ 177,684</u>	<u>\$ 326,373</u>



<b>December 31, 2018</b>			
<b>Insurance by Type</b>	<b>Commission Payable and Fee</b>	<b>Accrued Expense</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>March 31, 2018</b>			
<b>Insurance by Type</b>	<b>Commission Payable and Fee</b>	<b>Accrued Expense</b>	<b>Total</b>
Fire insurance	\$ 20,479	\$ 14,932	\$ 35,411
Marine insurance	6,377	15,832	22,209
Land and air insurance	24,292	97,358	121,650
Liability insurance	14,283	22,758	37,041
Financial guarantee insurance	4,601	852	5,453
Other property insurance	4,839	12,833	17,672
Accident insurance	11,182	36,813	47,995
Health insurance	2,782	4,387	7,169
Compulsory automobile liability insurance	<u>36,032</u>	<u>-</u>	<u>36,032</u>
	<u>\$ 124,867</u>	<u>\$ 205,765</u>	<u>\$ 330,632</u>

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

Items	March 31, 2019	
	Due from Reinsurers and Ceding Companies - Reinsurance	Due to Reinsurers and Ceding Companies - Reinsurance
Non-Life Insurance Association of the R.O.C	\$ 135,866	\$ 373,293
AON	47,329	48,230
Cathay(China)	36,651	3,088
Central Re	48,637	133,723
FP Marine Risks	43,828	9,429
Willis	48,185	16,912
Others	<u>283,756</u>	<u>806,788</u>
	644,252	1,391,463
Less: Allowance for impairment loss	<u>(37,502)</u>	<u>-</u>
Net amount	<u>\$ 606,750</u>	<u>\$ 1,391,463</u>

  

Items	December 31, 2018	
	Due from Reinsurers and Ceding Companies - Reinsurance	Due to Reinsurers and Ceding Companies - Reinsurance
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 Carpanter	33,344	18,508
Marsh	12,879	225,517
Willis	32,241	45,542
Others	<u>145,710</u>	<u>627,165</u>
	466,224	1,499,224
Less: Allowance for impairment loss	<u>(17,818)</u>	<u>-</u>
Net amount	<u>\$ 448,406</u>	<u>\$ 1,499,224</u>

	<b>March 31, 2018</b>	
	<b>Due from Reinsurers and Ceding Companies - Reinsurance</b>	<b>Due to Reinsurers and Ceding Companies - Reinsurance</b>
Non-Life Insurance Association of the R.O.C.	\$ 135,095	\$ 355,835
Central Re	51,471	127,754
AON	39,732	73,954
TMR AG	36,502	43,902
Korean Re	33,961	55,733
Marsh	15,156	68,871
Others	<u>246,400</u>	<u>602,475</u>
	558,317	1,328,524
Less: Allowance for impairment loss	<u>(25,002)</u>	<u>-</u>
Net amount	<u>\$ 533,315</u>	<u>\$ 1,328,524</u>

The overdue amounts as of March 31, 2019, December 31, 2018 and March 31, 2018 in the above due from (to) reinsurers and ceding companies reinsurance were \$11,156 thousand, \$13,169 thousand and \$19,609 thousand, respectively, and their allowances for doubtful accounts were \$11,156 thousand, \$13,169 thousand and \$19,609 thousand, respectively.

The due from the reinsurers and ceding companies and the due to the reinsurers and ceding companies cannot be offset against each other, except for those receivables that are subject to the provisions of IAS 32 - Note 42.

### 3) Acquisition cost - insurance contracts

	<b>For the Three Months Ended March 31, 2019</b>				
<b>Insurance by Type</b>	<b>Commission Expenses</b>	<b>Service and Handling Charges</b>	<b>Reinsurance Commission Expenses</b>	<b>Others</b>	<b>Total</b>
Fire insurance	\$ 42,533	\$ 3,131	\$ 21,191	\$ 3,725	\$ 70,580
Marine insurance	17,500	456	4,315	322	22,593
Land and air insurance	259,369	1	3	91,259	350,632
Liability insurance	40,495	34	32	2,664	43,225
Financial guarantee insurance	4,492	1	15	-	4,508
Other property insurance	20,463	1,032	9,113	662	31,270
Accident insurance	94,762	114	143	23,049	118,068
Health insurance	15,633	-	-	3,201	18,834
Compulsory automobile liability insurance	<u>-</u>	<u>93,870</u>	<u>-</u>	<u>-</u>	<u>93,870</u>
	<u>\$ 495,247</u>	<u>\$ 98,639</u>	<u>\$ 34,812</u>	<u>\$ 124,882</u>	<u>\$ 753,580</u>

For the Three Months Ended March 31, 2018					
Insurance by Type	Commission Expenses	Service and Handling Charges	Reinsurance Commission Expenses	Others	Total
Fire insurance	\$ 43,331	\$ 1,764	\$ 17,319	\$ 2,827	\$ 65,241
Marine insurance	17,051	248	2,070	292	19,661
Land and air insurance	259,373	-	13	83,755	343,141
Liability insurance	41,126	24	238	2,485	43,873
Financial guarantee insurance	5,209	1	11	-	5,221
Other property insurance	20,499	460	5,063	607	26,629
Accident insurance	96,080	159	90	21,618	117,947
Health insurance	14,246	-	-	2,592	16,838
Compulsory automobile liability insurance	-	101,648	-	-	101,648
	<u>\$ 496,915</u>	<u>\$ 104,304</u>	<u>\$ 24,804</u>	<u>\$ 114,176</u>	<u>\$ 740,199</u>

Acquisition costs for the insurance contracts were recognized as incurred.

#### 4) Profit and loss analysis of the insurance business

##### Direct business

For the Three Months Ended March 31, 2019						
Insurance by Type	Premium Revenues	Movements of Unearned Premium Reserves	Acquisition Cost of Insurance Contracts	Claims (Claim Expense Included)	Movements of Claims Reserve	Profit (Loss)
Fire insurance	\$ 690,829	\$ (158,105)	\$ 49,389	\$ 173,820	\$ (38,152)	\$ 663,877
Marine insurance	161,466	(7,923)	18,278	64,559	38,941	47,611
Land and air insurance	2,333,897	79,095	350,629	1,277,524	182,023	444,626
Liability insurance	370,007	17,882	43,193	157,325	56,171	95,436
Financial guarantee insurance	41,682	13,198	4,493	2,100	14,781	7,110
Other property insurance	239,492	126,939	22,157	80,730	(50,988)	60,654
Accident insurance	783,408	17,638	117,925	356,106	(23,751)	315,490
Health insurance	91,230	3,161	18,834	12,868	487	55,880
Compulsory automobile liability insurance	<u>688,433</u>	<u>(6,373)</u>	<u>93,870</u>	<u>415,779</u>	<u>(11,805)</u>	<u>196,962</u>
	<u>\$ 5,400,444</u>	<u>\$ 85,512</u>	<u>\$ 718,768</u>	<u>\$ 2,540,811</u>	<u>\$ 167,707</u>	<u>\$ 1,887,646</u>

For the Three Months Ended March 31, 2018						
Insurance by Type	Premium Revenues	Movements of Unearned Premium Reserves	Acquisition Cost of Insurance Contracts	Claims (Claim Expense Included)	Movements of Claims Reserve	Profit (Loss)
Fire insurance	\$ 567,988	\$ (208,228)	\$ 47,922	\$ 207,764	\$ (153,975)	\$ 674,505
Marine insurance	157,444	7,752	17,591	59,348	(11,687)	84,440
Land and air insurance	2,224,328	106,354	343,128	1,298,872	15,727	460,247
Liability insurance	319,149	20,886	43,635	128,156	(8,325)	134,797
Financial guarantee insurance	44,792	11,651	5,210	8,294	13,169	6,468
Other property insurance	172,083	(16,273)	21,566	75,429	55,846	35,515
Accident insurance	771,310	52,823	117,857	258,625	33,840	308,165
Health insurance	78,167	6,658	16,838	18,677	(1,801)	37,795
Compulsory automobile liability insurance	709,185	(2,949)	101,648	422,950	(46,477)	234,013
	<u>\$ 5,044,446</u>	<u>\$ (21,326)</u>	<u>\$ 715,395</u>	<u>\$ 2,478,115</u>	<u>\$ (103,683)</u>	<u>\$ 1,975,945</u>

#### Reinsurance inward business

For the Three Months Ended March 31, 2019						
Insurance by Type	Premium Revenues	Movements of Unearned Premium Reserves	Acquisition Cost of Insurance Contracts	Claims (Claim Expense Included)	Movements of Claims Reserve	Profit (Loss)
Fire insurance	\$ 117,897	\$ (32,059)	\$ 21,191	\$ 67,559	\$ 56,801	\$ 4,405
Marine insurance	15,423	4,845	4,315	11,528	4,277	(9,542)
Land and air insurance	40	(583)	3	1,399	2,807	(3,586)
Liability insurance	433	(284)	32	14	468	203
Financial guarantee insurance	530	131	15	552	1,123	(1,291)
Other property insurance	43,369	(12,492)	9,113	16,979	(24,305)	54,074
Accident insurance	3,543	178	143	593	238	2,391
Health insurance	-	(4,371)	-	-	111	4,260
Compulsory automobile liability insurance	193,371	650	-	208,371	29,875	(45,525)
	<u>\$ 374,606</u>	<u>\$ (43,985)</u>	<u>\$ 34,812</u>	<u>\$ 306,995</u>	<u>\$ 71,395</u>	<u>\$ 5,389</u>

For the Three Months Ended March 31, 2018						
Insurance by Type	Premium Revenues	Movements of Unearned Premium Reserves	Acquisition Cost of Insurance Contracts	Claims (Claim Expense Included)	Movements of Claims Reserve	Profit (Loss)
Fire insurance	\$ 89,708	\$ 16,550	\$ 17,319	\$ 46,906	\$ (952)	\$ 9,885
Marine insurance	8,827	3,826	2,070	8,573	(313)	(5,329)
Land and air insurance	5	(1,009)	13	9	(803)	1,795
Liability insurance	728	194	238	261	122	(87)
Financial guarantee insurance	457	(132)	11	638	414	(474)
Other property insurance	22,786	(4,159)	5,063	26,599	336	(5,053)
Accident insurance	2,905	371	90	472	97	1,875
Health insurance	-	(3,045)	-	-	(59)	3,104
Compulsory automobile liability insurance	194,039	3,325	-	319,001	(1,997)	(126,290)
	<u>\$ 319,455</u>	<u>\$ 15,921</u>	<u>\$ 24,804</u>	<u>\$ 402,459</u>	<u>\$ (3,155)</u>	<u>\$ (120,574)</u>

#### Ceded reinsurance business

For the Three Months Ended March 31, 2019						
Insurance by Type	Premium Revenues	Movements of Unearned Premium Reserves	Acquisition Cost of Insurance Contracts	Claims (Claim Expense Included)	Movements of Claims Reserve	Profit (Loss)
Fire insurance	\$ 440,265	\$ (105,036)	\$ 50,061	\$ 85,009	(9,880)	\$ 420,111
Marine insurance	108,837	(8,387)	15,865	56,510	12,323	32,526
Land and air insurance	71,834	(20,295)	21,497	54,339	(3,411)	19,704
Liability insurance	122,394	(49)	26,301	56,904	15,088	24,150
Financial guarantee insurance	29,697	9,721	6,111	2,011	5,478	6,376
Other property insurance	165,646	106,573	26,699	36,366	(23,922)	19,930
Accident insurance	68,244	36,492	14,988	21,497	6,165	(10,898)
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	285,654	(3,824)	-	246,155	(7,111)	50,434
	<u>\$ 1,292,571</u>	<u>\$ 15,195</u>	<u>\$ 161,522</u>	<u>\$ 558,791</u>	<u>\$ (5,270)</u>	<u>\$ 562,333</u>

For the Three Months Ended March 31, 2018						
Insurance by Type	Premium Revenues	Movements of Unearned Premium Reserves	Acquisition Cost of Insurance Contracts	Claims (Claim Expense Included)	Movements of Claims Reserve	Profit (Loss)
Fire insurance	\$ 328,641	\$ (131,665)	\$ 38,704	\$ 60,345	\$ (45,699)	\$ 406,956
Marine insurance	99,606	10,969	13,921	39,780	(6,607)	41,543
Land and air insurance	78,750	(11,031)	25,164	54,037	(38,981)	49,561
Liability insurance	108,229	5,312	23,190	33,809	(16,341)	62,259
Financial guarantee insurance	33,626	8,754	6,348	5,141	(1,128)	14,511
Other property insurance	94,869	(14,884)	18,275	18,374	62,686	10,418
Accident insurance	72,983	28,292	15,281	13,976	3,866	11,568
Health insurance	-	-	-	-	(324)	324
Compulsory automobile liability insurance	293,488	(1,800)	-	244,611	(27,059)	77,736
	<u>\$ 1,110,192</u>	<u>\$ (106,053)</u>	<u>\$ 140,883</u>	<u>\$ 470,073</u>	<u>\$ (69,587)</u>	<u>\$ 674,876</u>

5) Sensitivity to insurance risk

a) Cathay Century

Insurance by Type	Premium Revenue	Rate of Expected Loss	Impact on the Income Statement of a Five Percent Change in Rate of Expected Loss	
			Before Reinsurance	After Reinsurance
Fire insurance	\$ 616,856	39.51%	\$ (30,843)	\$ (25,922)
Marine insurance	159,969	38.86%	(7,998)	(3,425)
Land and air insurance	2,309,841	64.36%	(115,492)	(111,346)
Liability insurance	369,321	52.17%	(18,466)	(12,653)
Financial guarantee insurance	41,683	192.86%	(2,084)	(1,368)
Other property insurance	238,571	67.45%	(11,929)	(8,986)
Accident insurance	776,707	42.49%	(38,835)	(36,473)
Health insurance	91,230	41.38%	(4,562)	(4,555)
Compulsory automobile liability insurance	688,433	Not applicable	Not applicable	Not applicable

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

b) Cathay Insurance (Vietnam)

Insurance by Type	Premium Revenue	Rate of Expected Loss	Impact on the Income Statement of a Five Percent Change in Rate of Expected Loss	
			Before Reinsurance	After Reinsurance
Automobile insurance	\$ 24,056	35.74%	\$ (1,203)	\$ (1,203)
Marine insurance	1,497	24.55%	(75)	(19)
Fire insurance	73,974	38.17%	(3,699)	(1,186)
Engineering insurance	921	-	(46)	-
Accident insurance	6,701	33.12%	(335)	(335)
Liability insurance	685	-	(34)	-

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

6) Risk concentration

a) Cathay Century

i. Situations that might cause concentration of insurance risk:

i) Single insurance contract or few related contracts

For the three months ended March 31, 2019, Cathay Century will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

ii) Exposure to unanticipated changes in trend

For the three months ended March 31, 2019, the loss rates of the rest of the insurance categories are still within the reasonable range.

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

“Regulations for Assisting Lawsuit Cases of Cathay Century Insurance” is set up to safeguard the rights of Cathay Century and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of Cathay Century will appoint staff to be responsible for compliance matters, so that possible legal risk is minimized. For the three months ended March 31, 2019, no material lawsuit or legal risks has taken place.



iv) Correlation and mutual influence between different risks

In case of a catastrophe, beside huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of Cathay Century being severely endangered by these derived risks, Cathay Century has established “Operation standards under crisis” that set up crisis team in reaction to the event. The team will execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and Cathay Century and to guard financial order. For the three months ended March 31, 2019, no catastrophe has taken place.

v) When a certain key variable has approached a significantly non-linear relationship with future cash flow which could dramatically influence its performance

Since the 3rd stage of liberalization of property insurance fee took into effect, Cathay Century has conducted regular fee reviews on car insurance, fire insurance, and residential fire insurance in accordance with regulations. Fees will be raised when the actual loss rate exceeds the expected loss rate by a certain percentage to avoid worsening of further losses. In addition, from time to time related departments would observe the change in trend for loss rates of different product categories and adjust pricing and coverage in a timely manner to effectively lower insurance risk.

In addition, with regard to investment products, changes in risk indicators will be monitored on a regular basis and cash flow analysis will be conducted, supplemented by stress testing, to control and manage the impact from fluctuations in major risk factors.

In addition, stress tests will be implemented for the overall business every year, the impact assessment of the assets and the insurance risk of extreme financial position of Cathay Century's situation, understand the major risk factors to adjust the response in advance.

vi) Concentration risks in geographical regions and operating segments

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

- ii. The following table summarizes the concentration risk of Cathay Century before and after reinsurance by types of insurance for the three months ended March 31, 2019:

Insurance Type	For the Three Months Ended March 31, 2019				
	Direct Premium Income	Reinsurance Premium Income	Premiums Ceded To Reinsurers	Net Premium Income	%
Fire insurance	\$ 616,856	\$ 117,390	\$ 370,113	\$ 364,133	8.19
Marine insurance	159,969	15,423	107,825	67,567	1.52
Land and air insurance	2,309,841	41	71,810	2,238,072	50.34
Liability insurance	369,321	433	121,944	247,810	5.57
Financial guarantee insurance	41,683	530	29,698	12,515	0.28
Other property insurance	238,571	43,369	165,093	116,847	2.63
Accident insurance	776,707	3,543	68,244	712,006	16.01
Health insurance	91,230	-	-	91,230	2.05
Compulsory automobile liability insurance	688,433	193,371	285,654	596,150	13.41
Total	5,292,611	374,100	1,220,381	4,446,330	100.00

- iii. Disclosure of the past performance management of risk of related property insurance with low occurrence but large impact, to help financial statement users assess the uncertainty of cash flows related to this risk

Catastrophes such as earthquakes, typhoons, and floods, will bring tremendous insurance risk to the property insurance business.

