

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For the nine-month periods ended
30 September 2016 and 2015
With Independent Auditors' Review Report

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

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Review Report of Independent Auditors
English Translation of a Report Originally Issued in Chinese

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

We have reviewed the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the “Company”) and its subsidiaries as of 30 September 2016 and 30 September 2015, and the related consolidated statements of comprehensive income for the three-month periods ended 30 September 2016 and 2015, and for the nine-month periods ended 30 September 2016 and 2015, changes in equity and cash flows for the nine-month periods ended 30 September 2016 and 2015. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with Statements of Auditing Standards No.36 “Review of Financial statements” of the Republic of China. A review consists principally of inquiries, comparison and analytical procedures. A review was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in conformity with “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies”, “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, and IAS 34 “Interim Financial Reporting” as endorsed by Financial Supervisory Commission (“FSC”) of the Republic of China.

Ernst & Young
Taipei, Taiwan
The Republic of China
10 November 2016



Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated Balance Sheets

As of 30 September 2016, 31 December 2015 and 30 September 2015

(30 September 2016 and 2015 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in thousands of New Taiwan Dollars)

| | Notes | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|---|-------|------------------------|------------------------|------------------------|
| Assets | | | | |
| Cash and cash equivalents | 4, 6 | \$291,642,002 | \$191,780,120 | \$309,760,074 |
| Due from the Central Bank and call loans to banks | | 100,272,971 | 100,169,436 | 106,591,988 |
| Financial assets at fair value through profit or loss | 4, 7 | 304,989,787 | 296,117,926 | 301,418,560 |
| Available-for-sale financial assets - net | 4, 8 | 1,549,141,336 | 1,486,393,125 | 1,391,995,900 |
| Derivative financial assets for hedging | 4 | 456,538 | 447,326 | 618,196 |
| Securities purchased under agreements to resell | 4 | 60,337,058 | 55,880,471 | 44,986,518 |
| Receivables - net | 4, 9 | 153,432,930 | 141,665,344 | 153,707,207 |
| Current income tax assets | 4 | 4,214,708 | 4,323,586 | 4,323,085 |
| Loans - net | 4, 10 | 1,915,892,998 | 1,766,476,353 | 1,791,823,698 |
| Reinsurance assets - net | | 9,398,888 | 7,000,785 | 6,760,330 |
| Held-to-maturity financial assets - net | 4, 11 | 76,052,232 | 81,708,446 | 81,056,988 |
| Investments accounted for using the equity method - net | 4, 12 | 28,806,885 | 25,500,488 | 24,819,686 |
| Other financial assets - net | 4, 13 | 2,840,742,847 | 2,790,400,892 | 2,681,880,406 |
| Investment properties - net | 4, 14 | 377,475,918 | 381,149,809 | 385,573,499 |
| Property and equipment - net | 4, 15 | 98,749,815 | 97,488,736 | 93,172,769 |
| Intangible assets - net | 4, 16 | 58,901,254 | 56,943,768 | 56,852,527 |
| Deferred tax assets - net | 4 | 17,019,654 | 14,425,707 | 19,884,301 |
| Other assets - net | | 53,200,578 | 71,102,715 | 65,004,257 |
| Total assets | | \$7,940,728,399 | \$7,568,975,033 | \$7,520,229,989 |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated Balance Sheets - (continued)

As of 30 September 2016, 31 December 2015 and 30 September 2015

(30 September 2016 and 2015 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in thousands of New Taiwan Dollars)

| Liabilities & equity | Notes | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--|-------|------------------------|------------------------|------------------------|
| Liabilities | | | | |
| Due to the Central Bank and call loans from banks | | \$62,672,251 | \$41,226,909 | \$37,149,666 |
| Financial liabilities at fair value through profit or loss | 4, 17 | 85,122,266 | 137,471,418 | 156,158,848 |
| Securities sold under agreements to repurchase | 4 | 47,948,785 | 55,523,982 | 81,932,624 |
| Commercial paper payable - net | 4, 18 | 36,119,130 | 35,677,634 | 26,778,973 |
| Payables | | 52,904,991 | 43,680,334 | 55,153,124 |
| Current income tax liabilities | 4 | 8,378,225 | 946,549 | 1,955,159 |
| Deposits | 19 | 1,986,917,547 | 1,854,495,831 | 1,814,400,235 |
| Bonds payable | 4, 20 | 71,800,000 | 71,800,000 | 105,550,787 |
| Provisions | 4, 22 | 4,478,337,623 | 4,262,002,527 | 4,192,814,665 |
| Other financial liabilities | 4, 21 | 558,240,384 | 549,564,053 | 544,772,545 |
| Deferred tax liabilities | 4 | 33,014,694 | 34,775,271 | 38,248,284 |
| Other liabilities | | 20,643,859 | 20,748,323 | 21,864,053 |
| Total liabilities | | 7,442,099,755 | 7,107,912,831 | 7,076,778,963 |
| Equity attributable to owners of parent | | | | |
| Capital stock | | | | |
| Common stock | 24 | 125,632,102 | 125,632,102 | 125,632,102 |
| Capital surplus | 25 | 88,782,670 | 88,781,174 | 88,781,174 |
| Retained earnings | 26 | | | |
| Legal reserve | | 30,577,724 | 24,820,095 | 24,820,095 |
| Special reserve | | 149,108,336 | 140,185,120 | 140,185,120 |
| Undistributed earnings | | 64,134,458 | 65,190,213 | 62,107,315 |
| Other equity | | 34,227,182 | 10,448,290 | (4,140,559) |
| Non-controlling interests | 4, 27 | 6,166,172 | 6,005,208 | 6,065,779 |
| Total equity | | 498,628,644 | 461,062,202 | 443,451,026 |
| Total liabilities and equity | | \$7,940,728,399 | \$7,568,975,033 | \$7,520,229,989 |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the three-month periods ended 30 September 2016 and 2015, and nine-month periods ended 30 September 2016 and 2015
(Reviewed only, not audited in accordance with the generally accepted auditing standards)
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

| | Notes | 2016.7.1~2016.9.30 | 2015.7.1~2015.9.30 | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|---|-------|--------------------|--------------------|--------------------|--------------------|
| Interest income | 4 | \$41,814,119 | \$40,825,276 | \$125,724,060 | \$115,668,184 |
| Less: Interest expenses | | (3,798,243) | (4,427,865) | (11,634,832) | (12,960,446) |
| Net interest income | 4 | 38,015,876 | 36,397,411 | 114,089,228 | 102,707,738 |
| Net income other than interest | | | | | |
| Net commission and handling fee | | (2,383,841) | (1,609,910) | (6,077,889) | (2,908,862) |
| Net premiums from insurance business | | 77,131,791 | 62,279,909 | 232,087,195 | 175,914,289 |
| Gains (losses) on financial assets and liabilities at fair value through profit or loss | | 33,680,906 | (72,822,670) | 60,407,716 | (64,364,796) |
| Gains from investment properties | | 2,354,114 | 2,247,169 | 10,592,216 | 17,783,985 |
| Realized gains on available-for-sale financial assets | | 20,111,388 | 8,415,047 | 40,781,519 | 50,519,305 |
| Realized gains (losses) on held-to-maturity financial assets | | 811 | 526 | 54,738 | (46,951) |
| (Losses) gains on foreign exchange | | (43,122,922) | 80,716,094 | (79,065,096) | 58,198,542 |
| Impairment losses on assets | | - | (8,636) | (87,262) | (8,636) |
| Share of profit of associates and joint ventures accounted for using the equity method | | 189,428 | 352,976 | 951,195 | 637,464 |
| Net other non-interest gains (losses) | | 24,045,722 | (4,298,025) | 34,861,497 | 10,146,968 |
| Total income | | 150,023,273 | 111,669,891 | 408,595,057 | 348,579,046 |
| Bad debt expenses and provision for premiums reserve | | (1,473,353) | (387,363) | (3,782,881) | (554,171) |
| Changes in insurance liabilities and provisions | | (104,461,561) | (79,805,874) | (305,033,857) | (239,058,848) |
| Operating expenses | 28 | | | | |
| Employee benefits expenses | | (11,043,541) | (9,635,896) | (33,627,301) | (28,222,733) |
| Depreciation and amortizations expenses | | (1,256,937) | (1,143,876) | (3,780,494) | (2,365,053) |
| Other general and administration expenses | | (4,576,674) | (6,490,511) | (15,407,321) | (15,094,303) |
| Subtotal | | (16,877,152) | (17,270,283) | (52,815,116) | (45,682,089) |
| Profit before income tax from continuing operations | | 27,211,207 | 14,206,371 | 46,963,203 | 63,283,938 |
| Income tax expense | 4, 30 | (2,204,972) | (555,272) | (7,713,733) | (8,399,185) |
| Net income | | 25,006,235 | 13,651,099 | 39,249,470 | 54,884,753 |
| Other comprehensive income | 4, 29 | | | | |
| Not to be reclassified to profit or loss in subsequent periods: | | | | | |
| Share of other comprehensive income of associates and joint ventures accounted for using the equity method - not to be reclassified to profit or loss in subsequent periods | | 9,861 | (6,411) | 6,802 | (5,654) |
| Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk | | (700,039) | 764,361 | 199,409 | 1,022,064 |
| Income tax relating to the components not to be reclassified to profit or loss in subsequent periods | | 117,330 | (128,852) | (35,056) | (172,790) |
| To be reclassified to profit or loss in subsequent periods: | | | | | |
| Exchange differences resulting from translating the financial statements of a foreign operation | | (3,705,961) | 3,260,859 | (8,810,541) | 2,275,840 |
| Unrealized gains (losses) from available-for-sale financial assets | | 22,689,801 | (43,504,429) | 31,223,471 | (67,015,412) |
| (Losses) gains on cash flow hedges | | (63,749) | 169,188 | 7,582 | 172,056 |
| Share of other comprehensive income of associates and joint ventures accounted for using the equity method - to be reclassified to profit or loss in subsequent periods | | (735,325) | 302,269 | (977,868) | 106,567 |
| Income tax relating to the components to be reclassified to profit or loss in subsequent periods | | (616,566) | 1,297,774 | 1,752,366 | 3,645,274 |
| Other comprehensive income, net of tax | | 16,995,352 | (37,845,241) | 23,366,165 | (59,972,055) |
| Total comprehensive income | | \$42,001,587 | \$(24,194,142) | \$62,615,635 | \$(5,087,302) |
| Net income attributable to: | | | | | |
| Owners of parent | | \$24,867,699 | \$13,535,384 | \$38,751,510 | \$54,430,674 |
| Non-controlling interests | | 138,536 | 115,715 | 497,960 | 454,079 |
| Subtotal | | \$25,006,235 | \$13,651,099 | \$39,249,470 | \$54,884,753 |
| Total comprehensive income attributable to: | | | | | |
| Owners of parent | | \$41,978,935 | \$(24,644,295) | \$62,530,402 | \$(5,732,119) |
| Non-controlling interests | | 22,652 | 450,153 | 85,233 | 644,817 |
| Subtotal | | \$42,001,587 | \$(24,194,142) | \$62,615,635 | \$(5,087,302) |
| Earnings per share (expressed in dollars) : | 31 | | | | |
| Basic earnings per share: | | | | | |
| Net income | | \$1.97 | \$1.07 | \$3.08 | \$4.33 |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Statements of Changes in Equity