To control and manage risk with low occurrence but with huge impact, Cathay Century assesses the risk of natural disasters and specially covered items (e.g., independent power producer and abutment projects). Cathay Century also holds loss prevention seminars regularly to help customers reduce the incidence rate of disasters.

b) Cathay Insurance (Vietnam) Ltd.

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

i) Single insurance contract or few related contracts

For the three months ended March 31, 2019, Cathay Insurance (Vietnam) will enter into the insurance agreement with low occurrence but with huge impact only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed in an ad hoc meeting.

ii) Exposure to unanticipated changes in trend

For the three months ended March 31, 2019, the loss rates of the rest of the insurance categories are still within the reasonable range.

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

“The Procedure for Subrogation” and “The Proceedings of the Court” are set up to safeguard the rights of Cathay Insurance (Vietnam) and the insured and to implement process control of lawsuit cases of insurance claims. In addition, each compliance department of Cathay Insurance (Vietnam) will appoint staff to be responsible for compliance matters, so that possible legal risk is minimized. For the three months ended March 31, 2019, no material lawsuit or legal risk has taken place.

iv) Correlation and mutual influence between different risks

In case of a catastrophe, beside a huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of Cathay Insurance (Vietnam) being severely endangered by these derived risks, Cathay Insurance (Vietnam) has established “Points for Handling Major Events of Cathay Insurance (Vietnam)” that set up crisis team in reaction to the event. The team will execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and Cathay Insurance (Vietnam) and to guard financial order. For the three months ended March 31, 2019, no catastrophe has taken place.

v) Concentration risks in geographical regions and operating segments

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

ii. Disclosure of the concentration of insurance risk which comprises both before and after reinsurance; to provide a better understanding of the mutual traits of the concentration of insurance risk and the related risk exposure index.

The following table summarizes the concentration risk of Cathay Insurance (Vietnam) before and after reinsurance by types of insurance for the three months ended March 31, 2019:

Insurance Type	For the Three Months Ended March 31, 2019				
	Direct Premium Income	Reinsurance Premium Income	Premiums Ceded to Reinsurers	Net Premium Income	%
Automobile insurance	\$ 24,056	\$ -	\$ 23	\$ 24,033	66.48%
Flood insurance	1,497	-	1,012	485	1.34%
Fire insurance	73,974	506	70,151	4,329	11.97%
Engineering insurance	921	-	552	369	1.02%
Accident insurance	6,701	-	-	6,701	18.54%
Liability insurance	685	-	450	235	0.65%
Total	\$ 107,834	\$ 506	\$ 72,188	\$ 36,152	100.00%

- c) Disclosure of the past performance management of risk of related property insurance with low occurrence but large impact, to help financial statement users assess the uncertainty of cash flows related to this risk

Catastrophes such as typhoons and floods, will bring tremendous insurance risk to the property insurance business. To control and manage risk with low occurrence but with huge impact, Cathay Insurance (Vietnam) assesses risk of natural disasters and specially covered items. Cathay Insurance (Vietnam) also holds loss prevention seminars regularly to help customers reduce the incidence rate of disasters.

## 7) Development trend of claims

### a) Cathay Century

Accident Year	2013 Q1	2013 Q2-2014Q1	2014 Q2-2015Q1	2015 Q2-2016Q1	2016 Q2-2017Q1	2017 Q2-2018Q1	2018 Q2-2019Q1	Total
Accumulated estimated claim payment								
End of the accident year	\$ 15,161,318	\$ 6,035,485	\$ 7,121,019	\$ 9,506,959	\$ 8,538,079	\$ 8,263,094	\$ 9,050,572	
After the first year	17,214,877	6,560,065	7,302,356	11,069,320	8,079,805	8,288,495		
After the second year	16,912,002	6,616,375	7,184,946	10,544,031	8,228,317			
After the third year	17,080,413	6,467,960	7,202,830	10,370,284				
After the fourth year	17,142,796	6,493,699	7,126,433					
After the fifth year	17,146,516	6,485,778						
After the sixth year	17,393,676							
Final estimated claim payment	17,393,676	6,485,778	7,126,433	10,370,284	8,228,317	8,288,495	9,050,572	
Accumulated claim disbursed	17,016,972	6,427,926	6,863,483	10,201,658	7,776,587	7,494,505	5,033,751	
	376,704	57,851	262,950	168,626	451,730	793,990	4,016,821	6,128,672
Adjustment	-	-					141,764	141,764
Amount recognized in balance sheet	376,704	57,851	262,950	168,626	451,730	793,990	4,158,585	6,270,436

Note: The upper part of the table illustrates the accumulated annual estimates. The lower part of the table shows the estimated number after the accumulated actual claims disbursements were reconciled to the balance sheet.

The upper table excludes direct claim reserve of compulsory insurance of \$1,344,447 thousand and claim reserve of assumed reinsurance of \$726,132 thousand.

### b) Cathay Insurance (Vietnam)

As Cathay Century (Vietnam) is still at the initial stage, there is no historical data for loss trends. Cathay Century (Vietnam) has adopted the suggestion from Vietnamese Ministry of Finance 2842/BTC/QLBH for loss reserving method with incurred but not reported claims, which is calculated at a rate of 5% of its annual retained premium.

### 36. 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	None
2	Acquisition and disposal of real estate at prices over \$300 million or 10% of the paid-in capital	None
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 (Note)
8	Financing provided to others	Note
9	Endorsements/guarantees provided	None
10	Marketable securities held as of March 31, 2013	Table 2 and 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

Code	Description	Explanation
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 3
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 4 following the Notes to Consolidated Financial Statements.

### 37. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	March 31, 2019	December 31, 2018	March 31, 2018
<u>Financial assets</u>			
Financial assets at fair value through profit or loss	\$ 1,508,436,383	\$ 1,428,824,049	\$ 1,499,678,964
Financial assets at fair value through other comprehensive income	1,143,413,717	1,127,810,270	1,132,012,716
Financial assets for hedging	392,653	216,611	221,211
Measured at amortized cost			
Cash and cash equivalents (cash on hand excluded)	250,214,162	189,318,814	290,211,961
Due from the Central Bank and other banks	110,544,087	104,223,315	106,246,175
Financial assets measured at amortized cost	2,764,741,406	2,688,221,788	2,305,093,121
Notes and bonds purchased under resale agreements	78,865,989	59,212,899	93,546,024
Loans, net	2,184,434,714	2,176,775,907	2,105,919,198
Receivables, net	171,867,307	161,216,190	157,666,558
Other financial assets, net	595,120,793	555,740,531	567,598,725
Guarantee deposits paid	52,687,811	57,523,991	39,165,261
			(Continued)

	March 31, 2019	December 31, 2018	March 31, 2018
<u>Financial liabilities</u>			
Financial liabilities at fair value through profit or loss	\$ 127,863,540	\$ 129,698,896	\$ 93,225,997
Financial liabilities at amortized cost			
Due to the Central Bank and other banks	98,066,524	81,432,233	113,925,781
Notes and bonds sold under repurchase agreements	47,327,250	59,307,037	102,549,699
Commercial paper payable, net	65,542,808	62,989,367	50,597,632
Payables	64,177,006	66,727,399	68,169,670
Deposits and remittances	2,218,277,207	2,187,203,086	2,083,438,894
Bonds payable	90,600,000	90,600,000	94,500,000
Other borrowings	717,575	336,381	410,307
Other financial liabilities	665,614,036	627,815,178	632,098,927
Guarantee deposits received	5,921,706	6,059,194	20,726,376
			(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	March 31, 2019				December 31, 2018				March 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets												
Financial assets at fair value through profit or loss												
Shares												
Bonds												
Other	\$ 669,493,223	\$ 591,418,800	\$ 73,037,405	\$ 5,037,018	\$ 673,969,471	\$ 595,193,754	\$ 72,200,110	\$ 6,575,607	\$ 665,353,746	\$ 591,820,810	\$ 64,574,790	\$ 8,958,146
Financial assets at fair value through other comprehensive income	283,809,238	16,612,374	265,458,982	1,737,882	247,536,253	14,790,150	231,090,829	1,655,274	240,929,117	82,811,186	156,373,638	1,744,293
Shares	504,776,850	257,515,808	168,808,301	78,452,741	455,969,651	196,842,000	182,125,718	77,001,933	528,567,923	279,150,704	195,881,783	53,535,436
Bonds												
Other	52,011,569	42,811,663	167,058	9,032,848	43,192,054	34,662,164	155,096	8,374,794	69,513,847	60,060,104	197,001	9,256,742
Liabilities	1,092,450,311	135,852,380	956,597,931	-	1,086,899,086	114,029,003	972,870,083	-	1,064,216,416	146,211,596	918,004,820	-
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-	464,295	-	464,295	-
Financial liabilities designated as at fair value through profit or loss at initial recognition												
Held for trading												
Assets	55,223,461	-	55,223,461	-	51,441,482	-	51,441,482	-	50,542,565	-	50,542,565	-
Financial assets at fair value through profit or loss	1,802,518	1,802,518	-	-	2,521,778	2,521,778	-	-	1,208,674	1,208,674	-	-
<u>Derivative instruments</u>												
Assets												
Financial assets at fair value through profit or loss	50,357,072	1,851,370	36,786,423	11,719,279	51,348,674	512,893	38,751,564	12,084,217	64,828,178	1,072,484	57,539,288	6,216,406
Financial assets for hedging	392,653	-	392,653	-	216,611	-	216,611	-	221,211	-	221,211	-
Liabilities												
Financial liabilities at fair value through profit or loss	70,837,561	411,942	58,706,340	11,719,279	75,735,636	271,010	63,380,409	12,084,217	41,474,758	852,505	34,309,604	6,312,649

Transfers between Level 1 and Level 2:

- For the three months ended March 31, 2019, there were no transfers between Level 1 and Level 2 for assets or liabilities measured at fair value on a recurring basis. For the three months ended March 31, 2018, Cathay Life and its subsidiaries transferred shares mandatorily classified as FVTPL of \$200,945 thousand from Level 2 to Level 1 due to the availability of market prices.
- For the three months ended March 31, 2018, Cathay Century transferred shares which were measured at fair value on a recurring basis, from Level 2 to Level 1. A total of \$101,459 thousand was transferred as its market price was obtainable.
- For the three months ended March 31, 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 Three Months Ended March 31, 2019</b>		
	<b>Financial Assets</b>		<b>Financial Liabilities</b>
	<b>At Fair Value Through Profit or Loss</b>	<b>At Fair Value Through Other Comprehensive Income</b>	<b>At Fair Value Through Profit or Loss</b>
Beginning balance	\$ 97,317,031	\$ 8,374,794	\$ 12,084,217
Amount recognized in profit or loss			
Loss on financial assets and liabilities at fair value through profit or loss	(53,144)	-	(128,027)
Gain on reclassification using the overlay approach	1,314,158	-	-
Amount recognized in other comprehensive income			
Exchange differences on translating the financial statements of foreign operations	4,648	13	-
Other comprehensive loss reclassified using the overlay approach	(1,314,158)	-	-
Gain on equity instruments at fair value through other comprehensive income	-	645,647	-
Acquisitions or issuances	6,901,702	25,859	11,153
Disposals or settlements	<u>(7,223,317)</u>	<u>(13,465)</u>	<u>(248,064)</u>
Ending balance	<u>\$ 96,946,920</u>	<u>\$ 9,032,848</u>	<u>\$ 11,719,279</u>
	<b>For the Three Months Ended March 31, 2018</b>		
	<b>Financial Assets</b>		<b>Financial Liabilities</b>
	<b>At Fair Value Through Profit or Loss</b>	<b>At Fair Value Through Other Comprehensive Income</b>	<b>At Fair Value Through Profit or Loss</b>
Beginning balance	\$ 70,194,011	\$ 8,794,822	\$ 8,822,872
Amount recognized in profit or loss			
Losses on financial assets and liabilities at fair value through profit or loss	(1,721,785)	-	(2,106,530)
Gain on reclassification using the overlay approach	126,430	-	-
Amount recognized in other comprehensive income			
Exchange differences on translating the financial statements of foreign operations	(29,435)	(87)	(2,473)
Other comprehensive loss reclassified using the overlay approach	(126,430)	-	-
Gain on equity instruments at fair value through other comprehensive income	-	2,084,210	-
Acquisitions or issuances	5,546,359	-	29,712

(Continued)

	<b>For the Three Months Ended March 31, 2018</b>		
	<b>Financial Assets</b>		<b>Financial Liabilities</b>
	<b>At Fair Value Through Profit or Loss</b>	<b>At Fair Value Through Other Comprehensive Income</b>	<b>At Fair Value Through Profit or Loss</b>
Disposals or settlements	\$ (2,595,930)	\$ -	\$ (430,932)
Transfers to Level 3	403,356	-	-
Transfers out of Level 3	<u>(1,342,295)</u>	<u>(1,622,203)</u>	<u>-</u>
Ending balance	<u>\$ 70,454,281</u>	<u>\$ 9,256,742</u>	<u>\$ 6,312,649</u> (Concluded)

The total gains or losses for the three months ended March 31, 2019 and 2018 included unrealized losses from financial assets at fair value through profit or loss of \$993,857 thousand and \$2,266,914 thousand, respectively.

The total gains or losses for the three months ended March 31, 2019 and 2018 included unrealized gains from financial liabilities at fair value through profit or loss of \$128,027 thousand and \$2,106,530 thousand, respectively.

### 3) Information on significant unobservable inputs of valuation

Description of significant unobservable inputs of valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

#### Cathay Life and its subsidiaries

Items	Valuation Techniques	Significant Unobservable Inputs	March 31, 2019	Relationship Between Inputs and Fair Value
			Interval (Weighted-average)	
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%)-(23%)	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

December 31, 2018				
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value
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
March 31, 2018				
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value
Financial assets at FVTPL and financial assets at FVTOCI	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.	15%-52%	The higher the discount for lack of marketability and control, the lower the fair value estimates
		Growth rate of net profit after tax	(60%)-67%	The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates
		Dividend payout ratio	0%-140%	The higher the dividend payout ratio, the higher the fair value estimates

Cathay United Bank and its subsidiaries

March 31, 2019				
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value
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.