For the nine-month periods ended 30 September 2016 and 2015

(Reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in thousands of New Taiwan Dollars)

| Items | Equity attributable to owners of parent | | | | | | | | | | | | | | Non-controlling interests | Total equity |
|---|---|-----------------|-------------------|-----------------|------------------------|---|--|------------------------------------|---|---|---------------------|-----------|---------------|-------------|---------------------------|--------------|
| | Capital stock | | Retained earnings | | | | | Other equity | | | | | | | | |
| | Common stock | Capital surplus | Legal reserve | Special reserve | Undistributed earnings | Exchange differences resulting from translating the financial statements of a foreign operation | Unrealized gains (losses) from available-for-sale financial assets | Gains (losses) on cash flow hedges | Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk | Remeasurements of defined benefit plans | Revaluation Surplus | Others | Total | | | |
| Balance on 1 January 2015 | \$125,632,102 | \$88,782,304 | \$19,784,401 | \$82,305,614 | \$60,939,777 | \$601,786 | \$44,257,646 | \$180,453 | \$48,151 | \$918,332 | \$10,030,820 | \$(781) | \$433,480,605 | \$5,639,845 | \$439,120,450 | |
| Appropriations and distribution for 2014 | | | | | | | | | | | | | | | | |
| Legal reserve | | | 5,035,694 | | (5,035,694) | | | | | | | | | | | |
| Special reserve | | | | 23,148,991 | (23,148,991) | | | | | | | | | | | |
| Cash dividends | | | | | (25,126,420) | | | | | | | | (25,126,420) | | (25,126,420) | |
| Reversal of special reserve | | | | (33,796) | 33,796 | | | | | | | | | | | |
| Other additional paid-in capital | | | | | | | | | | | | | | | | |
| Share of changes in net assets of associates and joint ventures accounted for using the equity method | | (1,130) | | | | | | | | | | | (1,130) | | (1,130) | |
| Net income for the nine-month period ended 30 September 2015 | | | | | 54,430,674 | | | | | | | | 54,430,674 | 454,079 | 54,884,753 | |
| Other comprehensive income for the nine-month period ended 30 September 2015 | | | | | | 1,819,107 | (62,967,689) | 142,169 | 848,313 | (4,693) | | | (60,162,793) | 190,738 | (59,972,055) | |
| Comprehensive income for the nine-month period ended 30 September 2015 | | | | | 54,430,674 | 1,819,107 | (62,967,689) | 142,169 | 848,313 | (4,693) | | | (5,732,119) | 644,817 | (5,087,302) | |
| Decrease in non-controlling interests | | | | | | | | | | | | | | (218,883) | (218,883) | |
| Others | | | | 34,764,311 | 14,173 | | | | | | (14,173) | | 34,764,311 | | 34,764,311 | |
| Balance on 30 September 2015 | \$125,632,102 | \$88,781,174 | \$24,820,095 | \$140,185,120 | \$62,107,315 | \$2,420,893 | \$(18,710,043) | \$322,622 | \$896,464 | \$913,639 | \$10,016,647 | \$(781) | \$437,385,247 | \$6,065,779 | \$443,451,026 | |
| Balance on 1 January 2016 | \$125,632,102 | \$88,781,174 | \$24,820,095 | \$140,185,120 | \$65,190,213 | \$1,865,366 | \$(417,073) | \$371,524 | \$83,462 | \$(1,562,755) | \$10,108,783 | \$(1,017) | \$455,056,994 | \$6,005,208 | \$461,062,202 | |
| Appropriations and distribution for 2015 | | | | | | | | | | | | | | | | |
| Legal reserve | | | 5,757,629 | | (5,757,629) | | | | | | | | | | | |
| Special reserve | | | | 8,923,216 | (8,923,216) | | | | | | | | | | | |
| Cash dividends | | | | | (25,126,420) | | | | | | | | (25,126,420) | | (25,126,420) | |
| Other additional paid-in capital | | | | | | | | | | | | | | | | |
| Share of changes in net assets of associates and joint ventures accounted for using the equity method | | 1,496 | | | | | | | | | | | 1,496 | | 1,496 | |
| Net income for the nine-month period ended 30 September 2016 | | | | | 38,751,510 | | | | | | | | 38,751,510 | 497,960 | 39,249,470 | |
| Other comprehensive income for the nine-month period ended 30 September 2016 | | | | | | (9,032,000) | 32,633,444 | 6,293 | 165,509 | 5,646 | | | 23,778,892 | (412,727) | 23,366,165 | |
| Comprehensive income for the nine-month period ended 30 September 2016 | | | | | 38,751,510 | (9,032,000) | 32,633,444 | 6,293 | 165,509 | 5,646 | | | 62,530,402 | 85,233 | 62,615,635 | |
| Increase in non-controlling interests | | | | | | | | | | | | | | 75,731 | 75,731 | |
| Balance on 30 September 2016 | \$125,632,102 | \$88,782,670 | \$30,577,724 | \$149,108,336 | \$64,134,458 | \$(7,166,634) | \$32,216,371 | \$377,817 | \$248,971 | \$(1,557,109) | \$10,108,783 | \$(1,017) | \$492,462,472 | \$6,166,172 | \$498,628,644 | |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Statements of cash flows
For the nine-month periods ended 30 September 2016 and 2015
(Reviewed only, not audited in accordance with the generally accepted auditing standards)
(Expressed in thousands of New Taiwan Dollars)

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 | Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|---|--------------------|--------------------|--|----------------------|----------------------|
| Cash flows from operating activities | | | Cash generated from operations | (16,954,424) | (242,911,825) |
| Profit before income tax from continuing operations | \$46,963,203 | \$63,283,938 | Interest received | 122,348,960 | 111,732,740 |
| Adjustments : | | | Dividends received | 22,468,378 | 20,158,886 |
| Income and other adjustments with no cash flow effects | | | Interest paid | (10,945,959) | (12,032,160) |
| Depreciation expenses | 1,659,506 | 1,585,164 | Income taxes received | 3,852,865 | 2,904,346 |
| Amortizations expenses | 2,120,988 | 779,889 | Net cash flows from (used in) operating activities | 120,769,820 | (120,148,013) |
| Bad debt expense | 3,782,881 | 554,171 | Cash flows from investing activities | | |
| Net (gains) losses on financial assets and liabilities at fair value through profit or loss | (56,760,515) | 66,233,449 | Acquisition of financial assets at fair value through profit or loss | (1,502,777) | (567,545) |
| Interest expenses | 11,634,832 | 12,960,446 | Disposal of financial assets at fair value through profit or loss | 2,947,503 | 1,882,246 |
| Interest revenue | (125,724,060) | (115,668,184) | Acquisition of financial assets available for sale | (1,156,500) | (938,933) |
| Dividend income | (21,981,711) | (19,782,936) | Disposal of financial assets available for sale | 587,212 | 684,802 |
| Net changes in insurance liabilities and provisions | 229,460,240 | 266,649,774 | Acquisition of bond investments with no active market | - | (3,000) |
| Net changes of other liabilities and provisions | (5,795,243) | 472,579 | Acquisition of financial assets carried at cost | (5,745) | - |
| Share of gain of associates and joint ventures accounted for using the equity method | (951,195) | (637,464) | Acquisition of investments accounted for using the equity method | (616,752) | (20,018,930) |
| (Gains) losses on disposal or scrapping of property and equipment | (233,861) | 6,571 | Acquisition of subsidiaries | (4,708,708) | (6,978,545) |
| Gains on disposal of investment properties | (860,045) | (37,571) | Disposal of subsidiaries | (4,609,822) | - |
| Losses on disposal or intangible assets | 391 | 35,492 | Cash returned by capital deduction from investments accounted for using equity method | 47,811 | 86,501 |
| Gains on disposal of investments | (38,970,798) | (39,096,488) | Acquisition of property and equipment | (3,518,701) | (876,778) |
| Impairment losses on financial assets | 87,262 | 8,636 | Disposal of property and equipment | 316,761 | 4,559 |
| Unrealized foreign exchange (gains) losses | (14,380) | 73,601 | Increase in clearing and settlement funds | (1,474) | (313) |
| Revaluation gains on investment properties | (2,038,274) | (11,268,688) | Increase in guarantee deposits paid | - | (13,584) |
| Others | (2,730,339) | (9,185) | Decrease in guarantee deposits paid | 30,330 | - |
| Subtotal | (7,314,321) | 162,859,256 | Acquisition of intangible assets | (269,001) | (249,586) |
| Changes in operating assets and liabilities | | | Generalized foreclosed collects net cash from other company | - | 16,157,186 |
| Changes in operating assets | | | Generalized foreclosed collects compensation from other company | - | 30,300,000 |
| Increase in due from the Central Bank and call loans to banks | (1,322,300) | (4,077,825) | Acquisition of investment properties | (2,407,478) | (32,984,695) |
| Decrease (increase) in financial assets at fair value through profit or loss | 91,915,477 | (11,481,066) | Disposal of investment properties | 1,068,000 | 193,927 |
| Increase in available-for-sale financial assets | (15,516,759) | (15,843,090) | Increase in other assets | (34,828) | (20,214,537) |
| (Increase) decrease in derivative financial assets for hedging | (1,630) | 219,250 | Decrease in other assets | 17,706,010 | 55,273 |
| Increase in accounts receivable | (10,670,036) | (15,724,346) | Dividends received | 94,918 | 917,701 |
| (Increase) decrease in loans | (153,352,784) | 30,945,843 | Net cash flows from (used in) investing activities | 3,966,759 | (32,564,251) |
| Increase in reinsurance contract assets | (2,955,571) | (245,087) | Cash flows from financing activities | | |
| Decrease in financial assets held to maturity | 5,985,796 | 635,271 | Increase (decrease) in short-term borrowings | 40,440 | (600,000) |
| Increase in other financial assets | (8,563,278) | (478,531,836) | Decrease in funds borrowed from Central Bank and banks | - | (1,585,900) |
| Increase in other assets | (3,531,139) | (4,229,934) | Increase (decrease) in commercial paper payable | 440,000 | (10,001) |
| Subtotal | (98,012,224) | (498,332,820) | Decrease in bank debentures | - | (2,063,161) |
| Changes in operating liabilities | | | Increase in bills and bonds sold under agreements to repurchase | 56,454 | 121,741 |
| Increase (decrease) in due to the Central Bank and call loans from banks | 21,703,978 | (16,011,630) | Increase in other liabilities | 3,151,548 | 1,889,039 |
| Decrease in financial liabilities at fair value through profit or loss | (97,759,484) | (86,363,032) | Payment of cash dividend | (25,223,449) | (25,659,094) |
| (Decrease) increase in securities purchased under agreements to repurchase | (7,631,650) | 19,788,962 | Net cash flows used in financing activities | (21,535,007) | (27,907,376) |
| Increase in payables | 3,363,452 | 919,670 | Effects of exchange rate changes on cash and cash equivalents | (35,215) | 846,453 |
| Increase in deposits | 134,133,210 | 111,168,877 | Increase (decrease) in cash and cash equivalents | 103,166,357 | (179,773,187) |
| (Decrease) increase in provisions for the liabilities of employee benefits | (4,451,327) | 3,475 | Cash and cash equivalents at the beginning of periods | 296,935,688 | 597,008,819 |
| (Decrease) increase in reserves for the operations and liabilities | (66,809) | 939 | Cash and cash equivalents at the end of periods | \$400,102,045 | \$417,235,632 |
| Decrease in other financial liabilities | (6,993,532) | (4,723,964) | | | |
| (Decrease) increase in other liabilities | (888,920) | 4,494,504 | The components of cash and cash equivalents | | |
| Subtotal | 41,408,918 | 29,277,801 | Cash and cash equivalents presented in balance sheet | \$291,642,002 | \$309,760,074 |
| Subtotal of Changes in operating assets and liabilities | (56,603,306) | (469,055,019) | Due from the Central Bank and call loans to banks satisfied the definition of cash and cash equivalents under IAS No.7 | 48,122,985 | 62,489,040 |
| Subtotal of Adjustment | (63,917,627) | (306,195,763) | Securities purchased under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7 | 60,337,058 | 44,986,518 |
| | | | Cash and cash equivalents at the end of periods | \$400,102,045 | \$417,235,632 |

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

English Translation of Financial Statement Originally issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Notes to Consolidated Interim Financial Statements

30 September 2016 and 2015

(30 September 2016 and 2015 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

1. Organization and business scope

On 31 December 2001, Cathay Life Insurance Co., Ltd. (“Cathay Life”) was reincorporated as Cathay Financial Holding Co., Ltd. (the “Company”) through stock conversion pursuant to the Republic of China (“ROC”) Financial Holding Company Act (“Financial Holding Company Act”) and its shares were listed on the Taiwan Stock Exchange Corporation (TWSE) on the same day. On 22 April 2002, Cathay Century Insurance Co., Ltd. (“Cathay Century”) and Cathay United Bank Co., Ltd. (“Cathay United Bank”) became subsidiaries of the Company through stock conversion approved by the government. On 18 December 2002, United World Chinese Commercial Bank Co., Ltd. (“UWCCB”) also became a subsidiary of the Company through stock conversion approved by the government. UWCCB and Cathay United Bank merged on 27 October 2003, in accordance with the relevant laws and regulations. UWCCB was the surviving company and was re-named Cathay United Bank Co., Ltd. (“Cathay United Bank”). On 12 May 2004, the Company established Cathay Securities Corporation (“Cathay Securities”) as a wholly owned subsidiary. On 30 September 2005, the Company invested in Lucky Bank, Inc. (“Lucky Bank”) which was approved as a strategic investment by the Financial Supervisory Commission (“FSC”), Executive Yuan. Lucky Bank became a subsidiary of the Company by stock conversion on 25 August 2006. Cathay United Bank merged with Lucky Bank on 1 January 2007. Cathay United Bank acquired specific assets, liabilities, and business of China United Trust & Investment Corporation (“CUTIC”) on 29 December 2007 to improve competitiveness. Cathay Venture Inc. (“Cathay Venture”) was incorporated on 16 April 2003, under the Company Act. Cathay Venture is the surviving company from the merger with Cathay Venture, Cathay II Venture and Cathay Capital Management on 10 August 2009. On 13 June 2011, the Company obtained the acquisition approval of Cathay Securities Investment Trust Co., Ltd. (Cathay Securities Investment Trust) from FSC of Executive Yuan and acquired all shares of Cathay Securities Investments Trust by cash purchase on 24 June 2011. On 29 July 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs). The Company mainly engages in financial holding business.