December 31, 2018				
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value
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
March 31, 2018				
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value
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

March 31, 2019				
Financial Assets	Valuation Techniques	Significant Unobservable Inputs	Weighted Average Number	Relationship Between Inputs and Fair Value
Financial assets at fair value through other comprehensive income	Market approach	Discount for lack of marketability	29%	The higher the discount for lack of marketability, the lower the fair value of the shares
December 31, 2018				
Financial Assets	Valuation Techniques	Significant Unobservable Inputs	Weighted Average Number	Relationship Between Inputs and Fair Value
Financial assets at fair value through other comprehensive income	Market approach	Discount for lack of marketability	29%	The higher the discount for lack of marketability, the lower the fair value of the shares

March 31, 2018				
Financial Assets	Valuation Techniques	Significant Unobservable Inputs	Weighted Average Number	Relationship Between Inputs and Fair Value
Financial assets at fair value through other comprehensive income	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

March 31, 2019					
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%)

December 31, 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%)

March 31, 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 used for fair value measurements categorized within Level 3 of the fair value hierarchy

The Group's risk management department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies at each reporting date.

d. 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 value of the Group's financial instruments which are not measured at fair value are listed in the table below:

March 31, 2019

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
<u>Financial assets</u>					
Financial assets measured at amortized cost	\$ 2,781,665,646	\$ 132,179,954	\$ 2,660,217,305	\$ 5,351,741	\$ 2,797,749,000
Other financial assets	1,999,356	-	2,522,521	-	2,522,521

December 31, 2018

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
<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

March 31, 2018

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Financial assets measured at amortized cost	\$ 2,313,476,562	\$ 111,485,226	\$ 2,173,270,198	\$ 13,013,973	\$ 2,297,769,397
Other financial assets	3,499,051	-	3,530,097	-	3,530,097

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 the income approach based on the discounted cash flow analysis, with the most significant unobservable input being the discount rate that reflects the credit risk of counterparties.

e. 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:

#### March 31, 2019

Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 153,692,042	\$ 4,457,601	\$ 157,515	\$ 61,691,389	\$ 3,213,279	\$ 223,211,826
Financial assets at FVTPL	32,285,197	28,865,127	102,246,219	35,342,869	84,681,465	283,420,877
Financial assets at FVTOCI	65,328,496	31,791,804	172,576,868	352,553,352	248,990,907	871,241,427
Financial assets for hedging	99,728	-	172,413	120,512	-	392,653
Financial assets measured at amortized cost	182,811,690	150,261,270	411,633,422	1,054,488,937	571,480,314	2,370,675,633
Other financial assets	-	-	1,999,356	-	-	1,999,356
	<u>\$ 434,217,153</u>	<u>\$ 215,375,802</u>	<u>\$ 688,785,793</u>	<u>\$ 1,504,197,059</u>	<u>\$ 908,365,965</u>	<u>\$ 3,750,941,772</u>
Proportion	11.6%	5.7%	18.4%	40.1%	24.2%	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%

#### March 31, 2018

Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 167,665,030	\$ 58,894	\$ 118,844	\$ 81,436,106	\$ 70,713	\$ 249,349,587
Financial assets at FVTPL	43,989,399	22,666,445	69,218,772	22,406,503	73,976,285	232,257,404
Financial assets at FVTOCI	112,023,076	36,925,442	145,194,674	371,933,747	206,021,947	872,098,886
Financial assets for hedging	92,923	-	-	128,288	-	221,211
Financial assets measured at amortized cost	197,528,091	122,772,075	308,685,825	831,560,298	478,662,205	1,939,208,494
Other financial assets	-	-	3,499,051	-	-	3,499,051
	<u>\$ 521,298,519</u>	<u>\$ 182,422,856</u>	<u>\$ 526,717,166</u>	<u>\$ 1,307,464,942</u>	<u>\$ 758,731,150</u>	<u>\$ 3,296,634,633</u>
Proportion	15.8%	5.5%	16.0%	39.7%	23%	100%



ii. Regional distribution of maximum risk exposure for Cathay Life 's secured loans:

March 31, 2019

Location	Northern and Eastern Areas	Central Area	Southern Area	Overseas	Total
Secured loans	\$ 274,622,983	\$ 46,440,064	\$ 68,309,826	\$ 7,811,756	\$ 397,184,629
Non-accrual receivables	<u>450,001</u>	<u>66,820</u>	<u>100,229</u>	<u>-</u>	<u>617,050</u>
	<u>\$ 275,072,984</u>	<u>\$ 46,506,884</u>	<u>\$ 68,410,055</u>	<u>\$ 7,811,756</u>	<u>\$ 397,801,679</u>
Proportion	69.1%	11.7%	17.2%	2.0%	100%

December 31, 2018

Location	Northern and Eastern Areas	Central Area	Southern Area	Overseas	Total
Secured loans	\$ 287,440,820	\$ 48,492,142	\$ 71,391,306	\$ 8,193,993	\$ 415,518,261
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%

March 31, 2018

Location	Northern and Eastern Areas	Central Area	Southern Area	Overseas	Total
Secured loans	\$ 313,302,434	\$ 50,168,990	\$ 76,416,322	\$ 1,926,018	\$ 441,813,764
Non-accrual receivables	<u>295,439</u>	<u>38,195</u>	<u>82,404</u>	<u>-</u>	<u>416,038</u>
	<u>\$ 313,597,873</u>	<u>\$ 50,207,185</u>	<u>\$ 76,498,726</u>	<u>\$ 1,926,018</u>	<u>\$ 442,229,802</u>
Proportion	70.9%	11.4%	17.3%	0.4%	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:

- 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.
- 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.
- 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.
- 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 abovementioned 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

March 31, 2019						
	Stage 1	Stage 2	Stage 3		Loss Allowance	Gross Carrying Amount
	12-month Expected Credit Losses		Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
Investment grade Debt instruments at FVTOCI	\$ 845,210,235	\$ -	\$ -	\$ -	\$ -	\$ 845,210,235
Financial assets measured at amortized cost	2,329,783,528	-	-	-	(943,954)	2,328,839,574
Other financial assets	2,000,000	-	-	-	(644)	1,999,356
Non-investment grade Debt instruments at FVTOCI	25,741,631	219,152	70,409	-	-	26,031,192
Financial assets measured at amortized cost	32,103,131	7,494,550	3,179,636	-	(941,258)	41,836,059
December 31, 2018						
	Stage 1	Stage 2	Stage 3		Loss Allowance	Gross Carrying Amount
	12-month 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
March 31, 2018						
	Stage 1	Stage 2	Stage 3		Loss Allowance	Gross Carrying Amount
	12-month Expected Credit Losses		Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
Investment grade Debt instruments at FVTOCI	\$ 843,085,254	\$ -	\$ -	\$ -	\$ -	\$ 843,085,254
Financial assets measured at amortized cost	1,894,457,169	-	-	-	(701,335)	1,893,755,834
Other financial assets	3,500,000	-	-	-	(949)	3,499,051
Non-investment grade Debt instruments at FVTOCI	25,653,769	3,359,864	-	-	-	29,013,633
Financial assets measured at amortized cost	31,946,341	14,515,175	-	-	(1,008,856)	45,452,660

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

March 31, 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	Purchased or Originated Credit-impaired Financial Assets			
Secured loans and non-accrual receivable	\$ 391,453,107	\$ 122,529	\$ 6,226,043	\$ -	\$ (945,976)	\$ (4,601,772)	\$ 392,253,931
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	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
March 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	Purchased or Originated Credit-impaired Financial Assets			
Secured loans and non-accrual receivable	\$ 436,844,168	\$ 1,438,371	\$ 3,947,263	\$ -	\$ (663,878)	\$ (5,484,628)	\$ 436,081,296

h) 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	\$ 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	37,532	-	7	-	37,539
Financial assets that have been derecognized during the period	(58,655)	(15,373)	(4,276)	-	(78,304)
Changes in models/risk parameters	17,570	3,878	(787)	-	20,661
Foreign exchange and other movements	1,274	49	1,178	-	2,501
March 31, 2019	<u>\$ 465,902</u>	<u>\$ 5,702</u>	<u>\$ 8,461</u>	<u>\$ -</u>	<u>\$ 480,065</u>

	12-month Expected Credit Losses	Collectively Assessed	Lifetime Expected Credit Losses		Total of Impairment Charged in Accordance with IFRS 9
			Not Purchased or Originated Credit- impaired Financial Assets	Purchased or Originated Credit- impaired Financial Assets	
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	-	-	-
Transferred to 12-month expected credit losses	127	(127)	-	-	-
New financial assets originated or purchased	99,378	-	-	-	99,378
Financial assets that have been derecognized during the period	(62,500)	(33,704)	-	-	(96,204)
Changes in models/risk parameters	(16,845)	52,692	-	-	35,847
Foreign exchange and other movements	(10,030)	(2,651)	-	-	(12,681)
March 31, 2018	<u>\$ 464,346</u>	<u>\$ 114,023</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 578,369</u>

ii. Financial assets measured at amortized cost

	12-month Expected Credit Losses	Collectively Assessed	Lifetime Expected Credit Losses		Total of Impairment Charged in Accordance with IFRS 9
			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	60,849	-	-	-	60,849
Financial assets that have been derecognized during the period	(32,343)	(162,905)	(384,265)	-	(579,513)
Changes in models/risk parameters	67,938	44,387	(29,569)	-	82,756
Foreign exchange and other movements	2,727	2,147	(4,250)	-	624
March 31, 2019	<u>\$ 1,003,059</u>	<u>\$ 589,793</u>	<u>\$ 292,360</u>	<u>\$ -</u>	<u>\$ 1,885,212</u>

	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, 2018	\$ 754,100	\$ 705,758	\$ -	\$ -	\$ 1,459,858
Changes due to financial instruments recognized as at January 1					
Transferred to lifetime expected credit losses	(4,464)	4,464	-	-	-
New financial assets originated or purchased	84,549	-	-	-	84,549
Financial assets that have been derecognized during the period	(25,152)	(165,520)	-	-	(190,672)
Changes in models/risk parameters	23,801	369,875	-	-	393,676
Foreign exchange and other movements	(17,352)	(19,868)	-	-	(37,220)
March 31, 2018	<u>\$ 815,482</u>	<u>\$ 894,709</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,710,191</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	\$ 594	\$ -	\$ -	\$ -	\$ 594
Foreign exchange and other movements	50	-	-	-	50
March 31, 2019	<u>\$ 644</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 644</u>

  

	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, 2018	\$ 901	\$ -	\$ -	\$ -	\$ 901
Foreign exchange and other movements	48	-	-	-	48
March 31, 2018	<u>\$ 949</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 949</u>

iv. Secured loans and non-accrual receivable

		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
	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	\$ 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	(15 )	15	-	-	-	-	-
Transferred to credit-impaired financial assets	(316 )	(82 )	398	-	-	-	-
Transferred to 12-month expected credit losses	896	(77 )	(819 )	-	-	-	-
Financial assets that have been derecognized during the period	(2,758 )	(22 )	(17,501 )	-	(20,281 )	-	(20,281 )
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	(524,580 )	(524,580 )
Changes in models/risk parameters	4,153	194	279,656	-	284,003	-	284,003
March 31, 2019	<u>\$ 92,527</u>	<u>\$ 229</u>	<u>\$ 853,220</u>	<u>\$ -</u>	<u>\$ 945,976</u>	<u>\$ 4,601,772</u>	<u>\$ 5,547,748</u>

  

		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
	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	\$ 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	(177 )	871	(694 )	-	-	-	-
Transferred to credit-impaired financial assets	(12 )	(63 )	75	-	-	-	-
Transferred to 12-month expected credit losses	161	(102 )	(59 )	-	-	-	-
New financial assets originated or purchased	5,750	-	3,593	-	9,343	-	9,343
Financial assets that have been derecognized during the period	(1,605 )	-	(5,486 )	-	(7,091 )	-	(7,091 )
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	46,550	46,550
Changes in models/risk parameters	6,161	(237 )	(55,659 )	-	(49,735 )	-	(49,735 )
March 31, 2018	<u>\$ 119,157</u>	<u>\$ 1,680</u>	<u>\$ 543,041</u>	<u>\$ -</u>	<u>\$ 663,878</u>	<u>\$ 5,484,628</u>	<u>\$ 6,148,506</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:

	Recognition				
	Not Yet Due/within 1 Month	1-3 Months	3-6 Months	Over 6 Months	Total
March 31, 2019					
Gross carrying amount	\$ 19,219,958	\$ 103,339	\$ 856	\$ -	\$ 19,324,153
Loss rate	0%	2%	10%	50%	
Lifetime expected credit losses	-	2,066	86	-	2,152

Cathay Life's receivables which are in the scope of the impairment requirements under IFRS 9 included notes receivable in the amount of \$5,825 thousand and other receivables in the amount of \$19,318,328 thousand.

	Recognition				
	Not Yet Due/within 1 Month	1-3 Months	3-6 Months	Over 6 Months	Total
<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.

	Recognition				Total
	Not Yet Due/within 1 Month	1-3 Months	3-6 Months	Over 6 Months	
<u>March 31, 2018</u>					
Gross carrying amount	\$ 18,618,028	\$ 96,211	\$ 8,731	\$ 6	\$ 18,722,976
Loss rate	0%	2%	10%	50%	
Lifetime expected credit losses	-	1,927	874	3	2,804

Cathay Life's receivables which are in the scope of the impairment requirements under IFRS 9 included notes receivable in the amount of \$3,229 thousand and other receivables in the amount of \$18,719,747 thousand.

The abovementioned expected credit losses were measured by a provision matrix under the simplified approach and the movements in loss allowance are as follows:

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 2,346	\$ 2,175
(Deduction) addition for the current period	<u>(194)</u>	<u>629</u>
Ending balance	<u>\$ 2,152</u>	<u>\$ 2,804</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>March 31, 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	\$ 23,103,244	\$ 630,787	\$ 270,781	\$ 1,308,170	\$ 27,931
Bonds payable (Note)	129,745	883,726	2,415,000	7,245,000	78,400,000
<u>Derivative financial liabilities</u>					
Foreign exchange forward contracts	2,126,591	351,400	-	-	-
Foreign currency swaps	22,265,264	12,339,281	-	-	-
Interest rate swaps	11,028	1,661	3,920	3,009	-
<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)	-	1,608,951	2,415,000	7,245,000	78,400,000
<u>Derivative financial liabilities</u>					
Foreign exchange forward contracts	5,538,893	53,900	-	-	-
Foreign currency swaps	23,555,917	10,107,225	-	-	-
Interest rate swaps	14,230	3,686	3,978	2,587	-

	March 31, 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	\$ 36,956,892	\$ 737,533	\$ 81,437	\$ 51,246	\$ 7,576,849
Bonds payable (Note)	1,210,801	1,204,199	2,415,000	7,245,000	79,413,471
Preferred stock liabilities	-	5,057,074	-	-	-
<u>Derivative financial liabilities</u>					
Foreign exchange forward contracts	432,010	-	-	-	-
Foreign currency swaps	1,141,257	713,631	-	-	-
Interest rate swaps	23,313	14,897	17,165	(640)	-

Note: The bonds payable do not have maturity dates; therefore, the remaining period used for the calculation of the contract cash flows is 10 years.

### 3) Financial risk management objectives and policies

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.

#### a) 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's income or value of investment portfolio.

Cathay Life and its subsidiaries assesses, monitors, and manages market risks completely and effectively by applying Value at Risk ("VaR") and stress testing continuously.

##### i. 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.

##### ii. 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:

- 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.

- 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 Three Months Ended March 31	
		2019	2018
Equity risk (price)	-10%	\$ (68,389,711)	\$ (67,132,767)
Interest rate risk (yield curve)	+100bps	(109,126,726)	(107,670,513)
Exchange risk (foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(12,026,177)	(9,272,076)

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.

iii. Sensitivity analysis

**Summarization of Sensitivity Analysis**

<b>For the Three Months Ended March 31, 2019</b>			
<b>Risk Factors</b>	<b>Variables (+/-)</b>	<b>Changes in Income</b>	<b>Changes in Equity</b>
Foreign currency risk	USD/NTD appreciates 1%	\$ 7,196,759	\$ 4,800,324
	CNY (CNH)/USD appreciates 1%	868,023	512,323
	HKD/USD appreciates 1%	6,279	485,842
	EUR/USD appreciates 1%	113,555	176,393
	GBP/USD appreciates 1%	40,283	288,021
Interest rate risk	Yield curve (USD) parallel shifts up 1 bp	3,803	(909,855)
	Yield curve (CNY) parallel shifts up 1 bp	-	(13,339)
	Yield curve (EUR) parallel shifts up 1 bp	-	(7,158)
	Yield curve (GBP) parallel shifts up 1 bp	223	(4,444)
	Yield curve (NTD) parallel shifts up 1 bp	352	(121,757)
	Equity price increases 1%	(98,818)	6,919,457
<b>For the Three Months Ended March 31, 2018</b>			
<b>Risk Factors</b>	<b>Variables (+/-)</b>	<b>Changes in Income</b>	<b>Changes in Equity</b>
Foreign currency risk	USD/NTD appreciates 1%	\$ 4,560,211	\$ 4,804,585
	CNY (CNH)/USD appreciates 1%	865,382	353,949
	HKD/USD appreciates 1%	(4,100)	407,100
	EUR/USD appreciates 1%	(21,822)	175,145
	GBP/USD appreciates 1%	367,760	17,578
Interest rate risk	Yield curve (USD) parallel shifts up 1 bp	6,861	(859,335)
	Yield curve (AUD) parallel shifts up 1 bp	-	(106)
	Yield curve (EUR) parallel shifts up 1 bp	3,432	(6,978)
	Yield curve (NTD) parallel shifts up 1 bp	911	(189,878)
Equity price risk	Equity price increases 1%	75,232	6,645,535

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 the 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.

#### 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.

## 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.

The 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.

a) 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 initial recognition. To make this assessment, Cathay United Bank has considered to show the reasonable and corroborative information (including prospective information) on the significant increase in credit risk after initial recognition. The key indicators for consideration include:

i) Quantitative indicators

- Changes in 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 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 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 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 judging that credit quality has changed.

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 initial recognition:

i) Notch downgrade

If a notch downgrade of the obligor's internal or external ratings between the current grade and the grade at initial recognition is greater than the specific threshold, credit risk is deemed to have increased significantly since initial recognition.

ii) Low credit risk criteria

If the rating of the asset is below investment grade as of the reporting date (below credit rating of Baa3 given by international credit rating agency Moody's), credit risk is deemed to have increased significantly since initial recognition.

iii) Past due information

If the contract payment is over 30 days past due at the reporting date, credit risk is deemed to have increased significantly since initial recognition.

iv) Internal credit assessment indicators

If internal indicators show that credit quality information is weaker than that upon initial recognition, credit risk is deemed to have increased significantly 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

If the contract payment is overdue for more than 90 days as at the reporting date, it is determined to be credit impaired.

ii) Loan classification from NBC

A loan contract with special mention position at reporting date would be deemed as having a significant increase in credit risk since initial recognition.

iii) Internal credit assessment indicators

If internal indicators show that credit quality has deteriorated as at the reporting date, it is determined that the financial asset is credit impaired.

b) 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 as that used in 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 in default and credit impaired.

i) Quantitative indicators

- Changes in 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

If the contract payment is overdue for more than 90 days as at the reporting date, it is determined to be credit impaired.