Cathay Life has participated and won the public auction, which is held by Taiwan Insurance Guaranty Fund, for assets, liabilities and operations of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. Cathay Life entered into the acquisition contract on 27 March 2015. Cathay Life assumed all assets, liabilities and operations of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd., except for their reserved assets and liabilities on 1 July 2015.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

As of 30 September 2016, 31 December 2015 and 30 September 2015 the total numbers of the employees of the Company and Subsidiaries (the Group) were 47,825, 46,634, and 45,496, respectively.

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

The consolidated financial statements of the Group for the nine-month periods ended 30 September 2016 and 2015 were authorized for issue in accordance with a resolution of the Board of Directors on 10 November 2016.

3. Newly issued or revised standards and interpretations

(1) Standards or interpretations issued, revised or amended, which are recognized by Financial Supervisory Commission (“FSC”), but not yet adopted by the Group at the date of issuance of the Group’s financial statements are listed below.

A. *IAS 36 “Impairment of Assets” (Amendment)*

This amendment relates to the amendment issued in May 2011 and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendment also requires detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement. The amendment is effective for annual periods beginning on or after 1 January 2014.

B. *IFRIC 21 “Levies”*

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government (both for levies that are accounted for in accordance with *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain). The interpretation is effective for annual periods beginning on or after 1 January 2014.

C. *IAS 39 “Financial Instruments: Recognition and Measurement” (Amendment)*

Under the amendment, there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The interpretation is effective for annual periods beginning on or after 1 January 2014.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

D. *IAS 19 “Employee Benefits” (Defined benefit plans: employee contributions)*

The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to provide a policy choice for a simplified accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendment is effective for annual periods beginning on or after 1 July 2014.

E. *Improvements to International Financial Reporting Standards (2010-2012 cycle):*

IFRS 2 “Share-based Payment”

The annual improvements amend the definitions of 'vesting condition' and 'market condition' and add definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition'). The amendment prospectively applies to share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 “Business Combinations”

The amendments include: (1) deleting the reference to "other applicable IFRSs" in the classification requirements; (2) deleting the reference to "IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or other IFRSs as appropriate", other contingent consideration that is not within the scope of IFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognized in profit or loss; (3) amending the classification requirements of IFRS 9 *Financial Instruments* to clarify that contingent consideration that is a financial asset or financial liability can only be measured at fair value, with changes in fair value being presented in profit or loss depending on the requirements of IFRS 9. The amendments apply prospectively to business combinations for which the acquisition date is on or after 1 July 2014.

IFRS 8 “Operating Segments”

The amendments require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments. The amendments also clarify that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. The amendment is effective for annual periods beginning on or after 1 July 2014.

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(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

IFRS 13 “Fair Value Measurement”

The amendment to the Basis for Conclusions of IFRS 13 clarifies that when deleting paragraph B5.4.12 of IFRS 9 *Financial Instruments* and paragraph AG79 of IAS 39 *Financial Instruments: Recognition and Measurement* as consequential amendments from IFRS 13 *Fair Value Measurement*, the IASB did not intend to change the measurement requirements for short-term receivables and payables.

IAS 16 “Property, Plant and Equipment”

The amendment clarifies that when an item of property, plant and equipment is revalued, the accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendment is effective for annual periods beginning on or after 1 July 2014.

IAS 24 “Related Party Disclosures”

The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. The amendment is effective for annual periods beginning on or after 1 July 2014.

IAS 38 “Intangible Assets”

The amendment clarifies that when an intangible asset is revalued, the accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendment is effective for annual periods beginning on or after 1 July 2014.

F. *Improvements to International Financial Reporting Standards (2011-2013 cycle):*

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

The amendment clarifies that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application.

IFRS 3 “Business Combinations”

This amendment clarifies that paragraph 2(a) of IFRS 3 *Business Combinations* excludes the formation of all types of joint arrangements as defined in IFRS 11 *Joint Arrangements* from the scope of IFRS 3; and the scope exception only applies to the financial statements of the joint venture or the joint operation itself. The amendment is effective for annual periods beginning on or after 1 July 2014.

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share data and unless otherwise stated)**

IFRS 13 “Fair Value Measurement”

The amendment clarifies that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of this amendment is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 *Financial Instruments: Presentation*. The amendment is effective for annual periods beginning on or after 1 July 2014.

IAS 40 “Investment Property”

The amendment clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property; in determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 *Business Combinations* and investment property as defined in IAS 40 *Investment Property*, separate application of both standards independently of each other is required. The amendment is effective for annual periods beginning on or after 1 July 2014.

G. *IFRS 14 “Regulatory Deferral Accounts”*

IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the Standard requires that the effect of rate regulation must be presented separately from other items. IFRS 14 is effective for annual periods beginning on or after 1 January 2016.

H. *IFRS 11 “Joint Arrangements” (Accounting for Acquisitions of Interests in Joint Operations)*

The amendments provide new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments require the entity to apply all of the principles on business combinations accounting in IFRS 3 “Business Combinations”, and other IFRS (that do not conflict with the guidance in IFRS 11), to the extent of its share in a joint operation acquired. The amendment also requires certain disclosure. The amendment is effective for annual periods beginning on or after 1 January 2016.

English Translation of Financial Statements Originally Issued in Chinese
(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

I. *IAS 16 “Property, Plant and Equipment and IAS 38 “Intangible Assets” — Clarification of Acceptable Methods of Depreciation and Amortization*

The amendment clarified that the use of revenue-based methods to calculate depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, such as selling activities and change in sales volumes or prices. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The amendment is effective for annual periods beginning on or after 1 January 2016.

J. *IAS 16 “Property, Plant and Equipment and IAS 41 “Agriculture” — Agriculture: Bearer Plants*

The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 *Property, Plant and Equipment*, because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, and the produce growing on bearer plants will remain within the scope of IAS 41. The amendment is effective for annual periods beginning on or after 1 January 2016.

K. *IAS 27 “Separate Financial Statements” — Equity Method in Separate Financial Statements*

The IASB restored the option to use the equity method under IAS 28 for an entity to account for investments in subsidiaries and associates in the entity’s separate financial statements. In 2003, the equity method was removed from the options. This amendment removes the only difference between the separate financial statements prepared in accordance with IFRS and those prepared in accordance with the local regulations in certain jurisdictions.

The amendment is effective for annual periods beginning on or after 1 January 2016.

L. *Improvements to International Financial Reporting Standards (2012-2014 cycle):*

IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”

The amendment clarifies that a change of disposal method of assets (or disposal groups) from disposal through sale or through distribution to owners (or vice versa) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. The amendment also requires identical accounting treatment for an asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners. The amendment is effective for annual periods beginning on or after 1 January 2016.

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IFRS 7 “Financial Instruments: Disclosures”

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset and therefore the disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety under IFRS 7 *Financial Instruments: Disclosures* is required. The amendment also clarifies that whether the IFRS 7 disclosure related to the offsetting of financial assets and financial liabilities are required to be included in the condensed interim financial report would depend on the requirements under IAS 34 *Interim Financial Reporting*. The amendment is effective for annual periods beginning on or after 1 January 2016.

IAS 19 “Employee Benefits”

The amendment clarifies the requirement under IAS 19.83, that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. The amendment is effective for annual periods beginning on or after 1 January 2016.

IAS 34 “Interim Financial Reporting”

The amendment clarifies what is meant by “elsewhere in the interim financial report” under IAS 34; the amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment is effective for annual periods beginning on or after 1 January 2016.

M. Disclosure Initiative — Amendment to IAS 1 “Presentation of Financial Statements”:

The amendments contain (1) clarifying that an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments reemphasize that, when a standard requires a specific disclosure, the information must be assessed to determine whether it is material and, consequently, whether presentation or disclosure of that information is warranted, (2) clarifying that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated, and how an entity shall present additional subtotals, (3) clarifying that entities have flexibility as to the order in which they present the notes to financial statements, but also emphasize that understandability and comparability should be considered by an entity when deciding on that order, (4) removing the examples of the income taxes accounting policy and the foreign currency accounting policy, as these were considered unhelpful in illustrating what significant accounting policies could be, and (5) clarifying that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 January 2016.

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N. *IFRS 10* “Consolidated Financial Statements”, *IFRS 12* “Disclosure of Interests in Other Entities”, and *IAS 28* “Investments in Associates and Joint Ventures” — *Investment Entities: Applying the Consolidation Exception*

The amendments contain (1) clarifying that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity when the investment entity measures all of its subsidiary at fair value, (2) clarifying that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated when all other subsidiaries of an investment entity are measured at fair value, and (3) allowing the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendment is effective for annual periods beginning on or after 1 January 2016.

The above mentioned standards and interpretations are issued by IASB and recognized by FSC so that they are applicable for annual periods beginning on or after 1 January 2017. The Group is currently determining the potential impact of the standards and interpretations mentioned above.

(2) Standards or interpretations issued by IASB but not yet endorsed by FSC at the date when the Group’s financial statements were authorized for issue are listed below.

A. *IFRS 15* “Revenue from Contracts with Customers”

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

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

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

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B. IFRS 9“Financial Instruments”

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

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

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

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

The new standard is effective for annual periods beginning on or after 1 January 2018.

C. IFRS 10“Consolidated Financial Statements” and IAS 28“Investments in Associates and Joint Ventures” — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

The amendments address the inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full. IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors’ interests in the associate or joint venture. The effective date of this amendment has been postponed indefinitely, but early adoption is allowed.

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D. *IFRS 16 “Leases”*

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease. The Standard is effective for annual periods beginning on or after 1 January 2019.

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

The amendment clarifies how to account for deferred tax assets for unrealized losses. The amendment is effective for annual periods beginning on or after 1 January 2017.

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

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

G. *IFRS 15 Revenue from Contracts with Customers — Clarifications to IFRS 15*

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

H. *IFRS 2 “Share-Based Payment” — Amendments to IFRS 2*

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

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

The amendments help to resolve issues arising from the different effective dates for IFRS 9 “Financial Instruments” (1 January 2018) and the new insurance contracts standard about to be issued by the IASB (still to be decided, but not before 1 January 2020). The amendments allow entities issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 “Financial Instruments” before the IASB’s new insurance contracts standard becomes effective. The amendments introduce two approaches: an overlay approach and a temporary exemption. The overlay approach allows an entity applying IFRS 9 to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before the new insurance contracts standard is applied. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 until 2021 (these entities that defer the application of IFRS 9 will continue to apply IAS 39).

The above mentioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date of issuance of the Group’s financial statements, the local effective dates are to be determined by FSC, as the Group is still determining the potential impact of the standards and interpretations mentioned above.

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Group for nine-month periods ended 30 September 2016 and 2015 have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies”, the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and IAS 34 “Interim Financial Reporting” as recognized by the FSC.