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 observes the following indicators at each reporting date in order to determine if the financial asset is credit impaired:

i) Notch downgrade

When the credit rating of the financial asset at the reporting date falls into the default level, it is determined to be credit impaired.

ii) Past due information

If the contract payment is overdue for more than 90 days as at the reporting date, it is determined to be credit impaired.



iii) Internal credit assessment indicators

If internal indicators show that credit quality information is weaker than that upon initial recognition, credit risk is deemed to have increased significantly 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

If the contract payment is overdue for more than 90 days as at the reporting date, it is determined to be credit impaired.

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

If internal indicators show that credit quality has deteriorated as at the reporting date, it is determined that the financial asset is credit impaired.

c) 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 purposes of measuring expected credit loss, the Bank and CUBCN Bank take into consideration the borrower's probability of default ("PD"), which is included in loss given default ("LGD") and later multiplied by exposure at default ("EAD"), and at the same time considering the effects of time value of money when calculating 12-month and lifetime expected credit losses.

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 assess 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 utilized over the next 12 months after the reporting date and the lifetime of the loan, 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 used in assessing the expected credit losses were not significantly different from that used in 2019.

ii. Indovina Bank

Indovina Bank estimates the expected credit loss for different categories based on the credit risk characteristics the bank is exposed to, which includes product category, borrower type and enterprise scale.

Category	Description
Loan portfolio	Grouped by product class, counterparty type and enterprise size, such as large corporate, SME and retail loans.
Bond portfolio	Grouped by product class, external credit rating and payment ranks, such as sovereign and corporate bonds.

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)

CUBC Bank estimates the expected credit loss for different categories based on the credit risk characteristics the bank is exposed to, which includes product category and borrower type.

Category	Description
Loan	Grouped by product, counterparty types and loan classification by NBC, such as retail annuity and non-retail annuity.
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. Recovery activities have stopped.
- ii. The borrower was assessed as having insufficient resources or income sources to pay the arrears.

There may still be ongoing recovery activities for financial assets that have been written off by the Company, and litigation proceedings are continually carried out in accordance with the relevant policies.

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	Proportion of investment in GDP (%) Proportion of savings in GDP (%) Unemployment rate % Price Index	
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 and LGDs varies for 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)

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 categories of credit assets and the grades of credit quality are as follows:

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. Credit risk hedging or easing policies

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 collateral. 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) is as follows:

i) Cathay United Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk		
	March 31, 2019	December 31, 2018	March 31, 2018
Irrevocable loan commitments	\$ 114,802,247	\$ 154,605,389	\$ 153,205,922
Credit card commitments	674,289,020	669,232,204	630,569,223
Unused commercial letters of credit	4,385,758	4,217,682	4,422,974
Guarantees on duties and contracts	14,154,307	13,534,956	7,322,523

ii) Indovina Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk		
	March 31, 2019	December 31, 2018	March 31, 2018
Unused commercial letters of credit	\$ 1,230,038	\$ 1,017,801	\$ 1,532,583
Financial guarantee contracts	1,769,409	2,262,842	2,211,362
Irrevocable loan commitments	663	-	-

iii) CUBC Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk		
	March 31, 2019	December 31, 2018	March 31, 2018
Credit card commitments	\$ 406,139	\$ 447,040	\$ 406,664
Financial guarantee contracts	75,609	78,161	60,713

iv) CUBCN Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk		
	March 31, 2019	December 31, 2018	March 31, 2018
Irrevocable loan commitments	\$ 834,577	\$ 623,837	\$ -
Unused commercial letters of credit	574,674	773,078	-
Financial guarantee contracts	82,044	170,835	-

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:

	March 31, 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	\$ 1,572,398,461	\$ 64,163,308	\$ 12,894,732	\$ -	\$ 1,649,456,501
Less: Allowance impairment	(2,453,839)	(1,306,051)	(5,668,946)	-	(9,428,836)
Difference from impairment charged in accordance with "Guidelines for Handling Assessment of Assets"	-	-	-	(16,986,409)	(16,986,409)
	<u>\$ 1,569,944,622</u>	<u>\$ 62,857,257</u>	<u>\$ 7,225,786</u>	<u>\$ (16,986,409)</u>	<u>\$ 1,623,041,256</u>

Cathay United Bank and its subsidiaries' receivables:

	March 31, 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	\$ 87,777,353	\$ 2,089,393	\$ 2,392,110	\$ -	\$ 92,258,856
Less: Allowance impairment	(126,994)	(137,335)	(1,736,802)	-	(2,001,131)
Difference from impairment charged in accordance with "Guidelines for Handling Assessment of Assets"	-	-	-	(45,240)	(45,240)
	<u>\$ 87,650,359</u>	<u>\$ 1,952,058</u>	<u>\$ 655,308</u>	<u>\$ (45,240)</u>	<u>\$ 90,212,485</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:

	March 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	\$ 1,454,853,635	\$ 61,861,955	\$ 10,289,181	\$ -	\$ 1,527,004,771
Less: Allowance impairment	(4,020,156)	(1,279,367)	(4,345,528)	-	(9,645,051)
Difference from impairment charged in accordance with "Guidelines for Handling Assessment of Assets"	-	-	-	(13,664,395)	(13,664,395)
	<u>\$ 1,450,833,479</u>	<u>\$ 60,582,588</u>	<u>\$ 5,943,653</u>	<u>\$ (13,664,395)</u>	<u>\$ 1,503,695,325</u>



Cathay United Bank and its subsidiaries' receivables:

	March 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	\$ 83,799,467	\$ 1,065,834	\$ 2,744,198	\$ -	\$ 87,609,499
Less: Allowance impairment	(125,589)	(83,827)	(1,978,246)	-	(2,187,662)
Difference from impairment charged in accordance with "Guidelines for Handling Assessment of Assets"	-	-	-	(23,564)	(23,564)
	<u>\$ 83,673,878</u>	<u>\$ 982,007</u>	<u>\$ 765,952</u>	<u>\$ (23,564)</u>	<u>\$ 85,398,273</u>

v. Credit risk concentration of Cathay United Bank and its subsidiaries

When the counterparties of the financial instrument transactions are concentrated on one person, or when there are several counterparties but they all engage in similar business activities and share similar economic characteristics, making them vulnerable to the same economic impact or other changes, credit risk concentration is apparent.

Credit risk concentration 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 are listed below:

Industry Type Item	March 31, 2019		December 31, 2018		March 31, 2018	
	Amount	%	Amount	%	Amount	%
Manufacturing	\$ 114,774,844	6.90	\$ 117,141,000	7.16	\$ 102,912,389	6.70
Financial institutions and insurance	68,559,748	4.12	74,995,593	4.58	71,313,905	4.64
Leasing and real estate	127,220,969	7.64	140,808,012	8.60	124,262,807	8.08
Individuals	891,035,204	53.54	900,573,664	55.03	837,807,863	54.50
Others	<u>462,790,076</u>	<u>27.81</u>	<u>403,005,618</u>	<u>24.63</u>	<u>400,916,341</u>	<u>26.08</u>
	<u>\$ 1,664,380,841</u>	<u>100.00</u>	<u>\$ 1,636,523,887</u>	<u>100.00</u>	<u>\$ 1,537,213,305</u>	<u>100.00</u>

  

Geographic Region Item	March 31, 2019		December 31, 2018		March 31, 2018	
	Amount	%	Amount	%	Amount	%
Domestic	\$ 1,454,408,819	87.38	\$ 1,360,278,586	83.12	\$ 1,285,948,239	83.66
Asia	105,180,735	6.32	160,134,030	9.78	123,195,671	8.01
America	36,127,352	2.17	31,418,258	1.92	48,093,547	3.13
Others	<u>68,663,935</u>	<u>4.13</u>	<u>84,693,013</u>	<u>5.18</u>	<u>79,975,848</u>	<u>5.20</u>
	<u>\$ 1,664,380,841</u>	<u>100.00</u>	<u>\$ 1,636,523,887</u>	<u>100.00</u>	<u>\$ 1,537,213,305</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 flows. 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.

	March 31, 2019				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Due to the Central Bank and call loans from banks	\$ 47,458,618	\$ 7,247,832	\$ 28,553,291	\$ 185,111	\$ 83,444,852
Non-derivative financial liabilities at fair value through profit or loss	-	778,177	195,533	52,341,468	53,315,178
Securities sold under repurchase agreements	16,827,453	6,960,580	-	20,404,209	44,192,242
Payables	15,595,171	4,262,339	3,105,541	474,272	23,437,323
Deposits and remittances	322,162,596	859,555,048	895,074,914	120,980,513	2,197,773,071
Financial debentures payable	425,064	2,063,970	-	53,900,000	56,389,034
Lease liabilities	-	-	49,061	4,064,583	4,113,644
Other capital outflow at maturity	25,485,413	39,975,676	7,988,244	1,068,911	74,518,244

Additional information about the maturity analysis for lease liabilities:

	Less than 1 Year	1-5 Years	5-10 Years	10-15 Years	15-20 Years	20+ Years
Lease liabilities	\$ 49,061	\$ 3,721,874	\$ 342,709	\$ -	\$ -	\$ -

  

	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

	March 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	\$ 73,117,001	\$ 4,707,254	\$ 24,639,352	\$ 116,828	\$ 102,580,435
Non-derivative financial liabilities at fair value through profit or loss	-	735,144	184,708	48,971,382	49,891,234
Securities sold under repurchase agreements	84,806,661	9,974,562	-	4,659,404	99,440,627
Payables	10,686,876	5,821,691	3,590,832	622,705	20,722,104
Deposits and remittances	274,299,660	831,329,789	861,048,082	110,510,760	2,077,188,291
Financial debentures payable	425,063	4,259,372	-	55,600,000	60,284,435
Other capital outflow at maturity	17,186,277	44,209,333	7,630,505	1,369,668	70,395,783

### 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:

	March 31, 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	\$ 73,096	\$ 268,518	\$ 23,292	\$ 368	\$ 365,274
Interest rate derivative instruments	<u>13,488</u>	<u>359,293</u>	<u>461,478</u>	<u>22,616,015</u>	<u>23,450,274</u>
	<u>\$ 86,584</u>	<u>\$ 627,811</u>	<u>\$ 484,770</u>	<u>\$ 22,616,383</u>	<u>\$ 23,815,548</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>
	March 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	\$ 65,239	\$ 151,367	\$ 64,302	\$ 674	\$ 281,582
Interest rate derivative instruments	<u>2,570,548</u>	<u>108,402</u>	<u>244,740</u>	<u>12,538,416</u>	<u>15,462,106</u>
	<u>\$ 2,635,787</u>	<u>\$ 259,769</u>	<u>\$ 309,042</u>	<u>\$ 12,539,090</u>	<u>\$ 15,743,688</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:

	March 31, 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					
Cash outflow	\$ (1,992,871)	\$ (3,810,448)	\$ (782,024)	\$ (287,866)	\$ (6,873,209)
Cash inflow	38,506	35,269	8,699	-	82,474
Interest rate derivative instruments					
Cash outflow	(9,773)	(119,745)	(91,375)	(591,511)	(812,404)
Cash inflow	-	-	-	-	-
Cash outflow subtotal	(2,002,644)	(3,930,193)	(873,399)	(879,377)	(7,685,613)
Cash inflow subtotal	38,506	35,269	8,699	-	82,474
Net cash flow	<u>\$ (1,964,138)</u>	<u>\$ (3,894,924)</u>	<u>\$ (864,700)</u>	<u>\$ (879,377)</u>	<u>\$ (7,603,139)</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					
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>
	March 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					
Cash outflow	\$ (3,297,348)	\$ (6,179,852)	\$ (1,265,664)	\$ (344,572)	\$ (11,087,436)
Cash inflow	9,568	22,645	-	-	32,213
Interest rate derivative instruments					
Cash outflow	(60,419)	(206,044)	(180,681)	(363,889)	(811,033)
Cash inflow	-	-	-	-	-
Cash outflow subtotal	(3,357,767)	(6,385,896)	(1,446,345)	(708,461)	(11,898,469)
Cash inflow subtotal	9,568	22,645	-	-	32,213
Net cash flow	<u>\$ (3,348,199)</u>	<u>\$ (6,363,251)</u>	<u>\$ (1,446,345)</u>	<u>\$ (708,461)</u>	<u>\$ (11,866,256)</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.

The maturity analysis of off-balance sheet items is shown as follows:

March 31, 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	\$ 66,510,820	\$ 39,872,087	\$ 8,419,340	\$ 114,802,247
Credit card commitments	12,282,486	239,085,443	422,921,091	674,289,020
Financial guarantee contracts	13,264,151	4,939,063	336,851	18,540,065

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

March 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	\$ 129,677,097	\$ 21,619,215	\$ 1,909,610	\$ 153,205,922
Credit card commitments	13,265,815	236,819,923	380,483,485	630,569,223
Financial guarantee contracts	10,783,344	891,754	70,399	11,745,497

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. The portfolio is held for trading, which is intended to earn the profit from the 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.

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 operations.

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>March 31, 2019</b>			
<b>Factors of Market Risk</b>	<b>Average Balance</b>	<b>Maximum Balance</b>	<b>Minimum Balance</b>
Interest rate	\$ 189,613	\$ 479,859	\$ 40,550
Foreign exchange	151,994	202,948	104,364
Equity securities price	297,861	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>March 31, 2018</b>			
<b>Factors of Market Risk</b>	<b>Average Balance</b>	<b>Maximum Balance</b>	<b>Minimum Balance</b>
Interest rate	\$ 633,739	\$ 858,800	\$ 479,859
Foreign exchange	186,823	554,769	115,940
Equity securities price	258,018	424,067	165,345

Note: The 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>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Stock market	Major stock exchanges +15%	\$ 1,547,204	\$ 990,610	\$ 2,584,261
	Major stock exchanges -15%	(1,547,204)	(935,918)	(2,584,261)
Interest rate/bond market	Major interest rate + 100bp	(1,269,412)	(417,490)	(557,674)
	Major interest rate (100bp)	1,481,628	701,613	591,608
Foreign exchange market	Major currencies +3%	183,304	245,686	42,543
	Major currencies -3%	(171,237)	(233,535)	(41,681)
Composite	Major Stock Exchanges -15%	(2,633,312)	(1,107,722)	(78,616)
	Major Interest Rate +100bp			
	Major Currencies +3%			

The above information related to stress testing is defined as 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>March 31, 2019</b>	
		<b>Sensitivity of Profit or Loss</b>	<b>Sensitivity of Equity</b>
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	\$ 10,404	\$ -
	HKD+1%	3,350	-
	JPY+1%	416	-
	AUD+1%	(1,778)	-
	CNY+1%	7,409	-
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	(140)	-
	Yield curves (HKD) parallel shift+1bp	35	-
	Yield curves (AUD) parallel shift+1bp	(656)	-
	Yield curves (CNY) parallel shift+1bp	(1,087)	-
	Equity securities price factor sensitivity (Equity Delta)	8,644	94,642
		<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)	(1,011)	66,545

		<b>March 31, 2018</b>	
		<b>Sensitivity of Profit or Loss</b>	<b>Sensitivity of Equity</b>
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	\$ 24,051	\$ -
	HKD+1%	(28,325)	-
	JPY+1%	6,907	-
	AUD+1%	33,280	-
	CNY+1%	10,231	-
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	(303)	-
	Yield curves (HKD) parallel shift+1bp	12	-
	Yield curves (AUD) parallel shift+1bp	60	-
	Yield curves (CNY) parallel shift+1bp	(202)	-
	Equity securities price factor sensitivity (Equity Delta)	44,537	127,754

#### Cathay Century and its subsidiaries

Cathay Century and its subsidiaries's 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 of potential revenue and portfolio value reduction due to the fluctuations of market risk factors, such as exchange rates, commodity prices, interest rates, credit spreads, and stock prices.

Cathay Century and its subsidiaries continue to use market risk management tools such as value-at-risk and stress testing to completely and effectively measure, monitor and manage market risk.

##### a) Value-at-risk

Value-at-risk is used to measure the maximum potential loss of a portfolio in a certain future time horizon and confidence level when the market risk factors changes. Cathay Century and its subsidiaries estimate value at risk on the next day (week or two weeks) with a 99% level of confidence.

The value-at-risk model must reasonably, completely and accurately measure the maximum potential risk to be used as Cathay Century and its subsidiaries' risk management model. The risk management model must conduct back testing on an ongoing basis to ensure the model can effectively measure the maximum potential risk of a financial instrument or a portfolio.

b) Stress testing

In addition to the value-at-risk model, Cathay Century and its subsidiaries periodically uses stress testing to assess the potential risk of extreme incidents. Stress testing is used to evaluate the potential impact on portfolio values when a series of financial variables undergo extreme changes.