(2) Basis of preparation

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

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(3) Basis of consolidation

Preparation principle of consolidated financial statement

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

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

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

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

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

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

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

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

If the Group loses control of a subsidiary, it:

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

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The consolidated entities are listed as follows:

| Investor | Subsidiary | Business nature | 2016.9.30 Ownership percentage | 2015.12.31 Ownership percentage | 2015.9.30 Ownership percentage | Notes |
|-------------|---|---------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|--|
| The Company | Cathay Life Insurance Co., Ltd. (“Cathay Life”) | Life insurance | 100.00 | 100.00 | 100.00 | Cathay Life was incorporated in Taiwan on 23 October 1962, under the ROC Company Act (the “Company Act”). |
| The Company | Cathay United Bank Co., Ltd. (“Cathay United Bank”) | Commercial banking operations | 100.00 | 100.00 | 100.00 | UWCCB was enfranchised by the ROC government on 4 January 1975. On 27 October 2003, UWCCB was merged with the former Cathay United Bank which was dissolved after the merger; the merged entity was renamed Cathay United Bank. The new Cathay United Bank merged with Lucky Bank on 1 January 2007. |
| The Company | Cathay Century Insurance Co., Ltd. (“Cathay Century”) | Property and casualty insurance | 100.00 | 100.00 | 100.00 | Cathay Century was incorporated in Taiwan on 19 July 1993, under the Company Act. Cathay Century changed its name from “Tong Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.” on 2 August 2002. |
| The Company | Cathay Securities Corporation (“Cathay Securities”) | Securities | 100.00 | 100.00 | 100.00 | Cathay Securities was incorporated on 12 May 2004, under the Company Act. The securities department and the securities agent (Taipei branch) of Cathay United Bank were assigned to Cathay Securities along with its business, assets and liabilities. The assignment date was 13 August 2004. |
| The Company | Cathay Venture Inc. (“Cathay Venture”) | Venture capital investment | 100.00 | 100.00 | 100.00 | Cathay Venture was incorporated on 16 April 2003, under the Company Act. Cathay Venture is the surviving company from the merger with Cathay Venture, Cathay II Venture and Cathay Capital Management on 10 August 2009. |
| The Company | Cathay Securities Investment Trust Co., Ltd. (“Cathay Securities Investment Trust”) | Securities investment trust | 100.00 | 100.00 | 100.00 | Cathay Securities Investment Trust was incorporated on 11 February 2000. |
| Cathay Life | Cathay Lujiazui Life | Life insurance | 50.00 | 50.00 | 50.00 | Cathay Lujiazui Life was incorporated on |

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| Investor | Subsidiary | Business nature | 2016.9.30 Ownership percentage | 2015.12.31 Ownership percentage | 2015.9.30 Ownership percentage | Notes |
|--|---|---------------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|---|
| | Insurance Company Limited. (“Cathay Lujiazui Life”) | | | | | 29 December 2004. Cathay Life and Shanghai Lujiazui Finance Tradezone Development Co., Ltd. each owns 50% interest in Cathay Lujiazui Life. |
| Cathay Life | Cathay Life Insurance (Vietnam) Co., Ltd. (“Cathay Life (Vietnam)”) | Life insurance | 100.00 | 100.00 | 100.00 | Cathay Life (Vietnam) was incorporated on 21 November 2007. |
| Cathay Life | Cathay Woolgate Exchange Holding 1 Limited | Real estate investment and management | 100.00 | 100.00 | 100.00 | Cathay Woolgate Exchange Holding 1 Limited was incorporated on 30 July 2014. |
| Cathay Life | Cathay Woolgate Exchange Holding 2 Limited | Real estate investment and management | 100.00 | 100.00 | 100.00 | Cathay Woolgate Exchange Holding 2 Limited was incorporated on 30 July 2014. |
| Cathay Life | Cathay Walbrook Holding 1 Limited | Real estate investment and management | 100.00 | 100.00 | 100.00 | Cathay Walbrook Holding 1 Limited was incorporated on 31 March 2015. |
| Cathay Life | Cathay Walbrook Holding 2 Limited | Real estate investment and management | 100.00 | 100.00 | 100.00 | Cathay Walbrook Holding 2 Limited was incorporated on 31 March 2015. |
| Cathay Life | Conning Holdings Limited | Holding company | 100.00 | 100.00 | 100.00 | Conning Holdings Limited was incorporated on 10 June 2015. |
| Conning Holdings Limited | Conning U.S. Holdings, Inc. | Holding company | 100.00 | 100.00 | 100.00 | Conning U.S. Holdings, Inc. was incorporated on 10 June 2015. |
| Conning Holdings Limited | Conning Asset Management Ltd. | Wealth Management | 100.00 | 100.00 | 100.00 | Conning Asset Management Ltd. was incorporated on 16 October 1998. |
| Conning Holdings Limited | Conning Japan Ltd. | Wealth Management | 100.00 | 100.00 | - | Conning Japan Ltd. was incorporated on 7 September 2015. |
| Conning Holdings Limited | Conning (Germany) GmbH | Risk management software | 100.00 | 100.00 | 100.00 | Conning (Germany) GmbH was incorporated on 1 October 2012. |
| The Company & Conning Holdings Limited | Conning Asia Pacific Ltd. (Note 1) | Wealth Management | 100.00 | 100.00 | 100.00 | Cathay Conning Asset Management Ltd. was incorporated on 6 July 2011. |
| Conning U.S. | Conning Holdings Corp. | Holding company | 100.00 | 100.00 | 100.00 | Conning Holdings Corp. was incorporated on 5 June 2009. |

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| Investor | Subsidiary | Business nature | 2016.9.30 Ownership percentage | 2015.12.31 Ownership percentage | 2015.9.30 Ownership percentage | Notes |
|-------------------------------|--|----------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|--|
| Holdings, Inc. | | | | | | |
| Conning Holdings Corp. | Conning Holdco (UK) Ltd. (Note 2) | Holding company | - | 100.00 | 100.00 | Conning Holdco (UK) Ltd. was incorporated on 14 June 2011. |
| Conning Holdings Corp. | Conning & Company | Holding company | 100.00 | 100.00 | 100.00 | Conning & Company was incorporated on 10 July 1986. |
| Conning & Company | Conning Inc. | Wealth Management | 100.00 | 100.00 | 100.00 | Conning Inc. was incorporated on 25 March 2007. |
| Conning & Company | Goodwin Capital Advisors, Inc. | Wealth Management | 100.00 | 100.00 | 100.00 | Goodwin Capital Advisors, Inc. was incorporated on 28 August 2000. |
| Conning & Company | Conning Investments Products, Inc. | Securities | 100.00 | 100.00 | 100.00 | Conning Investments Products, Inc. was incorporated on 13 February 2012. |
| Conning & Company | Octagon Credit Investors, LLC | Investment consulting services | 82.05 | - | - | Octagon Credit Investors, LLC was incorporated on 19 December 2011. |
| Octagon Credit Investors, LLC | Octagon Multi-Strategy Corporate Credit GP, LLC | Fund management services | 100.00 | - | - | Octagon Multi-Strategy Corporate Credit GP, LLC was incorporated on 26 November 2014. |
| Octagon Credit Investors, LLC | Octagon Funds GP LLC | Fund management services | 100.00 | - | - | Octagon Funds GP LLC was incorporated on 26 November 2014. |
| Octagon Credit Investors, LLC | Octagon Funds GP II LLC | Fund management services | 100.00 | - | - | Octagon Funds GP II LLC was incorporated on 26 November 2014. |
| Cathay Life | Lin Yuan (Shanghai) Real Estate Co., Ltd (“Lin Yuan”) | Office equipment leasing company | 100.00 | 100.00 | 100.00 | Lin Yuan was incorporated on 15 August 2012. |
| Cathay Life, Cathay Century | Cathay Insurance Co., Ltd. (China) (Note 3) (“Cathay Century (China)”) | Property and casualty insurance | 49.00 | 100.00 | 100.00 | Cathay Century (China) was incorporated on 26 August 2008. Cathay Life and Cathay Century owns |

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| Investor | Subsidiary | Business nature | 2016.9.30 Ownership percentage | 2015.12.31 Ownership percentage | 2015.9.30 Ownership percentage | Notes |
|--------------------|---|---------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|---|
| | | | | | | 24.5% interest of Cathay Century (China), respectively. |
| Cathy Century | Cathay Insurance (Vietnam) Co., Ltd. (“Cathay Century (Vietnam)”) | Property and casualty insurance | 100.00 | 100.00 | 100.00 | Cathay Century (Vietnam) was incorporated on 2 November 2010. |
| Cathay United Bank | Indovina Bank Limited (“Indovina Bank”) | Wholesale banking | 50.00 | 50.00 | 50.00 | Indovina Bank was incorporated in Vietnam on 21 November 1990. Cathay United Bank and Vietinbank each owns 50% interest of Indovina Bank. |
| Cathay United Bank | Cathay United Bank (Cambodia) Corporation Limited (“CUBC Bank”) | Wholesale banking | 100.00 | 100.00 | 100.00 | SBC Bank was incorporated in Cambodia on 1993 and renamed as CUBC Bank on 14 January 2014. |
| Cathay Securities | Cathay Futures Co., Ltd. (“Cathay Futures”) | Futures related business | 99.99 | 99.99 | 99.99 | Cathay Futures, former Seaward Futures Agency Co., Ltd., was incorporated on 29 December 1993, under the Company Act and was renamed Seaward Futures Corp. on 6 March 1998. On 24 December 2003, Seaward Futures Corp. changed its name to Cathay Futures Corp. On 10 February 2006, Cathay United Bank sold all stocks of Cathay Futures to Cathay Securities. |
| Cathay Securities | Cathay Securities (Hong Kong) Corporation Limited (“Cathay Securities (Hong Kong)”) | Securities agent | 100.00 | 100.00 | 100.00 | Cathay Securities (Hong Kong), formerly Horizon Securities (Hong Kong) Co., Ltd., was incorporated on 22 March 1997 and was renamed as Cathay Securities (Hong Kong) Co., Ltd. after the acquisition. |

Note 1: Cathay Conning Asset Management Ltd. has been renamed as Conning Asia Pacific Ltd. on 18 April 2016.

Note 2: Conning Holdco (UK) Ltd. started its liquidation process on 18 December 2015 and finalized the process on 29 March 2016.

Note 3: Cathay Life and Cathay Century did not participate in the capital increase in Cathay Century (China) during July 2016 and therefore, Cathay Life and Cathay Century’s percentage of ownership over Cathay Century (China) decreased to 24.5%, respectively. Hence, Cathay Century (China) was not included in the Group’s consolidated financial statements since August 2016.

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

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| Investor | Investee | Business | 2016.9.30 Ownership interest | 2015.12.31 Ownership interest | 2015.9.30 Ownership interest | Notes |
|--------------------|---|---|------------------------------------|-------------------------------------|------------------------------------|--|
| Cathay Life | Cathay Insurance (Bermuda) Co., Ltd. (“Cathay Insurance (Bermuda)”)) | Class 3 general business insurers and a long-term insurer | 100.00 | 100.00 | 100.00 | Cathay Insurance (Bermuda) was incorporated on 24 January 2000. |
| Cathay Life | Cathay Securities Investment Consulting Co., Ltd. (“Cathay Securities Investment Consulting”)) | Securities investment consulting | 100.00 | 100.00 | 100.00 | Cathay Securities Investment Consulting was incorporated on 25 November 2002. |
| Cathay United Bank | Seaward Card Co., Ltd. (“Seaward Card”)) | Temporary employment | 100.00 | 100.00 | 100.00 | Seaward Card was incorporated on 9 April 1999. |
| Cathay Securities | Cathy Investment Consulting (Shanghai) Co., Ltd. | Investment Consulting | 100.00 | 100.00 | 100.00 | Cathy Investment Consulting (Shanghai) Co., Ltd. was incorporated on 11 June 2014. |

(4) Foreign currency transactions

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

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

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

- A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.

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- B. Foreign currency items within the scope of IAS 39 Financial Instruments: Recognition and Measurement are accounted for based on the accounting policy for financial instruments.
- C. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(5) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT\$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized.