Cathay Century and its subsidiaries conduct stress testing regularly on positions by simple sensitivity analysis and scenario analysis. The stress testing contains changes of various risk factors in all historical scenarios that may cause losses in an investment portfolio.

i. Simple sensitivity test

Simple sensitivity mainly measures changes in the value of a portfolio caused by specific risk factor.

ii. Scenario analysis

Scenario analysis measures the change in the total value of a portfolio under a stressful event. The measures include:

i) Historical scenarios

The measure selects from historical data of a certain period and adds the volatility of the risk factors selected to a given portfolio, and then calculates the amount of loss.

ii) Hypothetical scenarios

Hypothetical scenario makes reasonable hypothesis with respect to possible extreme market changes and includes the risk factors related to the changes in the current portfolio to estimate the amount of loss that may be incurred.

The risk management department conducts stress testing regularly under historical scenarios and hypothetical scenarios for Cathay Century and its subsidiaries to perform risk analysis, risk alerts and business management based on the stress test report.

**Stress Testing**

<b>Risk Factors</b>	<b>Variation (+/-)</b>	<b>For the Three Months Ended March 31, 2019</b>	<b>For the Three Months Ended March 31, 2018</b>
Equity risk (stock index)	-10%	\$ (402,996)	\$ (609,605)
Interest rate risk (yield curve)	+20bps	(151,112)	(161,579)
Exchange risk (exchange rate)	USD depreciate against the NTD by 1 dollar	(89,423)	(117,922)

Note 1: Change in credit spread is not considered.

Note 2: The effect of hedging is already considered.

Note 3: The test result of the subsidiary of Cathay Century would not be disclosed, since the effect is immaterial.

c) Sensitivity analysis

<b>For the Three Months Ended March 31, 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	\$ 26,639	\$ 5,904
	CNY appreciates 1 % against the NTD	3,705	-
	HKD appreciates 1 % against the NTD	1,634	4,731
	EUR appreciates 1 % against the NTD	89	270
	VND appreciates 1 % against the NTD	6,239	-
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	-	-
	Yield curve (CNY) flat rises 1bp	(90)	-
	Yield curve (NTD) flat rises 1bp	(1,416)	(926)
Equity securities price sensitivity	1% increase in equity security price	-	40,300
<b>For the Three Months Ended March 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	\$ 38,226	\$ 7,636
	CNY appreciates 1 % against the NTD	15,315	-
	HKD appreciates 1 % against the NTD	684	4,060
	EUR appreciates 1 % against the NTD	3	1,158
	VND appreciates 1 % against the NTD	5,698	-
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(5,587)	-
	Yield curve (CNY) flat rises 1bp	(108)	-
	Yield curve (NTD) flat rises 1bp	(1,241)	(1,068)
Equity securities price sensitivity	1% increase in equity security price	647	60,313

Note 1: Change in credit spread is not considered.

Note 2: The effect of hedging is already considered.

Note 3: The changes in equity is not considered in the effect on profit and loss.

Note 4: The sensitivity test does not take the fluctuation of the reserve for changes in foreign exchange valuation into consideration.

Note 5: The test result of subsidiaries would not be disclosed, since the effect is immaterial.

d) 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 within approved policy parameters utilizing forward futures contracts. The hedged position does not exceed the hedged item.

2) Credit risk

a) Cathay Century and its subsidiaries's credit risk exposure of financial transactions include: Issuer risk, counterparty risk and the credit risk of underlying assets.

- i. Issuer risk is the risk that the issuer of the debt instrument held by Cathay Century and its subsidiaries or banks with which Cathay Century and its subsidiaries maintain deposits fail to deliver in accordance with the agreement due to default, bankruptcy or settlement, and Cathay Century and its subsidiaries incur financial losses as a result.
- ii. Counterparty risk is the risk that a counterparty of Cathay Century and its subsidiaries fail to deliver as obligated before the settlement date which then causes losses to Cathay Century.
- iii. Credit risk of the underlying assets is the risk of loss due to weakened credit quality, increase in credit premium, credit rating downgrade or default of underlying assets linked to a financial instrument.

b) Credit risk concentration analysis

i. The amounts of credit risk exposure of Cathay Century’s financial assets are as follows:

March 31, 2019

Financial Assets	Taiwan	Asia	Europe	North Americas	Emerging Market and Others	Total
Cash and cash equivalents	\$ 10,357,298	\$ -	\$ -	\$ -	\$ 166,549	\$ 10,523,847
Financial assets at FVTPL	777,348	-	-	-	-	777,348
Financial assets at FVTOCI	752,887	-	-	-	-	752,887
Financial assets at amortized cost	1,916,406	357,499	1,497,198	3,280,472	1,808,352	8,859,927
Total	\$ 13,803,939	\$ 357,499	\$ 1,497,198	\$ 3,280,472	\$ 1,974,901	\$ 20,914,009
Proportion of each region to total	66%	1.71%	7.16%	15.69%	9.44%	100.00%

December 31, 2018

Financial Assets	Financial assets	Taiwan	Emerging Market and Others	Europe
Cash and cash equivalents	Cash and cash equivalents	\$ 10,026,154	\$ -	\$ -
Financial assets at FVTPL	Financial assets at FVTPL	785,960	-	-
Financial assets at FVTOCI	Financial assets at FVTOCI	1,045,844	-	-
Financial assets at amortized cost	Financial assets at amortized cost	2,118,265	356,861	1,493,025
Total	Total	\$ 13,976,223	\$ 356,861	\$ 1,493,025
Proportion of each region to total	Proportion	66.41%	1.70%	7.10%

March 31, 2018

Financial Assets	Financial assets	Taiwan	Emerging Market and Others	Europe
Cash and cash equivalents	Cash and cash equivalents	\$ 8,640,939	\$ -	\$ -
Financial assets at FVTPL	Financial assets at FVTPL	887,423	-	-
Financial assets at FVTOCI	Financial assets at FVTOCI	1,040,919	-	-
Financial assets at amortized cost	Financial assets at amortized cost	2,422,646	339,292	1,415,383
Total	Total	\$ 12,991,927	\$ 339,292	\$ 1,415,383
Proportion of each region to total	Proportion	65.73%	1.72%	7.16%



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 deemed as credit-impaired.
- ii. Qualitative factors: 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 takes 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

March 31, 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	\$ 752,887	\$ -	\$ -	\$ -	\$ -	\$ 752,887
Financial assets measured at amortized cost	8,863,702	-	-	-	(3,775)	8,859,927
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
March 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	\$ 1,040,919	\$ -	\$ -	\$ -	\$ -	\$ 1,040,919
Financial assets measured at amortized cost	8,937,958	-	-	-	(3,092)	8,934,866
<u>Non-investment grade</u>						
Financial assets measured at amortized cost	150,000	-	-	-	(1,091)	148,909

Note: Investment grade assets refer to those with credit ratings of at least BBB- (granted by a credit rating agency); non-investment grade assets are those with credit rating lower than BBB- (granted by a credit rating agency).

ii. Loans

March 31, 2019							
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3		Loss Allowance	Difference from Impairment Charged in Accordance With Guidelines for Handling Assessment of Assets	Gross Carrying Amount
			Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets			
Loans	\$ 234,262	\$ -	\$ -	\$ -	\$ (2,816)	\$ -	\$ 231,446
December 31, 2018							
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3		Loss Allowance	Difference from Impairment Charged in Accordance With Guidelines for Handling Assessment of Assets	Gross Carrying Amount
			Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets			
Loans	\$ 239,701	\$ -	\$ -	\$ -	\$ (2,885)	\$ -	\$ 236,816
March 31, 2018							
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3		Loss Allowance	Difference from Impairment Charged in Accordance With Guidelines for Handling Assessment of Assets	Gross Carrying Amount
			Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets			
Loans	\$ 228,651	\$ -	\$ -	\$ -	\$ (2,696)	\$ -	\$ 225,955

g) Movements of 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	(82)	-	-	-	(82)
March 31, 2019	<u>\$ 66</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66</u>
January 1, 2018	\$ 150	\$ -	\$ -	\$ -	\$ 150
Changes in models/risk parameters	26	-	-	-	26
March 31, 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	<u>184</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>184</u>
March 31, 2019	<u>\$ 3,726</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,726</u>
January 1, 2018	\$ 3,571	\$ -	\$ -	\$ -	\$ 3,571
Changes in models/risk parameters	<u>541</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>541</u>
March 31, 2018	<u>\$ 4,112</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,112</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	<u>4</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4</u>
March 31, 2019	<u>\$ 49</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49</u>
January 1, 2018	\$ 68	\$ -	\$ -	\$ -	\$ 68
Changes in models/risk parameters	<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u>
March 31, 2018	<u>\$ 71</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71</u>

iv. Loans

	12-month Expected Credit Losses	Collectively Assessed	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
			Not Purchased or Originated Credit- impaired Financial Assets	Purchased or Originated Credit- impaired Financial Assets			
January 1, 2019	\$ 52	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u>
March 31, 2019	<u>\$ 55</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55</u>
January 1, 2018	\$ 45	\$ -	\$ -	\$ -	\$ 45	\$ 3,079	\$ 3,124
Financial assets that have been derecognized during the period	(3)	-	-	-	(3)	-	(3)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(425)</u>	<u>(425)</u>
March 31, 2018	<u>\$ 42</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42</u>	<u>\$ 2,654</u>	<u>\$ 2,696</u>

Changes in the carrying amount of the financial assets would not have a material impact on the expected credit loss.

h) Receivable credit risk exposure and expected credit loss

The Company applies the simplified approach in providing for expected credit loss prescribed by IFRS 9, the estimation of lifetime credit loss was as follows:

March 31, 2019

<b>March 31, 2019</b>	<b>Not overdue</b>	<b>Overdue</b>	<b>Total</b>
Carrying amount	\$ 1,233,101	\$ 433,539	\$ 1,666,640
Expected credit loss rate	0.95%	11.11%	-
Lifetime expected credit losses	11,773	48,172	59,945

December 31, 2018

<b>December 31, 2018</b>	<b>Not overdue</b>	<b>Overdue</b>	<b>Total</b>
Carrying amount	\$ 1,233,101	\$ 433,539	\$ 1,666,640
Expected credit loss rate	0.95%	11.11%	-
Lifetime expected credit losses	11,773	48,172	59,945

March 31, 2018

<b>March 31, 2018</b>	<b>Not overdue</b>	<b>Overdue</b>	<b>Total</b>
Carrying amount	\$ 1,233,101	\$ 433,539	\$ 1,666,640
Expected credit loss rate	0.95%	11.11%	-
Lifetime expected credit losses	11,773	48,172	59,945

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 the Company is unable to turn assets into cash or obtain sufficient funds. Market liquidity risk represents the risk of significant changes in fair value that the Company faces when it sells or offsets its assets during market disorder.

b) Liquidity risk management

Cathay Century established a capital liquidity management mechanism based on the business features and monitoring short-term cash flow. Considering the trading volume and holding position, Cathay Century carefully manage the market liquidity risk.

Depending on the actual management need or special situation, Cathay Century uses models to assess cash flow risk, such as cash flow model or stress testing model. 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 following table details Cathay Century and its subsidiaries' remaining contractual maturities for its financial liabilities. The amount disclosed may not be consistent with the consolidated financial statements since the table was based on contractual cash flows.

Other non-derivative and derivative financial liability analysis was based on the earliest date on which Cathay Century and its subsidiaries can be required to pay.

#### March 31, 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	\$ 2,237,090	\$ 27,224	\$ 4,367	\$ 6,786	\$ -
<u>Derivative financial liabilities</u>					
Foreign exchange forward contracts	59,431	-	-	-	-

#### 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>					
Foreign exchange forward contracts	50,041	-	-	-	-

#### March 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	\$ 2,285,784	\$ 13,142	\$ 2,466	\$ 5,313	\$ -
Preferred stock liabilities	1,000,000	-	-	-	-
<u>Derivative financial liabilities</u>					
Foreign exchange forward contracts	515	-	-	-	-

#### Cathay Securities and its subsidiaries

##### 1) Risk management policies

###### a) Risk management objectives

Adhering to the risk management policies of the Company, Cathay Financial Holding, Cathay Securities and its subsidiaries manage the risks efficiently and flexibly on operating activities to maximize the profit in conformity with domestic and foreign regulations.

###### b) Risk management policies

Cathay Securities uses “risk management policies” as a guiding principle to establish risk management objectives, coverage, organization duties and operating, management principles and reports etc.

The management policies of Cathay Securities and its subsidiaries cover different types of risk including market risk, credit risk, operating risk, liquidity risk, capital adequacy management, regulation risk and other risks related to operating activities. Cathay Securities and its subsidiaries identify relevant risks and have integrated planning of risk management in accordance with the management policies before operating business.

c) Risk management organizational structure

i. Board of directors

The board of directors has the ultimate responsibilities for risk management. The board has the primary responsibility for the determination of the risk management strategies and for ensuring that approved risk management policies are in accordance with the nature of operating activities, types of operating business and they cover different types of risk. Also, the board is required to monitor that the implementation of risk management policies is effective.

ii. Risk management committee

The risk management committee is responsible for reviewing risk management policies, principles, and directions of trading management, and for determining the appropriate degree of risk exposures and monitoring the implementation of the risk management policies. The risk management committee is established by the board of directors and the members include the general manager, finance supervisor, accounts supervisor, risk management supervisor, as well as 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 reports to 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.

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 services division implementation is with the same base of the consistency of credibility and is in accordance with the internal control procedures to comply with the regulations and risk management policies.

v. Auditing office

The auditing office participates in the setting of risk management mechanism and executes risk management and internal control procedures regularly. All staff members should be also responsible for monitoring and documenting problems of internal control procedures periodically to ensure that the appropriate actions of improvement have been taken in time.

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 on a monthly basis.

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 that include shares, bonds, and derivatives etc. arising from movements in the market prices of financial instruments.

ii) Controls:

Cathay Securities and its subsidiaries set up training directions including the limits of authorization, risk limitation, stop-loss rules, and responses to the exceeded limits by each product or service line and actual operations and implement those control procedures efficiently through the 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, back-testing model and perform pressure test by each extreme scenario to control the risks that Cathay Securities and its subsidiaries face and manage all risks as a whole efficiently.

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 meet its obligations under a contract due to the 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 the 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 and reports to 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) Value at risk

Value at Risk (“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 Three Months Ended March 31, 2019</b>			
	<b>Average</b>	<b>Highest</b>	<b>Lowest</b>	<b>End of Period</b>
VaR	\$ 14,829	\$ 18,591	\$ 11,025	\$ 16,150

  

	<b>For the Three Months Ended March 31, 2018</b>			
	<b>Average</b>	<b>Highest</b>	<b>Lowest</b>	<b>End of Period</b>
VaR	\$ 67,290	\$ 154,268	\$ 23,905	\$ 58,989

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 and review reports will be documented. 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 Three Months Ended March 31, 2019**  
**Stress Test Table**

<b>Risk Factor</b>	<b>Changes (+/-)</b>	<b>Changes in Profit and Loss</b>
Equity risk (stock index)	-10%	\$ 23,070
Interest rate risk (yield curve)	+100bps	(173,569)
Exchange rate risk (exchange rate)	-3%	(6,826)
Product risk (price)	-10%	-

**For the Three Months Ended March 31, 2018**  
**Stress Test Table**

<b>Risk Factor</b>	<b>Changes (+/-)</b>	<b>Changes in Profit and Loss</b>
Equity risk (stock index)	-10%	\$ (283,104)
Interest rate risk (yield curve)	+100bps	(156,868)
Exchange rate risk (exchange rate)	3%	(2,918)
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.

4) Capital Liquidity Risk Analysis:

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.

March 31, 2019

Cash Flows Analysis of Financial Liabilities

	Payment Period				
	Less than 1 Month	1 to 3 Months	3 to 6 Months	More than 6 Months	Total
<u>Financial liabilities</u>					
Short-term borrowings	\$ 644,575	\$ -	\$ -	\$ -	\$ 644,575
Commercial paper payable	6,008,808	-	-	-	6,008,808
Financial liabilities at fair value through profit or loss	2,021,755	-	-	-	2,021,755
Liabilities for bonds with repurchase agreements	3,349,065	-	-	-	3,349,065
Deposits for securities borrowed	35,009	70,018	105,027	420,114	630,168
Securities lending margin - deposits received	592	1,184	1,776	7,108	10,660
Futures trader's equity	8,243,647	-	-	-	8,243,647
Ledgers of securities firms' settlement accounts					
customer's equity	16,130	-	-	-	16,130
Payables	6,221,182	-	-	297,752	6,518,934
Other financial liabilities	289,770	-	-	-	289,770
Lease liabilities - current	5,962	17,838	23,725	23,128	70,653
Others	<u>124,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,600</u>
Total	<u>\$ 26,961,095</u>	<u>\$ 89,040</u>	<u>\$ 130,528</u>	<u>\$ 748,102</u>	<u>\$ 27,928,765</u>
% to the total	<u>96.54%</u>	<u>0.32%</u>	<u>0.47%</u>	<u>2.67%</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.