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

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

(6) Cash and cash equivalents

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

(7) The transaction of Repo notes and bonds

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

(8) Financial instruments

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

Financial assets and financial liabilities within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A. Financial assets

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. A financial asset is classified as held for trading if:

- a. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- b. on initial recognition it is part of a portfolio of actual pattern of short-term profit-taking; or
- c. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a

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financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

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

Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment). If financial assets do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Available-for-sale financial assets

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

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

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

Held-to-maturity financial assets

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

After initial measurement held-to-maturity financial assets are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by

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taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Loans and receivables

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

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

Derivative financial assets for hedging

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

Investments in debt securities with no active market

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

Impairment of financial assets

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

A significant or prolonged decline in the fair value of an available-for-sale equity

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instrument below its cost is considered a loss event.

Other loss events include:

- a. significant financial difficulty of the issuer or obligor; or
- b. a breach of contract, such as a default or delinquency in interest or principal payments;
or
- c. it becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- d. the disappearance of an active market for that financial asset because of financial difficulties.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss; loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

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

In the case of debt instruments classified as available-for-sale, the amount recorded for

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

Derecognition of financial assets

Financial asset is derecognized when:

- a. The rights to receive cash flows from the asset have expired
- b. The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred
- c. The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

The reclassification of financial assets

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

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

B. Financial liabilities and equity

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Classification between liabilities or equity

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

Equity instruments

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

Compound instruments

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

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

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

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

On conversion of a convertible bond before maturity, the carrying amount of the liability

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component being the amortized cost at the date of conversion is transferred to equity.

Financial liabilities

Financial liabilities within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. A financial liability is classified as held for trading if:

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

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

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

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

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

If the financial liabilities at fair value through profit or loss do not have quoted prices in

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an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

Derivative financial liabilities for hedging

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

Financial liabilities at amortized cost

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

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

Derecognition of financial liabilities

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

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

C. Offsetting of financial instruments

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

(9) Derivative financial instrument

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

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

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

(10) Fair value measurement

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

- (a) In the principal market for the asset or liability, or
- (b) In the absence of a principal market, in the most advantageous market for the asset or liability

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

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which

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sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(11) Investments accounted for using the equity method

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

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

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

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

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

The Group determines at each reporting date whether there is any objective evidence that the

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investment in the associate or an investment in a joint venture is impaired in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 *Impairment of Assets*. In determining the value in use of the investment, the Group estimates:

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

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

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

(12) Property, plant and equipment

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

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

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following assets:

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

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

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

(13) Investment property

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

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

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

(14) Leases

Group as a lessee

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

A leased asset is depreciated over the useful life of the asset. However, if there is no

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reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

Group as a lessor

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

(15) Intangible assets

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

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

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

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

Gains or losses arising from derecognition of an intangible asset are measured as the

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difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Licenses

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

Customer relationships

Customer relationships were acquired in business combination and are amortized on a straight-line basis over the useful life (5 to 14 years).

Computer software

The cost of computer software is amortized on a straight-line basis over the estimated useful life (3 to 8 years).

Other intangible assets

Other intangible assets were acquired in business combination and are amortized on a straight-line basis over the useful life (3 to 8 years).

(16) Impairment of non-financial assets

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

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

A cash generating unit, or groups of CGU, to which goodwill has been allocated is tested for

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

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

(17) Provisions

Insurance liabilities

A. Cathay Life

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

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

a. Unearned premium reserve

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

b. Reserve for claims

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

c. Reserve for life insurance liabilities

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

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

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

When an insurer that opts to measure investment property at fair value, the value of its insurance liabilities at the same time must also be measured at fair value. If the results of the measurements indicate that the fair value of the insurance liabilities exceeds book value, the life insurer must set aside the difference to reserve for life insurance liabilities and decrease retained earnings. Cathay Life changes its accounting policy for subsequent measurement of investment property from cost to fair value starting from year of 2014. The value of insurance liabilities at the same time is measured at fair value in accordance with rules issued by the FSC on 21 March 2014. The results of the measurements indicate that the fair value of the insurance liabilities doesn't exceed book value, therefore insurance liabilities doesn't have to be increased.

d. Special reserve

(A) For the retained businesses with policy period within 1 year and injury insurance with policy period longer than 1 year, the special reserve is classified into 2 categories, “Special Capital Reserve—Special Reserve for Major Incidents” and “Special Capital Reserve—Special Reserve for Fluctuation of Risks.” The dollar amount of reserve required is addressed as follows:

i. Special capital reserve—Special reserve for major incidents

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All types of insurance should follow the special catastrophe reserve rates set by authorities. Upon occurrence of the catastrophic events, actual claims on retained business in excess of \$30,000 thousand can be withdrawn from the reserve. If the reserve has been set aside for over 15 years, the Company could have its plan of the recovering process of the reserve assessed by certified actuaries and submit the plan to the authority for reference. The post-tax amount of the recovery determined in accordance with IAS12 *Income Taxes* can be recorded in the special capital reserve for major incidents under equity.

ii. Special capital reserve – Special reserve for fluctuation of risks

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

When the actual amount paid for indemnity minus the offsetting amount from special reserve for major incidents is greater than the anticipated dollar amount need to be paid, the exceeded amount can be used for writing down the special reserve for fluctuation of risks. If the total amount of special reserves for fluctuation of risks is not enough to be written down, special reserve for major incidents for other types of insurance can be used. Also, the type of insurance and total dollar amount written-down should be reported to the authority for inspection purposes. When accumulative dollar amount of special reserve for fluctuation of risks exceeds 30 percent of self-retention earned premium, the exceeded amount will be recovered. To promote the sustainable development of insurance industry, the authority may designate or restrict the use of the recovered amount. The post-tax amount of written-down or recovery determined in accordance with IAS12 *Income Taxes* can be recorded in the special capital reserve for fluctuation of risks under equity.

For special reserves addressed previously, the balance of the annual reserve net of tax needs to be recorded in special capital reserve under equity.

(B) Cathay Life sells participating life insurance policy. According to the “Rule Governing application of revenues and expenses related to participating / non-participating policy”, Cathay Life is required to set aside special reserve for dividend participation based on income before tax and dividend. On the date of declaration, dividend should be withdrawn from this account. The excess dividend should be accounted as special reserve for dividend risks.

(C) According to Article 32 of the Regulations Governing the Preparation of Financial

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Reports by Insurance Enterprises, if there are increments after estimating property in fair value, in addition to offsetting adverse effects of the first-time adoption of TIFRS on other accounts, the exceeds shall be recognized as special reserve for revaluation increments of property under liabilities.

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

e. Premium deficiency reserve

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

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

f. Other reserve

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

g. Liability adequacy reserve

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

h. Reserves for insurance contract with feature of financial instruments

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

i. Foreign exchange volatility reserve

The beginning balance of foreign exchange volatility reserve of Cathay Life is \$4,511,406 thousand which was appropriated in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and “Direction for foreign exchange volatility reserve by Life Insurance Enterprises”. As of 30 September 2016, the amount set aside was \$10,231,206 thousand.

j. Liability adequacy test

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

B. Cathay Century

Insurance liabilities are set aside in accordance with “Regulations for the Management of the Various Reserves by Insurance Enterprises”, “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance” and “Regulations for the Management of the Various Reserves for Nuclear energy insurance”. Also, the booked reserves shall be validated by the certified actuarial professionals approved by FSC.

a. Unearned premium reserve

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

b. Claims reserve

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

c. Special reserve

The special reserve is classified into 2 categories, “Special reserve for major incident” and “Special reserve for fluctuation of risks”. For the special reserves set aside by the Company before 1 January, 2011, they should be shown as a liability item on the balance sheet. Since 1 January, 2011, the after-tax addressed amount of the special reserve should be placed in the special reserve under stock holder’s equity. The recovery of special reserve can be charged against the special reserve under liabilities if sufficient. If the recovery amount exceeds the balance of the special reserve under liabilities, the after-tax excess amount can be recovered from the special reserve under stock holder’s equity.

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

(A) Special reserve for major incident

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

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

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

(B) Special reserve for fluctuation of risks

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

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

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

d. Premiums deficiency reserve

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

e. Liability reserve

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

C. Cathay Lujiazui Life

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

D. Cathay Life (Vietnam)

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

Other provisions

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

(18) Treasury stocks

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

(19) Post-employment benefits

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

Defined contribution plan

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

Defined benefit plan

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

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

Net interest is calculated by applying the discount rate to the net defined benefit liability or

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asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

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

Employee preferential interest rate deposits

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

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

(20) Revenue recognition

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

Interest income

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

Handling fee revenue

The Group charge customers by providing a variety of services.

Dividends

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

Rental income

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

(21) Income taxes

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

Current income tax

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

The 10% income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the shareholders' meeting.

Deferred tax

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

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

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

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit

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will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

In accordance with Article 49 of the Financial Holding Company Act, the Company and its qualifying subsidiaries have selected the consolidated income tax return for tax filings and pay a 10% surcharge on their undistributed retained earnings under the consolidated income tax return. If there are any tax effects due to the adoption of the consolidated tax system, the Company can proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable (tax refund receivable) among the Company and its subsidiaries.

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

(22) Business combinations and goodwill

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

When the Group acquires business, it will assess the adequacy of classification and

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appointment of assets and liabilities according to the contract terms, the economic situation and other relevant factors. The evaluation includes whether to separate the embedded derivatives contained in the master contract.

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

The transfer price of acquirer will be measured by fair value on the transaction date. After transaction date, the transfer price, classified as asset or liability, will be reevaluated through profit or loss, or other comprehensive income, according to IAS 39 "*Financial instruments: recognition and measurement*". If the transaction price is classified as equity, it will not be remeasured until it is settled in equity.

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

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

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

5. Significant accounting judgments, estimates and assumptions

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

(1) Judgment

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

A. The classification of financial assets

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

B. Investment properties

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

C. Operating lease commitment—Group as the lessor

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

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

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

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

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

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

E. The significant degree of risk transform measured by the risk ratio of Cathay Century's

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re-insurance policy

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

When risk ratio of re-insurance policy that greater than 1%, the policies can be defined as re-insurance contracts.

(2) Estimates and assumptions

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

A. Impairment losses on loans and receivables

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

B. Fair value of financial instruments

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

C. Fair value of investment property

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

D. Impairment of non-financial assets

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

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

E. Pension benefits

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

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

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

The liabilities for insurance contract and investment contracts with discretionary participation feature of financial instruments are either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows. The main assumptions used relate to mortality, morbidity, investment returns, expenses and surrender rate.

Cathay Life bases are assumptions on the standards published by the Actuarial Institute of

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the Republic of China, adjusted when appropriate to reflect Cathay Life's unique risk exposure, product characteristics and own experiences from target markets.

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

G. Revenue recognition – Customer loyalty program

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

H. Income tax

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

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

6. Cash and cash equivalents

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| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|-----------------------------|----------------------|----------------------|----------------------|
| Petty cash and cash on hand | \$15,383,564 | \$16,226,920 | \$15,309,820 |
| Cash in banks | 91,131,450 | 66,653,887 | 87,955,552 |
| Time deposits | 119,002,030 | 58,779,451 | 110,277,164 |
| Cash equivalents | 14,662,676 | 2,648,472 | 8,191,763 |
| Checks for clearance | 4,943,797 | 3,573,643 | 6,243,783 |
| Due from commercial banks | 46,518,485 | 43,897,747 | 81,781,992 |
| Total | \$291,642,002 | \$191,780,120 | \$309,760,074 |

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

7. Financial assets at fair value through profit or loss

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--------------------------------------|----------------------|----------------------|----------------------|
| Held for trading: | | | |
| Common stock | \$8,870,891 | \$7,815,575 | \$9,136,337 |
| Funds and beneficiary certificates | 16,702,361 | 16,731,948 | 33,051,591 |
| Government bonds | 30,506,383 | 15,350,216 | 11,601,008 |
| Corporate bonds | 8,398,648 | 5,062,664 | 5,936,488 |
| Financial debentures | 7,375,609 | 250,902 | 259,679 |
| Overseas debentures | 3,751,410 | 349,821 | 338,864 |
| Structured time deposits | 2,271,446 | 2,483,485 | 2,484,479 |
| Short-term notes | 162,857,565 | 173,356,042 | 158,710,118 |
| Margin for futures trading-own funds | 512,977 | 356,624 | 519,771 |
| Derivative financial instruments | 63,742,497 | 74,360,649 | 79,380,225 |
| Total | \$304,989,787 | \$296,117,926 | \$301,418,560 |

- (1) As of 30 September 2016, 31 December 2015 and 30 September 2015 Cathay Securities and its subsidiaries sold certain financial assets at fair value through profit or loss under repurchase agreements with notional amounts of \$1,525,000 thousand, \$1,425,000 thousand, and \$1,900,000 thousand, respectively.
- (2) As of 30 September 2015 Cathay United Bank sold certain financial assets at fair value through profit or loss under repurchase agreements with notional amounts of \$100,400 thousand. Such repurchase agreements amounting to \$111,464 thousand were recorded in the account "Securities sold under agreements to repurchase" on the balance sheets. Repurchase agreements were settled at \$111,510 thousand prior to 31 October 2015; Cathay United Bank sold certain financial assets at fair value through profit or loss under repurchase agreement with notional amounts of \$621,438 thousand, recorded in the account "Securities sold under agreements to repurchase" on the balance sheets, without a repurchase date agreed.
- (3) Please refer to 34 for related information on the above financial assets at fair value through profit or loss being pledged as collaterals as of 30 September 2016, 31 December 2015 and 30 September 2015.