March 31, 2019

Cash Flow Gap

	Fund Receipt Period				
	Less than 1 Month	1 to 3 Months	3 to 6 Months	More than 6 Months	Total
<u>Financial assets</u>					
Cash and cash equivalents	\$ 3,071,556	\$ -	\$ -	\$ -	\$ 3,071,556
Financial assets at fair value through profit or loss					
Operation securities	6,211,632	-	-	-	6,211,632
Call option-futures	50,552	-	-	-	50,552
Futures trading margin	1,340,284	-	-	-	1,340,284
Structured products	24,790	-	-	-	24,790
Financial assets at fair value through other comprehensive income - current	3,405,050	-	-	-	3,405,050
Securities financing receivables	158,497	312,270	468,405	1,873,625	2,812,797
Refinancing margin and refinancing deposits receivable	854	1,708	2,562	10,245	15,369
Security lending receivable	91,654	-	-	-	91,654
Customer's margin accounts	8,251,911	-	-	-	8,251,911
Security lending deposits price and security lending margin deposits paid	57,953	115,906	173,859	695,438	1,043,156
Receivables	5,209,449	-	-	25,256	5,234,705
Others	1,419,168	-	-	900,000	2,319,168
	<u>29,293,350</u>	<u>429,884</u>	<u>644,826</u>	<u>3,504,564</u>	<u>33,872,624</u>
Residual cash	\$ 2,332,255	\$ 340,844	\$ 514,298	\$ 2,756,462	\$ 5,943,859

December 31, 2018

Cash Flows Analysis of Financial Liabilities

	Payment Period				
	Less than 1 Month	1 to 3 Months	3 to 6 Months	More than 6 Months	Total
<u>Financial liabilities</u>					
Short-term borrowings	\$ 336,381	\$ -	\$ -	\$ -	\$ 336,381
Commercial paper payable	3,729,367	-	-	-	3,729,367
Financial liabilities at fair value through profit or loss	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	<u>44,731</u>	<u>647</u>	<u>-</u>	<u>-</u>	<u>45,378</u>
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				
	Less than 1 Month	1 to 3 Months	3 to 6 Months	More than 6 Months	Total
<u>Financial assets</u>					
Cash and cash equivalents	\$ 3,158,088	\$ -	\$ -	\$ -	\$ 3,158,088
Financial assets at fair value through profit or loss	4,634,086	-	-	-	4,634,086
Operation securities	19,149	-	-	-	19,149
Call option-futures	433,813	-	-	-	433,813
Futures trading margin	272	-	-	-	272
Structured products	3,379,521	-	-	-	3,379,521
Financial assets at fair value through other comprehensive income - current	146,700	293,400	440,100	1,760,405	2,640,605
Securities financing receivables	1,215	2,430	3,645	14,586	21,876
Refinancing margin and refinancing deposits receivable	66,890	-	-	-	66,890
Security lending receivable	5,847,830	-	-	-	5,847,830
Customer's margin accounts	102,118	204,236	306,354	1,225,411	1,838,119
Security lending deposits price and security lending margin deposits paid	4,721,054	-	-	25,942	4,746,996
Receivables	<u>381,826</u>	<u>-</u>	<u>-</u>	<u>900,000</u>	<u>1,281,826</u>
Others	<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>

March 31, 2018

Cash Flows Analysis of Financial Liabilities

	Payment Period				
	Less than 1 Month	1 to 3 Months	3 to 6 Months	More than 6 Months	Total
<u>Financial liabilities</u>					
Short-term borrowings	\$ 410,307	\$ -	\$ -	\$ -	\$ 410,307
Commercial paper payable	8,287,632	-	-	-	8,287,632
Financial liabilities at fair value through profit or loss	1,938,382	-	-	-	1,938,382
Liabilities for bonds with repurchase agreements	3,264,524	-	-	-	3,264,524
Deposits for securities borrowed	30,535	61,070	91,605	366,417	549,627
Securities lending margin - deposit received	5,425	10,850	16,275	65,104	97,654
Futures trader's equity	4,989,789	-	-	-	4,989,789
Payables	5,384,028	-	-	256,708	5,640,736
Others	<u>102,718</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>102,718</u>
Total	<u>\$ 24,413,340</u>	<u>\$ 71,920</u>	<u>\$ 107,880</u>	<u>\$ 688,229</u>	<u>\$ 25,281,369</u>
% to the total	<u>96.57%</u>	<u>0.28%</u>	<u>0.43%</u>	<u>2.72%</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.

March 31, 2018

Cash Flow Gap

	Fund Receipt Period				
	Less than 1 Month	1 to 3 Months	3 to 6 Months	More than 6 Months	Total
<u>Financial assets</u>					
Cash and cash equivalents	\$ 2,634,817	\$ -	\$ -	\$ -	\$ 2,634,817
Financial assets at fair value through profit or loss					
Operation securities	7,396,421	-	-	-	7,396,421
Call option-futures	20,999	-	-	-	20,999
Futures trading margin	972,962	-	-	-	972,962
Financial assets at fair value through other comprehensive income - current	3,190,312	-	-	-	3,190,312
Securities financing receivables	241,005	482,010	723,015	2,892,067	4,338,097
Refinancing margin and refinancing deposits receivable	363	726	1,089	4,355	6,533
Security lending receivable	9,107	-	-	-	9,107
Customer's margin accounts	4,994,662	-	-	-	4,994,662
Security lending deposits price and security lending margin deposits paid	53,557	107,114	160,671	642,678	964,020
Receivables	4,921,460	-	-	26,486	4,947,946
Others	<u>493,008</u>	<u>-</u>	<u>-</u>	<u>903,705</u>	<u>1,396,713</u>
	<u>24,928,673</u>	<u>589,850</u>	<u>884,775</u>	<u>4,469,291</u>	<u>30,872,589</u>
Residual cash	\$ 515,333	\$ 517,930	\$ 776,895	\$ 3,781,062	\$ 5,591,220

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 used to prevent the occurrence of the stress events:

- i. Fund raising and balance sheet adjustments are made in accordance with Cathay Securities and its subsidiaries' "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.

f. 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

March 31, 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	\$ 220,240	\$ -	Financial assets for hedging	\$ 19,912
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
March 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	\$ 14,790,000	\$ 221,211	\$ -	Financial assets for hedging	\$ 2,814

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>March 31, 2019</u>						
Interest rate swaps						
Nominal principal	\$	-	\$ -	\$ -	\$ 3,800,000	\$ 3,000,000
Average fixed rate		-	-	-	1.6%	1.7%

	Maturity				
	1 Month	1-3 Months	3 Months - 1 Year	1-5 Years	Over 5 Years
<u>December 31, 2018</u>					
Interest rate swaps					
Nominal principal	\$ -	\$ -	\$ -	\$ 3,800,000	\$ 3,000,000
Average fixed rate	-	-	-	1.6%	1.7%

	Maturity				
	1 Month	1-3 Months	3 Months - 1 Year	1-5 Years	Over 5 Years
<u>March 31, 2018</u>					
Interest rate swaps					
Nominal principal	\$ -	\$ 7,990,000	\$ -	\$ 2,800,000	\$ 4,000,000
Average fixed rate	-	1.3%	-	1.6%	1.7%

c) Hedged items

For the Three Months Ended March 31, 2019								
	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period	Cash Flow Hedge Reserve	Balance of Cash Flow Hedge Reserve Generated from the Hedging Relationships Where Hedge Accounting Is No Longer Applicable	Change in the Value of the Hedging Instrument Recognized in Other Comprehensive Income	Hedge Ineffectiveness Recognized in Profit or loss	Line Item in Profit or Loss that Includes Hedge Ineffectiveness	Amount Reclassified from the Cash Flow Hedge Reserve to Profit or Loss	Line Item Affected in Profit or Loss Because of the Reclassification
Floating-rate bonds	\$ (19,912)	\$ 220,240	N/A	\$ 19,912	\$ -	\$ -	\$ (16,283)	Finance cost
Discontinued hedge - floating-rate bonds	N/A	N/A	\$ -	N/A	N/A	N/A	-	Finance cost

For the Three Months Ended March 31, 2018								
	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period	Cash Flow Hedge Reserve	Balance of Cash Flow Hedge Reserve Generated from the Hedging Relationships Where Hedge Accounting Is No Longer Applicable	Change in the Value of the Hedging Instrument Recognized in Other Comprehensive Income	Hedge Ineffectiveness Recognized in Profit or loss	Line Item in Profit or Loss that Includes Hedge Ineffectiveness	Amount Reclassified from the Cash Flow Hedge Reserve to Profit or Loss	Line Item Affected in Profit or Loss Because of the Reclassification
Floating-rate bonds	\$ (2,814)	\$ 221,211	N/A	\$ 2,814	\$ -	\$ -	\$ (28,046)	Finance cost
Discontinued hedge - floating-rate bonds	N/A	N/A	\$ (624)	N/A	N/A	N/A	463	Finance cost

- d) Reconciliation of the equity component due to the application of hedge accounting and related other comprehensive income is summarized below:

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 173,288	\$ 203,646
Gross amount recognized in other comprehensive income		
Change in the value of the hedging instrument recognized in other comprehensive income	19,912	2,814
Amount reclassified from the cash flow hedge reserve to profit or loss	(16,283)	(27,583)
Income tax	<u>(726)</u>	<u>(2,407)</u>
Ending balance	<u>\$ 176,191</u>	<u>\$ 176,470</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

	March 31, 2019				Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period
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	
		Assets	Liabilities		
Cross currency swaps	\$ 9,974,674	\$ 172,413	\$ -	Financial assets for hedging	\$ 73,922

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>March 31, 2019</u>					
Cross currency swaps					
Nominal principal	\$ -	\$ -	\$ -	\$ -	\$ 9,974,674
Interest rate	-	-	-	-	2.2%-2.39%
Exchange rate (EUR/USD)	-	-	-	-	1.1285- 1.1353

c) Hedged items

For the Three Months Ended March 31, 2019								
	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	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
	Assets	Liabilities	Assets	Liabilities				
Overseas bonds	\$ 9,974,674	\$ -	\$ (73,922)	\$ -	Financial assets at amortized cost	\$ (73,922)	\$ -	\$ -

d) Reconciliation of the equity component due to application of hedge accounting and related other comprehensive income is summarized below:

**For the Three Months Ended March 31, 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	98,491
Income tax	<u>(19,698)</u>
Ending balance	<u>\$ 78,793</u>

g. Offsetting of financial assets and financial liabilities

Cathay Life and its subsidiaries

Cathay Life and its subsidiaries engage in derivative financial instrument transactions that do not meet the offsetting criteria of standards, but enter 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 if the net amount is not available. However, if one of both parties of the transaction defaults, the other party has to settle the transaction at net amount.

Information related to offsetting of financial assets and financial liabilities is disclosed as follows:

March 31, 2019

Financial Assets Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement						
Item	Gross Amount of Recognized Financial Assets	Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet	Net Financial Assets Recognized on the Balance Sheet	Relevant Amount That Has Not Been Offset on the Balance Sheet		
				Financial Instruments (Note)	Cash Collateral Received	Net Amount
Derivative financial instruments	\$ 1,736,602	\$ -	\$ 1,736,602	\$ (1,461,993)	\$ (91,089)	\$ 183,520

<b>Financial Liabilities Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement</b>						
<b>Item</b>	<b>Gross Amount</b>	<b>Gross Amount</b>	<b>Net Financial</b>	<b>Relevant Amount That Has Not</b>		<b>Net Amount</b>
	<b>of Recognized</b>	<b>of Offset</b>	<b>Liabilities</b>	<b>Financial</b>	<b>Cash Collateral</b>	
	<b>Financial</b>	<b>Financial</b>	<b>Recognized on</b>	<b>Instruments</b>	<b>Received</b>	
	<b>Liabilities</b>	<b>Liabilities</b>	<b>the Balance</b>	<b>(Note)</b>		
		<b>Recognized on</b>	<b>Sheet</b>			
		<b>the Balance</b>	<b>Sheet</b>			
		<b>Sheet</b>	<b>Sheet</b>			
Derivative financial instruments	\$ 24,496,486	\$ -	\$ 24,496,486	\$ (1,461,993)	\$ (11,053,233)	\$ 11,981,260

December 31, 2018

<b>Financial Assets Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement</b>						
<b>Item</b>	<b>Gross Amount</b>	<b>Gross Amount</b>	<b>Net Financial</b>	<b>Relevant Amount That Has Not</b>		<b>Net Amount</b>
	<b>of Recognized</b>	<b>of Offset</b>	<b>Assets</b>	<b>Financial</b>	<b>Cash Collateral</b>	
	<b>Financial</b>	<b>Financial</b>	<b>Recognized on</b>	<b>Instruments</b>	<b>Received</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>the Balance</b>	<b>(Note)</b>		
		<b>Recognized on</b>	<b>Sheet</b>			
		<b>the Balance</b>	<b>Sheet</b>			
		<b>Sheet</b>	<b>Sheet</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</b>	<b>Gross Amount</b>	<b>Net Financial</b>	<b>Relevant Amount That Has Not</b>		<b>Net Amount</b>
	<b>of Recognized</b>	<b>of Offset</b>	<b>Liabilities</b>	<b>Financial</b>	<b>Cash Collateral</b>	
	<b>Financial</b>	<b>Financial</b>	<b>Recognized on</b>	<b>Instruments</b>	<b>Received</b>	
	<b>Liabilities</b>	<b>Liabilities</b>	<b>the Balance</b>	<b>(Note)</b>		
		<b>Recognized on</b>	<b>Sheet</b>			
		<b>the Balance</b>	<b>Sheet</b>			
		<b>Sheet</b>	<b>Sheet</b>			
Derivative financial instruments	\$ 27,499,106	\$ -	\$ 27,499,106	\$ (5,424,679)	\$ (10,921,864)	\$ 11,152,563

March 31, 2018

<b>Financial Assets Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement</b>						
<b>Item</b>	<b>Gross Amount</b>	<b>Gross Amount</b>	<b>Net Financial</b>	<b>Relevant Amount That Has Not</b>		<b>Net Amount</b>
	<b>of Recognized</b>	<b>of Offset</b>	<b>Assets</b>	<b>Financial</b>	<b>Cash Collateral</b>	
	<b>Financial</b>	<b>Financial</b>	<b>Recognized on</b>	<b>Instruments</b>	<b>Received</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>the Balance</b>	<b>(Note)</b>		
		<b>Recognized on</b>	<b>Sheet</b>			
		<b>the Balance</b>	<b>Sheet</b>			
		<b>Sheet</b>	<b>Sheet</b>			
Derivative financial instruments	\$ 29,009,596	\$ -	\$ 29,009,596	\$ (1,385,997)	\$ (12,188,277)	\$ 15,435,322

<b>Financial Liabilities Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement</b>						
<b>Item</b>	<b>Gross Amount</b>	<b>Gross Amount</b>	<b>Net Financial</b>	<b>Relevant Amount That Has Not</b>		<b>Net Amount</b>
	<b>of Recognized</b>	<b>of Offset</b>	<b>Liabilities</b>	<b>Financial</b>	<b>Cash Collateral</b>	
	<b>Financial</b>	<b>Financial</b>	<b>Recognized on</b>	<b>Instruments</b>	<b>Received</b>	
	<b>Liabilities</b>	<b>Liabilities</b>	<b>the Balance</b>	<b>(Note)</b>		
		<b>Recognized on</b>	<b>Sheet</b>			
		<b>the Balance</b>	<b>Sheet</b>			
		<b>Sheet</b>	<b>Sheet</b>			
Derivative financial instruments	\$ 1,504,046	\$ -	\$ 1,504,046	\$ (1,385,997)	\$ -	\$ 118,049

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 arrangements or other similar agreements could be settled at net amount after the financial assets and financial liabilities have been offset as chosen by the counterparties, or if the net amount is not available, the financial instrument could be settled at gross amount. However, if one of the counterparty defaults, the other party has to settle the transaction at net amount.