8. Available-for-sale financial assets

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| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|---|------------------------|------------------------|------------------------|
| Common stock | \$589,001,285 | \$546,953,106 | \$496,858,109 |
| Beneficiary certificates | 280,797,065 | 269,930,523 | 212,323,868 |
| Funds and beneficiary Securities | 10,375,689 | 5,063,450 | 3,554,166 |
| Real Estate Investment Trust | 18,453,957 | 12,316,437 | 12,000,252 |
| Government bonds | 169,034,175 | 211,411,693 | 211,116,906 |
| Corporate bonds | 49,484,619 | 51,723,389 | 54,944,722 |
| Financial debentures | 145,173,129 | 110,475,386 | 119,616,694 |
| Asset-backed securities | 869,287 | 1,111,868 | 1,186,423 |
| Overseas debentures | 287,252,525 | 278,541,388 | 283,694,125 |
| Short-term notes | 695,952 | 1,360,701 | 314,346 |
| Less: Litigation deposits | (76,442) | (541,163) | (1,462,557) |
| Less: Securities serving as deposits paid-bonds | (1,919,905) | (1,953,653) | (2,151,154) |
| Total | \$1,549,141,336 | \$1,486,393,125 | \$1,391,995,900 |

- (1) As of 30 September 2016, 31 December 2015 and 30 September 2015 Cathay United Bank and its subsidiaries sold certain available-for-sale financial assets under repurchase agreements with notional amounts of \$14,745,000 thousand, \$43,477,428 thousand and \$39,093,052 thousand, respectively. Such repurchase agreements amounting to \$11,826,573 thousand, \$32,587,559 thousand and \$35,985,956 thousand, were recorded in the account "Securities sold under agreements to repurchase" on the balance sheets. Repurchase agreements were settled at \$11,838,534 thousand, \$32,604,469 thousand and \$36,017,560 thousand, as 31 March 2017, 30 June 2016, and 31 March 2016, respectively; as of 30 September 2016, 31 December 2015 and 30 September 2015 Cathay United Bank and its subsidiaries sold certain available-for-sale financial assets under repurchase agreement with notional amounts of \$3,311,270 thousand, \$11,004,293 thousand and \$3,688,542 thousand, recorded in the account "Securities sold under agreements to repurchase" on the balance sheets, without a repurchase date agreed.
- (2) Cathay Life and its subsidiaries recognized an impairment provision as some objective evidences are identified showing impairment indicators associated with domestic stocks and financial property beneficiary Securities held by Cathay Life and its subsidiaries. As of 30 September 2016, 31 December 2015 and 30 September 2015 Cathay Life and its subsidiaries recognized impairment losses amounting to \$202,097 thousand, \$153,884 thousand and \$196,673 thousand, respectively.
- (3) Cathay United Bank has recognized accumulated impairment loss for the available-for-sale financial assets in the amount of \$140,985 thousand, \$140,985 thousand and \$140,985 thousand as of 30 September 2016, 31 December 2015 and 30 September 2015 respectively, due to the existence of objective impairment evidence.
- (4) Please refer to Note 34 for related information on the above available-for-sale financial assets being pledged as collaterals as of 30 September 2016, 31 December 2015 and 30 September 2015.

9. Receivable - net

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| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|---------------------------------------|----------------------|----------------------|----------------------|
| Notes receivable | \$1,715,535 | \$2,120,489 | \$1,932,162 |
| Accounts receivable | 61,508,608 | 60,632,960 | 60,378,087 |
| Interest receivable | 42,878,855 | 39,686,374 | 41,762,374 |
| Foreign currency receivable | 100,998 | 347,755 | 118,099 |
| Acceptances | 1,099,252 | 1,595,287 | 1,216,095 |
| Factoring receivable | 5,563,902 | 17,036,810 | 24,364,854 |
| Others | 44,786,691 | 23,223,989 | 25,886,556 |
| Subtotal | 157,653,841 | 144,643,664 | 155,658,227 |
| Adjustment for discounts and premiums | (20,512) | (6,296) | (6,489) |
| Less: Allowance for bad debts | (4,200,399) | (2,972,024) | (1,944,531) |
| Total | <u>\$153,432,930</u> | <u>\$141,665,344</u> | <u>\$153,707,207</u> |

(1) Information on bad and doubtful accounts is as follows:

| | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|----------------------------------|------------------------|------------------------|
| Balance, beginning of the period | \$2,972,024 | \$1,997,216 |
| Provision of doubtful accounts | 1,377,396 | (182,909) |
| Write-offs | (374,651) | (261,676) |
| Debt counseling recoveries | 85,865 | 88,108 |
| Recoveries | 345,787 | 380,943 |
| Reclassification | (85,865) | (82,061) |
| Effect of exchange rates change | (100,359) | 4,910 |
| Loss of control of a subsidiary | (19,798) | - |
| Balance, end of the period | <u>\$4,200,399</u> | <u>\$1,944,531</u> |

(2) Allowance for bad debt receivables are shown as follows:

| Item | | Accounts Receivable | | |
|--|-------------------------------------|---------------------|-------------|-------------|
| | | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Objective evidence of impairment exists individually | Individual assessment of impairment | \$815,806 | \$1,416,183 | \$1,227,473 |
| | Collective assessment of impairment | 215,619 | 192,560 | 175,821 |
| Objective evidence of impairment does not exist individually | Collective assessment of impairment | 156,622,416 | 143,034,921 | 154,254,933 |

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| Item | | Allowance for doubtful account | | |
|--|-------------------------------------|--------------------------------|------------|-----------|
| | | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Objective evidence of impairment exists individually | Individual assessment of impairment | \$20,056 | \$585,958 | \$85,085 |
| | Collective assessment of impairment | 161,972 | 143,609 | 130,571 |
| Objective evidence of impairment does not exist individually | Collective assessment of impairment | 4,018,371 | 2,242,457 | 1,728,875 |

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

10. Loans - net

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|---------------------------------------|-----------------|-----------------|-----------------|
| Inward-outward documentary bills | \$1,478,496 | \$986,975 | \$1,849,611 |
| Loans | 1,933,440,527 | 1,781,935,122 | 1,805,642,922 |
| Overdrafts | 2,733,145 | 2,345,273 | 1,930,147 |
| Delinquent accounts | 2,810,658 | 3,196,270 | 3,454,389 |
| Subtotal | 1,940,462,826 | 1,788,463,640 | 1,812,877,069 |
| Adjustment for discounts and premiums | 632,595 | 817,604 | 948,475 |
| Less: Allowance for bad debts | (25,202,423) | (22,804,891) | (22,001,846) |
| Total | \$1,915,892,998 | \$1,766,476,353 | \$1,791,823,698 |

(1) Information on bad and doubtful accounts is as follows:

| | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|----------------------------------|------------------------|------------------------|
| Balance, beginning of the period | \$22,804,891 | \$22,149,554 |
| Provision of doubtful accounts | 2,662,715 | 1,006,723 |
| Write-offs | (867,206) | (2,177,559) |
| Debt counseling recoveries | 78,136 | 81,523 |
| Recoveries | 562,603 | 763,866 |
| Reclassification | 85,865 | 82,061 |
| Effect of exchange rates change | (124,581) | 95,678 |
| Balance, end of the period | \$25,202,423 | \$22,001,846 |

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(2) Assessment for loans are showed as followed:

| | | Total loans | | |
|--|-------------------------------------|---------------|---------------|---------------|
| | | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Objective evidence of impairment exists individually | Individual assessment of impairment | \$7,619,341 | \$6,973,801 | \$7,834,203 |
| | Collective assessment of impairment | 10,764,036 | 11,563,586 | 10,188,218 |
| Objective evidence of impairment does not exist individually | Collective assessment of impairment | 1,922,079,449 | 1,769,926,253 | 1,794,854,648 |

| Item | | Allowance for bad debts | | |
|--|-------------------------------------|-------------------------|-------------|-------------|
| | | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Objective evidence of impairment exists individually | Individual assessment of impairment | \$1,676,520 | \$1,678,130 | \$1,725,000 |
| | Collective assessment of impairment | 2,172,605 | 2,343,624 | 2,135,678 |
| Objective evidence of impairment does not exist individually | Collective assessment of impairment | 21,353,298 | 18,783,137 | 18,141,168 |

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

11. Held-to-maturity financial assets

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|---|--------------|--------------|--------------|
| Government bonds | \$33,925,067 | \$33,962,390 | \$32,720,054 |
| Corporate bonds | 9,482,166 | 11,722,890 | 10,670,463 |
| Financial debentures | 18,700,414 | 25,230,940 | 25,303,869 |
| Asset-backed securities | 12,732,207 | 15,165,099 | 15,700,230 |
| Overseas debentures | 6,333,447 | 5,710,859 | 5,574,399 |
| Short-term notes | 3,388,104 | - | 41,409 |
| Subtotal | 84,561,405 | 91,792,178 | 90,010,424 |
| Less: Litigation deposits | (1,348,247) | (2,924,198) | (1,992,325) |
| Less: Securities serving as deposits paid-bonds | (7,160,926) | (7,159,534) | (6,961,111) |
| Total | \$76,052,232 | \$81,708,446 | \$81,056,988 |

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- (1) As of 30 September 2016, 31 December 2015 and 30 September 2015 Cathay United Bank and its subsidiaries sold certain held-to-maturity financial assets under repurchase agreements with notional amounts of \$38,790,906 thousand, \$13,259,466 thousand and \$45,743,559 thousand, respectively. Such repurchase agreements amounting to \$31,167,690 thousand, \$10,446,025 thousand and \$39,270,868 thousand, were recorded in the account "Securities sold under agreements to repurchase" on the balance sheets. Repurchase agreements were settled at \$31,189,988 thousand, \$10,452,556 thousand and \$39,285,293 thousand, prior to 31 October 2016, 31 January 2016, and 31 October 2015, respectively.
- (2) Please refer to Note 34 for related information on the above held-to-maturity financial assets being pledged as collaterals as of 30 September 2016, 31 December 2015 and 30 September 2015.

12. Investments accounted for using the equity method

| Investee | 2016.9.30 | | 2015.12.31 | | 2015.9.30 | |
|--|---------------------|----------------|---------------------|----------------|---------------------|----------------|
| | Carrying Amount | % of Ownership | Carrying Amount | % of Ownership | Carrying Amount | % of Ownership |
| Investments in subsidiaries exclude from consolidated: | | | | | | |
| Cathay Securities Investment Consulting | \$220,361 | 100.00 | \$225,526 | 100.00 | \$206,806 | 100.00 |
| Seaward Card | 39,454 | 100.00 | 39,226 | 100.00 | 39,270 | 100.00 |
| Cathay Insurance (Bermuda) | 123,515 | 100.00 | 129,945 | 100.00 | 128,962 | 100.00 |
| Cathy Investment Consulting (Shanghai) Co., Ltd. | 17,667 | 100.00 | 25,991 | 100.00 | 28,265 | 100.00 |
| Subtotal | <u>400,997</u> | | <u>420,688</u> | | <u>403,303</u> | |
| Investments in associates: | | | | | | |
| WK Technology Fund VI Co., Ltd | 150,635 | 21.43 | 217,290 | 21.43 | 205,049 | 21.43 |
| Taiwan Real-estate Management Corp. | 94,083 | 30.15 | 93,988 | 30.15 | 92,621 | 30.15 |
| Taiwan Finance Corp. | 1,627,423 | 24.57 | 1,589,963 | 24.57 | 1,552,816 | 24.57 |
| IBT Venture Capital Corp. | 3,916 | 24.96 | 4,061 | 24.96 | 3,056 | 24.96 |
| Tien-Tai Energy Corp. | 35,811 | 44.44 | 38,770 | 44.44 | 36,868 | 44.44 |
| Tien-Tai One Energy Corp. | 24,184 | 33.33 | 27,311 | 33.33 | 25,310 | 33.33 |
| Tien-Tai Management Consulting Co., Ltd. | 2,841 | 30.00 | 3,486 | 30.00 | 59 | 30.00 |
| CDBS Cathay Asset Management Co., Ltd | 277,326 | 33.30 | 291,178 | 33.30 | 307,103 | 33.30 |
| Symphox Information Co., Ltd. | 440,200 | 49.12 | 455,088 | 49.12 | 436,689 | 49.12 |
| Da Sheng Venture Inc. | 1,410,237 | 25.00 | 1,490,707 | 25.00 | 1,490,718 | 25.00 |
| KHL IV Venture Capital Co., Ltd. | 357,516 | 21.43 | - | - | - | - |
| Chi-Chia Energy Corp. | 34,144 | 29.08 | 37,051 | 29.08 | 35,212 | 29.08 |
| Chao-Yang Energy Corp. | 33,941 | 29.08 | 35,770 | 29.08 | 34,878 | 29.08 |
| Dun-Yang Energy Corp. | 55,227 | 32.20 | 50,763 | 32.20 | 50,071 | 32.20 |
| Yong-Chang Energy Corp. | 53,293 | 32.32 | 48,969 | 32.32 | 49,005 | 32.32 |
| Ri-Zhao Energy Corp. | 53,675 | 32.32 | 49,365 | 32.32 | 49,210 | 32.32 |
| Nan-Gang International 1 Corp. | 675,124 | 45.00 | 675,371 | 45.00 | 671,534 | 45.00 |
| Nan-Gang International 2 Corp. | 675,466 | 45.00 | 675,381 | 45.00 | 670,948 | 45.00 |
| CM Energy Co., Ltd. | 13,481 | 45.00 | 13,500 | 45.00 | - | - |
| Rizal Commercial Banking Corporation | 13,342,021 | 22.71 | 13,459,290 | 21.93 | 13,169,632 | 21.57 |
| PT Bank Mayapada Internasional Tbk | 6,101,626 | 24.90 | 5,822,498 | 24.90 | 5,535,604 | 24.90 |
| Cathay Century (China) | 2,943,718 | 49.00 | - | - | - | - |
| Subtotal | <u>28,405,888</u> | | <u>25,079,800</u> | | <u>24,416,383</u> | |
| Total | <u>\$28,806,885</u> | | <u>\$25,500,488</u> | | <u>\$24,819,686</u> | |

The Group lost control of Cathay Century (China) on 26 July 2016 and reclassified the investee as the investment in associate accounted for using the equity method.

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The Group's investments in the associates are not significant. As of 30 September 2016, 31 December 2015 and 30 September 2015, the carrying amount of investments in associates accounted for using the equity method amounted to \$28,405,888 thousand, \$25,079,800 thousand and \$24,416,383 thousand. The aggregate financial information of the Group's investments in the associates is as follows:

| | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|---|------------------------|------------------------|------------------------|------------------------|
| Profit or loss from continuing operations | \$164,855 | \$325,073 | \$876,108 | \$571,337 |
| Other comprehensive income (post-tax) | (721,187) | 287,275 | (962,707) | 94,887 |
| Total comprehensive income | <u>\$(556,332)</u> | <u>\$612,348</u> | <u>\$(86,599)</u> | <u>\$666,224</u> |

(1) The share of the profits (losses) of these associates accounted for using the equity method in investees whose financial statements were unreviewed amounted to \$247,099 thousand and \$314,880 thousand for the three-month periods ended 30 September 2016 and 2015, respectively. The share of the other comprehensive (losses) income of these associates accounted for using the equity method amounted to \$(529,691) thousand and \$264,792 thousand for the three-month periods ended 30 September 2016 and 2015, respectively. The share of the profits (losses) of these associates accounted for using the equity method amounted to \$934,319 thousand and \$571,433 thousand for the nine-month periods ended 30 September 2016 and 2015, respectively. The share of the other comprehensive (losses) income of these associates accounted for using the equity method amounted to \$(755,137) thousand and \$67,513 thousand for the nine-month periods ended 30 September 2016 and 2015, respectively. The remaining balance of related investment amounted to \$25,184,844 thousand and \$24,109,280 thousand as of 30 September 2016 and 2015, respectively.

(2) No investment in the associates was pledged.

13. Other financial assets

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--|------------------------|------------------------|------------------------|
| Financial assets carried at cost | \$5,745 | \$- | \$- |
| Investments in debt securities with no active market | 2,330,030,322 | 2,289,311,099 | 2,185,785,088 |
| Separate account product assets | 496,548,030 | 480,568,361 | 467,992,665 |
| Structured time deposits | 7,500,000 | 18,000,000 | 25,000,000 |
| Other miscellaneous financial assets | 6,658,750 | 2,521,432 | 3,102,653 |
| Total | <u>\$2,840,742,847</u> | <u>\$2,790,400,892</u> | <u>\$2,681,880,406</u> |

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Investments in debt securities with no active market

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|---------------------------------|------------------------|------------------------|------------------------|
| Common stocks | \$4,067,802 | \$6,437,617 | \$6,437,285 |
| Government bonds | 53,372 | - | - |
| Corporate bonds | 14,078,862 | 10,494,774 | 10,803,092 |
| Financial debentures | 77,499,967 | 38,565,157 | 39,883,106 |
| Structured debentures | 3,763,920 | 661,320 | 662,560 |
| Asset-backed securities | 16,794,334 | 12,307,158 | 7,668,408 |
| Overseas debentures | 1,860,794,183 | 1,785,661,462 | 1,673,240,229 |
| Time deposit | 350,148,874 | 433,396,038 | 445,078,804 |
| Beneficial right of real estate | 300,000 | 300,000 | 300,000 |
| Beneficiary Securities | 2,529,008 | 1,487,573 | 1,711,604 |
| Total | <u>\$2,330,030,322</u> | <u>\$2,289,311,099</u> | <u>\$2,185,785,088</u> |

- (1) An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with domestic stocks, beneficiary certificates and asset-backed securities held by Cathay Life and Subsidiaries. As of 30 September 2016, 31 December 2015 and 30 September 2015, Cathay Life and its subsidiaries recognized impairment losses amounting to \$407,758 thousand, \$429,858 thousand and \$430,664 thousand, respectively.
- (2) Cathay United Bank has recognized accumulated impairment loss for the investments in debt securities with no active market in the amount of \$1,343,854 thousand, \$1,416,689 thousand and \$1,419,345 thousand as of 30 September 2016, 31 December 2015 and 30 September 2015 respectively, due to credit deterioration of securitization and financial debentures.

Cathay United Bank has recognized accumulated impairment loss for the investment in debt securities with no active market in the amount of \$95,586 thousand as of 30 September 2016, 31 December 2015 and 30 September 2015 respectively, due to the default on the convertible bonds.

- (4) Please refer to Note 34 for related information on the above investments in debt securities with no active market being pledged as collaterals as of 30 September 2016, 31 December 2015 and 30 September 2015.

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14. Investment property

| | Land | Buildings | Construction | Prepayments for buildings | Total |
|--|---------------|---------------|--------------|------------------------------|---------------|
| 1 January 2016 | \$273,362,206 | \$101,716,259 | \$3,313,056 | \$2,758,288 | \$381,149,809 |
| Additions from acquisitions | - | - | 2,595,577 | 2,193,011 | 4,788,588 |
| Additions from subsequent expenditure | - | - | 84,071 | - | 84,071 |
| Transfers to property and equipment | - | (21,695) | - | - | (21,695) |
| Transfers to investment property under construction and prepayments for buildings and land | 2,191,115 | 90,680 | (90,680) | (4,656,296) | (2,465,181) |
| Profits generated from fair value adjustments | 1,010,936 | 1,027,338 | - | - | 2,038,274 |
| Disposals | (207,955) | - | - | - | (207,955) |
| Exchange differences | (2,814,619) | (5,075,374) | - | - | (7,889,993) |
| 30 September 2016 | \$273,541,683 | \$97,737,208 | \$5,902,024 | \$295,003 | \$377,475,918 |

| | Land | Buildings | Construction | Prepayments for buildings | Total |
|--|---------------|---------------|--------------|------------------------------|---------------|
| 1 January 2015 | \$249,711,339 | \$74,393,081 | \$12,437,283 | \$1,795,276 | \$338,336,979 |
| Additions from acquisitions | - | 26,448,317 | 5,796,857 | 366,033 | 32,611,207 |
| Additions from subsequent expenditure | - | 3,561 | 369,928 | - | 373,489 |
| Acquisition from business combination | 2,472,177 | 112,347 | - | 25,021 | 2,609,545 |
| Transfers to property and equipment | - | (798,027) | - | - | (798,027) |
| Transfers to investment property under construction and prepayments for buildings and land | - | 16,042,444 | (16,033,562) | (8,882) | - |
| Profits (Losses) generated from fair value adjustments | 13,585,083 | (2,316,395) | - | - | 11,268,688 |
| Disposals | (130,742) | (25,615) | - | - | (156,357) |
| Exchange differences | 84,837 | 1,243,138 | - | - | 1,327,975 |
| 30 September 2015 | \$265,722,694 | \$115,102,851 | \$2,570,506 | \$2,177,448 | \$385,573,499 |

| | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|---|------------------------|------------------------|------------------------|------------------------|
| Rental income from investment properties | \$2,490,460 | \$2,183,070 | \$7,473,615 | \$6,405,527 |
| Less: Direct operating expense incurred from investment properties generating rental income | (131,287) | (92,351) | (434,055) | (333,947) |
| Direct operating expense incurred from investment properties not generating rental income | (34,426) | (20,403) | (120,818) | (83,994) |
| Total | \$2,324,747 | \$2,070,316 | \$6,918,742 | \$5,987,586 |

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- (1) Cathay Life and its subsidiaries' valuation has been performed by appraisers from professional valuation agencies based on Regulations on Real Estate Appraisal, and valuation dates are 30 June 2016, 31 December 2015 and 30 June 2015. The appraisers have reviewed the original valuation reports issued on 30 June 2016, 31 December 2015 and 30 June 2015 and clarified that the valuation reports are in effect on 30 September 2016 and 2015. Please refer to original financial report for detail information of the appraisers and agencies.

The recognized fair value is supported by observable evidence in the market. The main appraisal approaches applied include sales comparison approach, income approach – direct capitalization method, income approach – discounted cash flow method, cost approach and the method of land development analysis. Commercial office buildings and residences are valued by sales comparison approach and income approach mostly because of the market liquidity and comparable sales and rental cases in the neighboring areas. Hotels, department stores and marketplaces are valued by income approach – direct capitalization method and income approach– discounted cash flow method mostly because of the stable rental income in the long run. Industrial plants for lease are valued by sales comparison approach and income approach – direct capitalization method. Wholesale stores located in industrial district are valued by cost approach since the buildings are constructed for specific purposes, thus very few similar transactions could be referred to in the market. Vacant land and buildings under construction in logistics parks located in industrial and commercial integrated district are valued by cost approach. Urban renewal land with permit of construction is valued based on value of real estate right arising from urban renewal program.