Information related to offsetting of financial assets and financial liabilities is disclosed as follows:

March 31, 2019						
Financial Assets Subject to Offsetting, Master Netting Arrangement or Similar Agreements						
Item	Gross Amount of Recognized Financial Assets (a)	Gross Amount Offset in the Balance Sheet (b)	Amount Presented in the Balance Sheet (c)= (a)-(b)	Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received/Pledged	
Derivative financial instruments	\$ 49,432,107	\$ -	\$ 49,432,107	\$ 48,190,865	\$ 1,241,242	\$ -

March 31, 2019						
Financial Liabilities Subject to Offsetting, Master Netting Arrangement or Similar Agreements						
Item	Gross Amount of Recognized Financial Liabilities (a)	Gross Amount Offset in the Balance Sheet (b)	Amount Presented in the Balance Sheet (c)= (a)-(b)	Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received/Pledged	
Derivative financial instruments	\$ 48,190,865	\$ -	\$ 48,190,865	\$ 48,190,865	\$ -	\$ -

December 31, 2018						
Financial Assets Subject to Offsetting, Master Netting Arrangement or Similar Agreements						
Item	Gross Amount of Recognized Financial Assets (a)	Gross Amount Offset in the Balance Sheet (b)	Amount Presented in the Balance Sheet (c)= (a)-(b)	Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received/Pledged	
Derivative financial instruments	\$ 49,475,706	\$ -	\$ 49,475,706	\$ 49,475,706	\$ -	\$ -

December 31, 2018						
Financial Liabilities Subject to Offsetting, Master Netting Arrangement or Similar Agreements						
Item	Gross Amount of Recognized Financial Liabilities (a)	Gross Amount Offset in the Balance Sheet (b)	Amount Presented in the Balance Sheet (c)= (a)-(b)	Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received/Pledged	
Derivative financial instruments	\$ 51,966,013	\$ -	\$ 51,966,013	\$ 49,475,706	\$ 2,490,307	\$ -

March 31, 2018						
Financial Assets Subject to Offsetting, Master Netting Arrangement or Similar Agreements						
Item	Gross Amount of Recognized Financial Assets (a)	Gross Amount Offset in the Balance Sheet (b)	Amount Presented in the Balance Sheet (c)= (a)-(b)	Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received/Pledged	
Derivative financial instruments	\$ 36,710,338	\$ -	\$ 36,710,338	\$ 36,710,338	\$ -	\$ -

March 31, 2018						
Financial Liabilities Subject to Offsetting, Master Netting Arrangement or Similar Agreements						
Item	Gross Amount of Recognized Financial Liabilities (a)	Gross Amount Offset in the Balance Sheet (b)	Amount Presented in the Balance Sheet (c)= (a)-(b)	Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received/Pledged	
Derivative financial instruments	\$ 40,992,110	\$ -	\$ 40,992,110	\$ 36,710,338	\$ 4,281,772	\$ -

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

#### Cathay Securities and its subsidiaries

Cathay Securities enters into secured repurchase agreements (“repo”) with counterparties, for which Cathay Securities provides securities as collateral. Only in the event of default, insolvency or bankruptcy are these transactions allowed to be written off. Financial instrument transactions that are not offset in accordance with IAS 32 and are not subject to enforceable master netting arrangements or other similar agreements should be settled at gross amount. However, if one of the counterparty defaults, the other party has 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:

#### March 31, 2019

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	\$ 3,349,065	\$ -	\$ 3,349,065	\$ 3,405,050	\$ -	\$ (55,985)

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.

#### March 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	\$ 3,264,524	\$ -	\$ 3,264,524	\$ 3,190,312	\$ -	\$ 74,212

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



h. Transfers of financial assets

Financial assets transferred that have not been fully derecognized

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 derecognition are mostly made up of debt securities used as counterparty collateral for repurchase agreements or equity securities lent out as part of securities lending agreements. 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 fully derecognized.

The following table analyses financial assets and financial liabilities that have not been fully derecognized:

March 31, 2019					
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 other comprehensive income					
Repurchase agreements	\$ 42,252,062	\$ 40,609,441	\$ 42,637,437	\$ 40,609,441	\$ 2,027,996
Financial assets at amortized cost					
Repurchase agreements	2,311,286	1,974,418	2,311,286	1,974,418	336,868
Securities sold under agreements					
Repurchase agreements	1,533,806	1,394,326	1,533,806	1,394,326	139,480

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	\$ 583,745	\$ 523,342	\$ 581,159	\$ 523,342	\$ 57,817
Available for sale financial assets					
Repurchase agreements	45,534,737	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	14,649,885	11,447,258	3,202,627
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

March 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	\$ 42,017,121	\$ 39,330,218	\$ 41,427,715	\$ 39,330,218	\$ 2,097,497
Financial assets at fair value through other comprehensive income					
Repurchase agreements	45,929,404	44,375,883	44,760,295	44,375,883	384,412
Financial assets at amortized cost					
Repurchase agreements	16,682,256	14,209,394	16,624,920	14,209,394	2,415,526
Securities sold under agreements					
Repurchase agreements	1,558,989	1,369,679	1,428,429	1,369,679	58,750

### 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:

#### March 31, 2019

<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	\$ 3,405,050	\$ 3,349,065	\$ 3,405,050	\$ 3,349,065	\$ 55,985

#### 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

#### March 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	\$ 3,190,312	\$ 3,264,524	\$ 3,190,312	\$ 3,264,524	\$ (74,212)

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 March 31, 2019, December 31, 2018 and March 31, 2018, Cathay Life and its subsidiaries provided loans amounting to GBP345,000 thousand, GBP345,000 thousand and GBP345,000 thousand, respectively, 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:

<u>Type of Structured Entity</u>	<u>Nature and Purpose</u>	<u>Interests Owned</u>
Private equity fund	Investment in private equity funds issued by external third parties to receive returns	Investment in shares 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 March 31, 2019, December 31, 2018 and March 31, 2018, the carrying amounts of Cathay Life and its subsidiaries' assets related to its interests in unconsolidated structured entities are disclosed as follows:

	<u>March 31, 2019</u>	
	<u>Private Equity Funds</u>	<u>Asset-backed Securities</u>
Financial assets at FVTPL	\$ 78,449,142	\$ 30,369,972
Financial assets at FVTOCI	-	41,071,391
Financial assets measured at amortized cost	<u>-</u>	<u>161,410,248</u>
	<u>\$ 78,449,142</u>	<u>\$ 232,851,611</u>
	<u>December 31, 2018</u>	
	<u>Private Equity Funds</u>	<u>Asset-backed Securities</u>
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>March 31, 2018</b>	
	<b>Private Equity Funds</b>	<b>Asset-backed Securities</b>
Financial assets at FVTPL	\$ 53,535,437	\$ 24,990,877
Financial assets at FVTOCI	-	72,108,433
Financial assets measured at amortized cost	-	128,118,766
	<u>\$ 53,535,437</u>	<u>\$ 225,218,076</u>

- c) Cathay United Bank 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:

<b>Type of Structured Entity</b>	<b>Nature and Purpose</b>	<b>Interests Owned</b>
Asset-backed securities	Investment in asset-backed securities to receive returns	Investment in securitization vehicles issued by the entity

The carrying amounts of assets recognized by Cathay United Bank relating to its interests in unconsolidated structured entities are disclosed as follows:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Financial assets at fair value through other comprehensive income	\$ 17,490,306	\$ 3,191,683	\$ 2,147,357
Investments in debt instruments measured at amortized cost	<u>47,313,234</u>	<u>47,970,374</u>	<u>35,019,170</u>
	<u>\$ 64,803,540</u>	<u>\$ 51,162,057</u>	<u>\$ 37,166,527</u>

### 38. CAPITAL MANAGEMENT

Currently, the Group's capital adequacy ratios meet the statutory requirements. Under the pretext that the Group meets the statutory capital adequacy requirements, dynamic capital management mechanism is employed to increase the capital efficiency of the subsidiaries. After the redistribution of capital, the subsidiaries' ability to take risks will not be affected. Under such scenario, the Company will conduct overall planning based on the distribution of the subsidiaries' capital in order to strengthen the efficiency of capital operations within the Group.

### 39. 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>March 31, 2019</b>			
	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 121,118,283	30.8250	\$ 3,733,471,073
CNY	20,450,168	4.5809	93,680,551
AUD	3,013,181	21.8534	65,848,201
Non-monetary items			
USD	8,767,529	30.8250	270,259,081
HKD	12,623,241	3.9268	49,569,279
<u>Financial liabilities</u>			
Monetary items			
USD	13,512,473	30.8250	416,521,980
CNY	8,269,734	4.5809	37,882,977
<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

March 31, 2018			
	Foreign Currency	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 105,416,457	29.1200	\$ 3,069,727,228
CNY	36,047,867	4.6470	167,514,438
Non-monetary items			
USD	12,610,100	29.1200	367,206,112

Financial liabilities

Monetary items			
USD	14,340,813	29.1200	417,604,475

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 March 31, 2019 and 2018 were a gain of \$8,819,683 thousand and a loss of \$38,697,058 thousand, respectively.

b. Discretionary investment management

1) Cathay Life and its subsidiaries

- a) As of March 31, 2019, December 31, 2018 and March 31, 2018, Cathay life contracts with securities investment trust companies for discretionary investment services and the related investments are as follows:

March 31, 2019		
Items	Carrying Amount	Fair Value
Domestic shares	\$ 134,090,537	\$ 134,090,537
Overseas shares	56,572,458	56,572,458
Reverse repurchase bonds	12,583,000	12,583,000
Cash in banks	32,018,699	32,018,699
Beneficiary certificates	246,671	246,671
Futures and options	278,267	278,267
	<u>\$ 235,789,632</u>	<u>\$ 235,789,632</u>
December 31, 2018		
Items	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	March 31, 2018	
	Carrying Amount	Fair Value
Domestic shares	\$ 142,586,876	\$ 142,586,876
Overseas shares	56,693,223	56,693,223
Reverse repurchase bonds	13,067,000	13,067,000
Cash in banks	33,406,291	33,406,291
Beneficiary certificates	1,711,197	1,711,197
Futures and options	<u>116,546</u>	<u>116,546</u>
	<u>\$ 247,581,133</u>	<u>\$ 247,581,133</u>

- b) As of March 31, 2019, the limit amounts of discretionary investments were NT\$101,872,589 thousand, US\$1,238,500 thousand and HK\$1,351,384 thousand. As of December 31, 2018, the limit amounts of discretionary investments were NT\$97,872,589 thousand, US\$1,417,500 thousand and HK\$2,023,000 thousand. As of March 31, 2018, the limit amounts of discretionary investments were NT\$111,612,149 thousand, US\$1,645,000 thousand and HK\$2,750,000 thousand.

2) Cathay Century and its subsidiaries

- a) As of March 31, 2019, December 31, 2018 and March 31, 2018, Cathay Century contracts with securities investment trust companies for discretionary investment management. The investment details are disclosed as follows:

	March 31, 2019	
	Carrying Amount	Fair Value
Listed shares	\$ 868,631	\$ 868,631
Repurchase agreements collateralized by bonds	450,024	450,024
Bank deposit	328,709	328,709
Future margins	<u>2,010</u>	<u>2,010</u>
	<u>\$ 1,649,374</u>	<u>\$ 1,649,374</u>

  

	December 31, 2018	
	Carrying Amount	Fair Value
Listed shares	\$ 736,041	\$ 736,041
Repurchase agreements collateralized by bonds	150,000	150,000
Bank deposit	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>March 31, 2018</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>
Listed shares	\$ 1,231,917	\$ 1,231,917
Repurchase agreements collateralized by bonds	300,148	300,148
Bank deposit	117,366	117,366
Future margins	<u>2,009</u>	<u>2,009</u>
	<u>\$ 1,651,440</u>	<u>\$ 1,651,440</u>

- b) As of March 31, 2019, December 31, 2018 and March 31, 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			March 31, 2019					March 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		\$ 573,892	\$ 222,254,139	0.26%	\$ 2,967,994	517.17%	\$ 1,304,619	\$ 230,822,015	0.57%	\$ 3,880,668	297.46%
	Unsecured		399,021	413,384,456	0.10%	7,119,908	1,784.34%	154,308	369,803,115	0.04%	6,020,098	3,901.36%
Consumer banking	Residential mortgage (Note 4)		756,104	350,852,192	0.22%	5,615,322	742.67%	598,021	358,588,312	0.17%	5,642,343	943.50%
	Cash card		-	-	-	-	-	-	-	-	-	-
	Small-scale credit loans (Note 5)		173,366	71,665,788	0.24%	2,436,479	1,405.39%	121,732	61,523,834	0.20%	1,592,797	1,308.45%
	Other (Note 6)	Secured	849,953	502,065,177	0.17%	6,229,719	732.95%	661,478	447,113,109	0.15%	5,152,925	779.00%
		Unsecured	117,245	25,165,224	0.47%	434,419	370.52%	76,513	21,804,368	0.35%	412,613	539.27%
Loan			2,869,581	1,585,386,976	0.18%	24,803,841	864.37%	2,916,671	1,489,654,753	0.20%	22,701,444	778.33%
			Nonperforming Receivables (Note 1)	Receivables	Ratio of Nonperforming Receivables (Note 2)	Allowance for Credit Losses	Coverage Ratio (Note 3)	Nonperforming Receivables (Note 1)	Receivables	Ratio of Nonperforming Receivables (Note 2)	Allowance for Credit Losses	Coverage Ratio (Note 3)
Credit cards			99,538	69,957,653	0.14%	1,472,374	1,479.21%	94,128	66,124,288	0.14%	1,379,285	1,465.32%
Accounts receivable factored without recourse (Note 7)			-	2,207,701	-	60,360	-	-	3,360,704	-	34,429	-

Period			December 31, 2018				
Item			Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Corporate banking	Secured		\$ 592,658	\$ 233,463,729	0.25%	\$ 3,600,918	607.59%
	Unsecured		321,166	372,650,615	0.09%	6,367,224	1,982.53%
Consumer banking	Residential mortgage (Note 4)		594,249	358,859,786	0.17%	5,649,230	950.65%
	Cash card		-	-	-	-	-
	Small-scale credit loans (Note 5)		164,226	71,310,220	0.23%	1,876,794	1,142.81%
	Other (Note 6)	Secured	780,457	498,067,264	0.16%	5,946,347	761.91%
		Unsecured	110,551	23,068,954	0.48%	438,172	396.35%
Loan			2,563,307	1,557,420,568	0.16%	23,878,685	931.56%
			Nonperforming Receivables (Note 1)	Receivables	Ratio of Nonperforming Receivables (Note 2)	Allowance for Credit Losses	Coverage Ratio (Note 3)
Credit cards			107,314	71,887,117	0.15%	1,466,464	1,366.52%
Accounts receivable factored without recourse (Note 7)			-	2,607,455	-	47,734	-

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

<div>Items</div> <div>Type</div>	March 31, 2019		December 31, 2018		March 31, 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)	\$ 2,530	\$ 94,435	\$ 2,721	\$ 102,330	\$ 4,279	\$ 139,395
Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2)	39,790	1,179,943	37,404	1,182,172	30,552	1,196,510
Total	42,320	1,274,378	40,125	1,284,502	34,831	1,335,905

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, %)

March 31, 2019			
Rank	Company Name	Credit Extension Balance	% to Net Asset Value
1	Group A - real estate development	\$ 26,743,119	12.63
2	Group B - semiconductor packaging and testing	13,623,906	6.43
3	Group C - air transport	9,685,755	4.57
4	Group D - other	9,454,796	4.47
5	Group E - other financial intermediation	9,386,625	4.43
6	Group F - real estate development	6,600,000	3.12
7	Group G - computer manufacturing	5,236,497	2.47
8	Group H - telecommunications	4,587,518	2.17
9	Group I - other financial intermediation	4,470,865	2.11
10	Group J - others	3,998,000	1.89

December 31, 2018			
Rank	Company Name	Credit Extension Balance	% to Net Asset Value
1	Group A - real estate development	\$ 25,830,822	12.80
2	Group B - semiconductor packaging and testing	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	6,600,000	3.27
7	Group G - computer manufacturing	5,006,283	2.48
8	Group H - telecommunications	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

March 31, 2018			
Rank	Company Name	Credit Extension Balance	% to Net Asset Value
1	Group A - real estate development	\$ 30,551,402	16.39
2	Group B - other financial intermediation	9,153,375	4.91
3	Group C - air transport	8,603,184	4.62
4	Group D - real estate development	6,413,000	3.44
5	Group E - telecommunications	4,912,298	2.64
6	Group F - manufacture of liquid crystal panels	4,645,170	2.49
7	Group G - rolling and extruding of iron and steel	4,055,632	2.18
8	Group H - offshore securities unit	3,989,880	2.14
9	Group I - real estate development	3,812,025	2.05
10	Group J - real estate rental and sale	3,387,054	1.82

### 3) Information on interest rate sensitivity

#### Interest Rate Sensitivity March 31, 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	\$ 1,860,118,190	\$ 35,517,498	\$ 33,630,445	\$ 103,707,912	\$ 2,032,974,045
Interest rate-sensitive liabilities	182,503,216	1,251,173,528	266,478,830	96,065,840	1,796,221,414
Interest rate-sensitive gap	1,677,614,974	(1,215,656,030)	(232,848,385)	7,642,072	236,752,631
Net worth					211,730,721
Ratio of interest rate-sensitive assets to liabilities					113.18%
Ratio of interest rate sensitivity gap to net worth					111.82%

#### 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%

#### March 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	\$ 1,778,770,120	\$ 53,641,651	\$ 24,099,356	\$ 99,419,006	\$ 1,955,930,133
Interest rate-sensitive liabilities	192,919,572	1,158,747,744	261,307,094	93,537,945	1,706,512,355
Interest rate-sensitive gap	1,585,850,548	(1,105,106,093)	(237,207,738)	5,881,061	249,417,778
Net worth					186,351,038
Ratio of interest rate-sensitive assets to liabilities					114.62%
Ratio of interest rate sensitivity gap to net worth					133.84%

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 refer to interest-earning assets and interest-bearing liabilities whose revenues or costs 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 March 31, 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	\$ 7,860,303	\$ 906,711	\$ 370,645	\$ 7,584,512	\$ 16,722,171
Interest rate-sensitive liabilities	10,229,384	2,309,338	2,863,356	4,012,272	19,414,350
Interest rate-sensitive gap	(2,369,081)	(1,402,627)	(2,492,711)	3,572,240	(2,692,179)
Net worth					6,868,799
Ratio of interest rate-sensitive assets to liabilities					86.13%
Ratio of interest rate sensitivity gap to net worth					(39.19%)

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%)

March 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	\$ 6,448,454	\$ 868,366	\$ 584,246	\$ 7,891,343	\$ 15,792,409
Interest rate-sensitive liabilities	12,165,383	2,441,467	3,399,549	4,258,630	22,265,029
Interest rate-sensitive gap	(5,716,929)	(1,573,101)	(2,815,303)	3,632,713	(6,472,620)
Net worth					6,399,418
Ratio of interest rate-sensitive assets to liabilities					70.93%
Ratio of interest rate sensitivity gap to net worth					(101.14%)

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 refer to interest-earning assets and interest-bearing liabilities whose revenues or costs 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 March 31, 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	\$ 2,741,891,088	\$ 467,845,664	\$ 408,091,723	\$ 397,885,203	\$ 194,220,129	\$ 265,550,195	\$ 1,008,298,174
Main capital outflow on maturity	3,177,237,256	156,631,710	261,696,622	519,774,781	510,390,897	535,972,042	1,192,771,204
Gap	(435,346,168)	311,213,954	146,395,101	(121,889,578)	(316,170,768)	(270,421,847)	(184,473,030)

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)

March 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	\$ 2,697,626,558	\$ 442,932,522	\$ 365,271,030	\$ 357,682,746	\$ 255,016,710	\$ 309,928,658	\$ 966,794,892
Main capital outflow on maturity	3,143,445,774	144,067,429	222,961,708	529,708,922	601,303,071	543,704,621	1,101,700,023
Gap	(445,819,216)	298,865,093	142,309,322	(172,026,176)	(346,286,361)	(233,775,963)	(134,905,131)

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**  
March 31, 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	\$ 66,351,601	\$ 20,684,384	\$ 14,759,616	\$ 10,895,313	\$ 9,333,156	\$ 10,679,132
Main capital outflow on maturity	72,294,983	22,889,406	17,698,456	9,580,041	13,454,854	8,672,226
Gap	(5,943,382)	(2,205,022)	(2,938,840)	1,315,272	(4,121,698)	2,006,906

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

March 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	\$ 60,839,381	\$ 16,937,287	\$ 13,736,933	\$ 11,479,143	\$ 6,395,221	\$ 12,290,797
Main capital outflow on maturity	65,782,496	20,898,071	15,405,093	8,999,589	10,851,218	9,628,525
Gap	(4,943,115)	(3,960,784)	(1,668,160)	2,479,554	(4,455,997)	2,662,272

Note: The above amounts included only U.S. dollar amounts held by Cathay United Bank and excluded contingent assets and contingent liabilities.

**TABLE 1**

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

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST \$300 MILLION OR 10% OF THE PAID-IN CAPITAL  
MARCH 31, 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	\$ 376,274	Note 1	\$ -	-	\$ -	\$ -
Cathay United Bank Co., Ltd.	Cathay Life Insurance Co., Ltd.	Fellow subsidiaries	656,257	-	-	-	-	-
Cathay Life Insurance Co., Ltd.	Cathay Financial Holding Co., Ltd.	Parent company	9,828,035	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.

TABLE 2

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

## MARKETABLE SECURITIES HELD

MARCH 31, 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	March 31, 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 - non-current	-	\$ 8	-	\$ 8	
	Guanghe CBI	N/A	"	-	58,640	-	58,640	
	A2G CB	N/A	"	-	1,083	-	1,083	
	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	
	<u>Shares</u> Tien-Tai Management Consulting Co., Ltd.	Investee accounted for using the equity method	Investments accounted for using the equity method	141	4,501	28.20	4,501	
	Dun-Yang Energy Corp.	Investee accounted for using the equity method	"	4,026	45,814	32.20	45,814	
	Yong-Chang Energy Corp.	Investee accounted for using the equity method	"	4,363	47,360	32.32	47,360	
	RI-Zhao Energy Corp.	Investee accounted for using the equity method	"	4,040	46,527	32.32	46,527	
	Tien-Tai Optronics Corporation	Investee accounted for using the equity method	"	10,646	137,821	33.64	137,821	
	Kwan's International Co., Ltd.	N/A	Financial assets at fair value through profit or loss - non-current	759	41,154	-	41,154	
	Good Friend International Holdings Inc.	N/A	"	298	1,988	15.63	1,988	
	AVer Information Inc.	N/A	"	187	3,319	-	3,319	
	F - Rotam Global AgroSciences Limited (Cayman)	N/A	"	1,404	27,456	-	27,456	
	F- Yeong Guan Energy Technology Group Co., Ltd.	N/A	"	271	18,623	-	18,623	
	F- Fulgent Sun International (Holding) Co., Ltd.	N/A	"	768	51,681	-	51,681	
	F- Hiroca Holdings Ltd.	N/A	"	439	32,933	-	32,933	
	TWi Pharmaceuticals, Inc.	N/A	"	338	24,167	-	24,167	
	PILI International Multimedia Co., Ltd.	N/A	"	91	3,665	-	3,665	
	Min Aik Precision Industrial Co., Ltd.	N/A	"	273	6,934	-	6,934	
	Man Zai Industrial Co., Ltd.	N/A	"	349	7,155	-	7,155	
	Taisun Int'l (Holding) Corp._KY	N/A	"	139	17,451	-	17,451	

(Continued)



Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	March 31, 2019				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
	Senhwa Biosciences, Inc.	N/A	"	1,200	\$ 83,400	1.61	\$ 83,400	
	Tanvex BioPharma, Inc. (F-Tanvex)	N/A	"	1,250	92,375	-	92,375	
	Kayee International Group Co., Ltd.	N/A	"	403	47,554	-	47,554	
	Global Tek Fabrication Co., Ltd.	N/A	"	1,350	58,118	2.05	58,118	
	Cryomax Cooling System Corp.	N/A	"	1,299	24,099	1.97	24,099	
	Shane Global Holdings	N/A	"	4,583	646,161	4.58	646,161	
	Ta Chen Stainless Pipe Co., Ltd.	N/A	"	5,835	208,018	-	208,018	
	Nan Pao Resins Chemical Co., Ltd.	N/A	"	323	47,688	-	47,688	
	Compal Broadband Networks, Inc.	N/A	"	78	2,785	-	2,785	
	Ching Chan Optical Technology Co., Ltd.	N/A	"	880	32,032	2.39	32,032	
	Fusheng Precision Co., Ltd.	N/A	"	800	130,400	-	130,400	
	REMOTEK Corp.	N/A	"	480	8,759	2.20	8,759	
	glac Biotech Co., Ltd.	N/A	"	662	15,418	-	15,418	
	TWi Biotechnology, Inc.	N/A	"	491	7,900	-	7,900	
	Fittech Co., Ltd.	N/A	"	255	11,671	-	11,671	
	Smartdisplayer Technology Co., Ltd.	N/A	"	1,000	26,360	4.01	26,360	
	Sincere Group	N/A	"	700	21,889	3.50	21,889	
	Mars Semiconductor Limited	N/A	"	528	6,273	2.36	6,273	
	Senhwa Biosciences, Inc.	N/A	"	19	620	1.88	620	
	Proconn Technology Co., Ltd.	N/A	"	2,055	801	3.30	801	
	EasyCard Investment Holdings Co., Ltd.	N/A	"	1,430	33,567	1.37	33,567	
	Lian-an Service Co., Ltd.	N/A	"	125	2,055	5.00	2,055	
	Koatech Technology Corp.	N/A	"	101	835	-	835	
	Ares Green Technology Corporation	N/A	"	425	10,839	1.25	10,839	
	Mega Union Technology Incorporated.	N/A	"	2,653	122,481	9.37	122,481	
	Cathay Healthcare Management Co., Ltd.	N/A	"	8,250	202,373	15.00	202,373	
	FashionGuide Digital Technology Co., Ltd.	N/A	"	714	16,566	4.26	16,566	
	F - Shiang-yang International Holdings Limited (Cayman)	N/A	"	528	5,055	1.85	5,055	
	NARUKO Beauty Essentials Limited.	N/A	"	43,252	67,905	4.39	67,905	
	SMS Holdings One I	N/A	"	1	1,070	5.00	1,070	
	Shengzhuang Holdings	N/A	"	122	2,080	1.09	2,080	
	Bioengine Capital Inc.	N/A	"	4,500	113,625	3.16	113,625	
	WinWay Technology Co., Ltd.	N/A	"	1,008	75,257	3.54	75,257	
	Bravo ideas Digital Co., Ltd.	N/A	"	1,600	10,096	3.58	10,096	
	Episonica Holding	N/A	"	2,255	46,492	11.12	46,492	
	Andros Pharmaceuticals Co., Ltd.	N/A	"	1,050	14,553	4.19	14,553	
	F - Transound Electronics (Cayman) Co., Ltd.	N/A	"	1,200	9,432	3.40	9,432	
	Hyper Crystal Inc.	N/A	"	2,000	26,400	13.80	26,400	
	F - Amaryllo International B.V.	N/A	"	1,000	7,460	5.68	7,460	

(Continued)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	March 31, 2019				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
	Noratech Pharmaceuticals, Inc.	N/A	"	1,000	\$ 30,100	-	\$ 30,100	
	KuangMing Shipping Corp.	N/A	"	157	470	-	470	
	TOt Biopharm Co., Ltd. (Dongyuan)	N/A	"	1,978	41,072	2.36	41,072	
	Grandsys	N/A	"	1,860	13,355	7.77	13,355	
	SinoGreenenergy	N/A	"	-	1	10.00	1	
	DTCO (Samoa)	N/A	"	325	2,760	2.87	2,760	
	Tennrich International Corp.	N/A	"	1,938	2,713	3.19	2,713	
	Allianz Pharmascience Limited	N/A	"	2,000	33,880	6.85	33,880	
	KKDAY	N/A	"	5,668	40,074	2.90	40,074	
	SmartGames	N/A	"	164	2,245	2.13	2,245	
	SSC Holdco Limited	N/A	"	100	65,100	-	65,100	
	PSS Co., Ltd.	N/A	"	330	18,777	-	18,777	
	Altek Semiconductor	N/A	"	800	46,744	1.80	46,744	
	World Known MFG (Cayman)	N/A	"	1,500	58,935	5.00	58,935	
	Anywhere2Go	N/A	"	2	12,757	4.88	12,757	
	Yikon Genomics	N/A	"	1,340	50,371	3.55	50,371	
	Rani Therapeutics, LLC	N/A	"	119	19,574	-	19,574	
	Pacific 8 Venture	N/A	"	-	68,579	-	68,579	
	ThinkPower Information Corporation	N/A	"	960	34,264	15.00	34,264	
	Mimetas B.V.	N/A	"	8	6,902	2.81	6,902	
	Yonggu Group Inc.(Cayman)	N/A	"	1,130	70,824	-	70,824	
	Xiongchuang (Samoa)	N/A	"	19	32,514	4.50	32,514	
	91APP	N/A	"	8,333	14,000	-	14,000	
	Acepodia Inc.	N/A	"	1,848	30,420	5.81	30,420	
	BioGend Therapeutics Co., Ltd.	N/A	"	2,000	30,540	2.44	30,540	
	Green Van International Co., Ltd.	N/A	"	4,375	61,644	11.22	61,644	
	Emotibot Technology Limited	N/A	"	2,302	61,780	1.57	61,780	
	Taiwan Aerospace Corp.	N/A	"	1	13	-	13	
	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	"	-	1	-	1	
	Harbinger 3 Venture Capital Co., Ltd.	N/A	"	-	-	-	-	

(Continued)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	March 31, 2019				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
Cathay Futures Co., Ltd.	Huawei Century Venture Capital Co., Ltd.	N/A	"	-	\$ -	-	\$ -	
	Mega 1 Venture Capital Co., Ltd.	N/A	"	-	-	-	-	
	<u>Preference shares</u> Winking Entertainment	N/A	Financial assets at fair value through profit or loss - non-current	1,418	26,935	0.15	26,935	
	<u>Shares</u> Taiwan Futures Exchange	N/A	Financial assets at fair value through profit or loss - non-current	5,095	412,176	1.53	412,176	

(Concluded)

TABLE 3

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE THREE MONTHS ENDED MARCH 31, 2019  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investments from Taiwan as of January 1, 2019	Remittance of Funds		Accumulated Outward Remittance for Investments from Taiwan as of March 31, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of March 31, 2019	Accumulated Repatriation of Investment Income as of March 31, 2019
					Outflow	Inflow						
Cathay Lujiazui Life Insurance Co., Ltd.	Life insurance	\$ 13,497,155	a	\$ 6,748,578	\$ -	\$ -	\$ 6,748,578	\$ 145,253	50.0	\$ 72,627	\$ 5,377,167	\$ -
Cathay Century (China)	Property and casualty insurance	12,196,844	a	5,908,393	-	-	5,908,393	(25,524)	49.0	(12,506)	4,648,210	-
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Office equipment leasing company	7,223,435	a	7,223,435	-	-	7,223,435	58,591	100.0	43,917	7,708,259	-
Cathay United Bank (China) Corporation Limited	Wholesale banking	14,377,562	a	14,377,562	-	-	14,377,562	11,572	100.0	11,572	16,396,844	-
CDBS Cathay Asset Management Co., Ltd.	Fund management services	1,701,823	a	566,707	-	-	566,707	(44,996)	33.3	(14,984)	454,362	-
CDBS Cathay Asset Management Co., Ltd. (Beijing) (Note 4)	Wealth management	468,290	c	-	-	-	-	628	33.3	209	196,818	-
Cathay Investment Consulting (Shanghai) Co., Ltd.	Investment consulting	38,965	a	38,965	-	9,329	29,636	(737)	100.0	(737)	-	-

Accumulated Outward Remittance for Investments in Mainland China as of March 31, 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	\$ 428,034,104

Note 1: The 3 methods of investment are as follows:

- a. Direct investment in China.
- b. Reinvestment in China through companies located in a third region
- c. Others.

Note 2: The column of investment profit or loss for the period:

- a. It should be indicated if the entity was in the preparation stage without profit or loss on investment.
- b. It should be indicated if the basis of recognizing the profit or loss on investment are of the following 3 types:
  - 1) The financial statement is audited and certified by international accounting firms which have partnership with R.O.C. accounting firms.
  - 2) The financial statement is audited and certified by the parent company's auditors in Taiwan.
  - 3) Other basis.

Note 3: The related figure in the schedule should be expressed in New Taiwan dollars.

Note 4: 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.

(Continued)

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 March 31, 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 March 31, 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 March 31, 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)

**TABLE 4****CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES****INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS  
FOR THE THREE MONTHS ENDED MARCH 31, 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	0.37
		Cathay Life	a	Income tax payable for linked-tax	9,828,035	"	0.10
		Cathay Life	a	Interest revenues	310,685	"	0.27
		Cathay Life	a	Interest receivable	376,274	"	-
		Cathay United Bank	a	Cash and cash equivalents	102,240	"	-
1	Cathay Life	Cathay United Bank	c	Guarantee deposits received	189,738	"	-
		Cathay United Bank	c	Cash and cash equivalents	20,633,677	"	0.22
		Cathay United Bank	c	Operating expenses	2,395,810	"	2.09
		Cathay United Bank	c	Payables	656,257	"	0.01
		Cathay United Bank	c	Other operating costs	346,206	"	0.30
		Cathay United Bank	c	Gain on financial assets and liabilities at fair value through profit or loss	451,517	"	0.39
		Cathay United Bank	c	Financial liabilities at fair value through profit or loss	2,157,861	"	1.88
		Cathay Century	c	Non-operating income and expenses	143,369	"	0.12
		Cathay Futures	c	Other assets	2,450,591	"	0.03
		Cathay Walbrook Holding 1 Limited	c	Loans	13,160,031	"	0.14
		Cathay Walbrook Holding 1 Limited	c	Interest revenues	125,660	"	0.11
		Cathay Walbrook Holding 2 Limited	c	Loans	692,633	"	0.01
		Cathay Walbrook Holding 2 Limited	c	Interest revenues	6,614	"	0.01
		Conning holding limited	c	Payables	161,726	"	-
		Conning holding limited	c	Other operating costs	155,905	"	0.14
2	Cathay United Bank	Cathay Century	c	Deposits	2,069,221	"	0.02
		Cathay Securities	c	Deposits	2,855,941	"	0.03
		Cathay Securities Investment Trust	c	Deposits	132,853	"	-
		Cathay Futures	c	Deposits	1,697,977	"	0.02
		Indovina Bank	c	Call loans to banks	4,747,050	"	0.05
		Indovina Bank	c	Dividends receivable	393,414	"	-
		CUBCN Bank	c	Call loans to banks	10,477,507	"	0.11
		CUBC Bank	c	Dividends receivable	211,784	"	-
		CUBCN Bank	c	Due from commercial banks	10,082,020	"	0.11
3	Cathay Securities	Cathay Futures	c	Customer's margin accounts	1,284,484	"	0.01

(Continued)

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:  $\text{Transaction amount} \div \text{Total consolidated assets}$

For income statement accounts:  $\text{Accumulated transaction amount} \div \text{Total consolidated profit from operations}$ .

Note 4: Disclosure of the important intercompany transactions above is decided by the Company based on the materiality principle.

(Concluded)