The inputs used are as follows:

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|----------------------------------|-------------|-------------|-------------|
| Direct capitalization rate (net) | 0.45%~5.76% | 0.42%~5.76% | 0.32%~5.76% |
| Discount rate | 3.2%~4.1% | 3.3%~4.2% | 3.3%~4.6% |

External appraisers use market extraction method, search several comparable properties which are identical with or similar to the subject property, consider the liquidity risk and risk premium when disposed of in the future, and then decide the direct capitalization rate and discount rate. In 2013, the land of Cathay Land Mark was recognized at fair value. During the construction period, the land was valued by sales comparison approach and the method of land development analysis. During the nine-month period ended 30 September 2015, subsequent to the completion of the building and receipt of operating license, both the land and buildings were valued by sales comparison method and income approach – direct capitalization method. The change of the appraisal approach during the nine-month period resulted in an increase of \$13,786,133 thousand net of tax in fair value.

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

- (2) Cathay United Bank appointed appraisers from CCIS Valuation and Professional Services (Ching-Sheng, Huang) to evaluate the fair value of investment property based on the “Regulations on Real Estate Appraisal” on 30 June 2016 and 31 December 2015. The appraisers have reviewed the original valuation reports issued on 30 June 2016 and 31 December 2015 and clarified that the valuation reports are in effect on 30 September 2016.

Cathay United Bank appointed appraisers from CCIS Valuation and Professional Services (Yu-Fen Ye, Ching-Sheng Huang) to evaluate the fair value of investment property based on the “Regulations on Real Estate Appraisal” on 30 September 2015.

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

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

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

According to the 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.

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

The replacement allowance is calculated renovation cost base on 15% construction cost, presume the 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 cost.

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The main parameters are as follows:

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|-------------------------------|-------------|------------|-----------|
| Discounted rates | - | - | 4.625% |
| Capitalization rate | 1.31%-3.09% | 1.6%-2.85% | - |
| Overall capital interest rate | 1.65%-2.02% | - | - |

B. Scenic hillside land had fewer market transactions as their uses are restricted by law, which will not pose significant changes on the market in the near future. The fair value has been determined by the method of land development analysis and sales comparison approach.

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|-------------------------------|-----------|------------|-----------|
| Rate of return | 30% | 30% | 25% |
| Overall capital interest rate | 18.08% | 19.20% | 23.05% |

Scenic areas, agricultural land and forestland land are difficult to develop and not profitable, therefore the fair value cannot be reliably measured. The cost model is adopted in accordance with International Accounting Standards No. 16.

- (3) Cathay Futures appointed an appraiser from Elite Appraisers Firm (Yu-Lin Chen and Guo-Shi Wu) to evaluate the fair value of the investment property based on the “Regulations on Real Estate Appraisal” on 31 December 2015 and 31 December 2014. According to the appraiser’s review and evaluation on the current market condition of the underlying property, there was no significant difference between the fair values of the investment property on 30 June 2016 and 30 June 2015 and the fair value on 31 December 2015 and 31 December 2014 based on the appraisal report. The appraisers have reviewed the original valuation reports issued on 30 June 2016, 31 December 2015, 30 June 2015 and 31 December 2014 and clarified that the valuation reports are in effect on 30 September 2016. Please refer to original financial report for detail information of the appraisers and agencies.

The fair value has been determined by discounted cash flow (DCF) method and the method of land development analysis.

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

| | 2015.12.31 | 2014.12.31 |
|---------------------------------|------------|------------|
| Estimated future cash inflows | \$441,043 | \$439,303 |
| Estimated future cash outflows | (22,092) | (22,075) |
| Estimated future net cash flows | \$418,951 | \$417,228 |

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

Net income is based on the current market practices, assuming an annual rent increase of 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.

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

The replacement allowance is based on 0.5% to 1.5% of construction or building cost, 15% of which is material repairmen engineering fee, under the assumption of 20 useful years, according to the ROC Real Estate Appraisers Association Gazette No.5.

The parameters used are as followed:

| | <u>2016.9.30</u> | <u>2015.12.31</u> | <u>2015.9.30</u> |
|----------------------------------|------------------|-------------------|------------------|
| Direct Capitalization rate (net) | 2.50% | 2.50% | 2.50% |
| Discount Rate | 2.225% | 2.225% | 2.225% |

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

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

- (4) The real estate investments are held mainly for leasing purposes.
- (5) All the lease agreements of the Group's lease business are operating leases. The primary terms of lease agreements are the same with general lease agreement.
- (6) Rents from real estate investment are received annually, semiannually, quarterly, monthly or in a lump sum.
- (7) As of 30 September 2016, 31 December 2015 and 30 September 2015, no investments in real estate were pledged as collateral.

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15. Property and equipment

| | Land | Building and construction | Computer equipment | Transport equipment | Other equipment | Leasehold improvement | Leased assets | Construction in progress and prepayment for real estate | Total |
|---------------------------------------|---------------------|---------------------------|--------------------|---------------------|---------------------|-----------------------|------------------|---|----------------------|
| Cost: | | | | | | | | | |
| 1 January 2016 | \$67,171,611 | \$45,559,141 | \$7,124,334 | \$133,979 | \$11,606,206 | \$618,476 | \$423,730 | \$650,163 | \$133,287,640 |
| Additions | - | - | 357,634 | 2,277 | 236,761 | 95,381 | - | 331,349 | 1,023,402 |
| Transfers | 1,995,478 | 454,909 | 15,475 | 1,853 | 129,324 | 74,592 | - | (452,634) | 2,218,997 |
| Disposal | (52,014) | (23,111) | (967,311) | (7,475) | (131,894) | (85) | - | - | (1,181,890) |
| Others | - | - | - | - | (166,923) | (91,663) | - | - | (258,586) |
| Exchange difference | (7,371) | (129,955) | (101,975) | (5,898) | 7,920 | (33,252) | - | (9,819) | (280,350) |
| 30 September 2016 | <u>\$69,107,704</u> | <u>\$45,860,984</u> | <u>\$6,428,157</u> | <u>\$124,736</u> | <u>\$11,681,394</u> | <u>\$663,449</u> | <u>\$423,730</u> | <u>\$519,059</u> | <u>\$134,809,213</u> |
| 1 January 2015 | \$63,572,836 | \$43,815,443 | \$7,269,959 | \$127,182 | \$10,950,267 | \$453,547 | \$423,216 | \$757,876 | \$127,370,326 |
| Additions | - | 4,811 | 226,182 | 10,850 | 216,316 | 72,112 | 331 | 346,503 | 877,105 |
| Acquisition from business combination | 36,190 | 7,535 | 77,565 | 800 | 5,897 | 60,913 | - | - | 188,900 |
| Transfers | - | 641,953 | 43,849 | 1,202 | 404,287 | - | - | (334,174) | 757,117 |
| Disposal | - | (925) | (243,255) | (6,264) | (89,434) | (2,770) | - | - | (342,648) |
| Reclassification | - | - | - | - | 454 | - | - | (556) | (102) |
| Exchange difference | 6,114 | 44,303 | 24,412 | 4,451 | 6,365 | 6,302 | 2 | 8,671 | 100,620 |
| 30 September 2015 | <u>\$63,615,140</u> | <u>\$44,513,120</u> | <u>\$7,398,712</u> | <u>\$138,221</u> | <u>\$11,494,152</u> | <u>\$590,104</u> | <u>\$423,549</u> | <u>\$778,320</u> | <u>\$128,951,318</u> |
| Depreciation and impairment: | | | | | | | | | |
| 1 January 2016 | \$105,610 | \$19,502,834 | \$5,950,235 | \$90,631 | \$9,497,298 | \$336,677 | \$315,619 | \$- | \$35,798,904 |
| Depreciation | - | 726,457 | 358,563 | 8,434 | 430,299 | 67,848 | 67,905 | - | 1,659,506 |
| Transfers | - | (30,584) | (6,069) | (6,404) | 2,260 | 40,882 | - | - | 85 |
| Disposal | - | (8,901) | (966,269) | (6,214) | (117,606) | - | - | - | (1,098,990) |
| Others | - | - | - | - | (130,788) | (76,323) | - | - | (207,111) |
| Exchange difference | - | (12,223) | (66,394) | (3,812) | 9,699 | (20,262) | (4) | - | (92,996) |
| 30 September 2016 | <u>\$105,610</u> | <u>\$20,177,583</u> | <u>\$5,270,066</u> | <u>\$82,635</u> | <u>\$9,691,162</u> | <u>\$348,822</u> | <u>\$383,520</u> | <u>\$-</u> | <u>\$36,059,398</u> |
| 1 January 2015 | \$105,610 | \$18,533,321 | \$6,197,185 | \$86,252 | \$9,053,275 | \$307,258 | \$209,798 | \$- | \$34,492,699 |
| Depreciation | - | 723,709 | 306,904 | 8,581 | 425,567 | 41,125 | 79,278 | - | 1,585,164 |
| Transfers | - | - | 18 | - | (18) | - | - | - | - |
| Disposal | - | (621) | (242,958) | (5,073) | (80,358) | (2,599) | - | - | (331,609) |
| Reclassification | - | - | - | - | - | 92 | - | - | 92 |
| Exchange difference | - | 5,805 | 16,538 | 3,188 | 3,040 | 3,633 | (1) | - | 32,203 |
| 30 September 2015 | <u>\$105,610</u> | <u>\$19,262,214</u> | <u>\$6,277,687</u> | <u>\$92,948</u> | <u>\$9,401,506</u> | <u>\$349,509</u> | <u>\$289,075</u> | <u>\$-</u> | <u>\$35,778,549</u> |
| 30 September 2016 | <u>\$69,002,094</u> | <u>\$25,683,401</u> | <u>\$1,158,091</u> | <u>\$42,101</u> | <u>\$1,990,232</u> | <u>\$314,627</u> | <u>\$40,210</u> | <u>\$519,059</u> | <u>\$98,749,815</u> |
| 31 December 2015 | <u>\$67,066,001</u> | <u>\$26,056,307</u> | <u>\$1,174,099</u> | <u>\$43,348</u> | <u>\$2,108,908</u> | <u>\$281,799</u> | <u>\$108,111</u> | <u>\$650,163</u> | <u>\$97,488,736</u> |
| 30 September 2015 | <u>\$63,509,530</u> | <u>\$25,250,906</u> | <u>\$1,121,025</u> | <u>\$45,273</u> | <u>\$2,092,646</u> | <u>\$240,595</u> | <u>\$134,474</u> | <u>\$778,320</u> | <u>\$93,172,769</u> |

(1) No property and equipment were pledged as collaterals.

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

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16. Intangible assets

| Cost: | Franchise | Trademark | Goodwill | Customer | Computer | Others | Total |
|---|---------------------|------------------|---------------------|--------------------|--------------------|------------------|---------------------|
| | | | | relationship | software | | |
| 1 January 2016 | \$37,659,600 | \$218,864 | \$16,894,345 | \$2,095,194 | \$4,064,624 | \$234,128 | \$61,166,755 |
| Addition-individual acquisition | - | - | - | - | 269,001 | - | 269,001 |
| Reduction | - | - | - | - | (418,352) | - | (418,352) |
| Acquisition from business combination | - | 175,084 | 2,963,598 | 1,465,318 | - | - | 4,604,000 |
| Transfers | - | - | - | - | 158,909 | 15,859 | 174,768 |
| Others | - | - | (200,488) | - | (96,359) | - | (296,847) |
| Exchange difference | - | (23,233) | (489,231) | (207,989) | (30,123) | (12,024) | (762,600) |
| 30 September 2016 | <u>\$37,659,600</u> | <u>\$370,715</u> | <u>\$19,168,224</u> | <u>\$3,352,523</u> | <u>\$3,947,700</u> | <u>\$237,963</u> | <u>\$64,736,725</u> |
| 1 January 2015 | \$- | \$- | \$8,598,542 | \$- | \$3,774,398 | \$- | \$12,372,940 |
| Addition-individual acquisition | - | - | - | - | 238,846 | - | 238,846 |
| Reduction | - | - | - | - | (176,697) | - | (176,697) |
| Acquisition from business combination | 37,659,600 | 210,103 | 7,300,651 | 2,406,225 | 49,948 | 229,952 | 47,856,479 |
| Transfers | - | - | - | - | 169,758 | - | 169,758 |
| Exchange difference | - | 2,976 | 76,853 | 34,083 | 8,561 | 3,227 | 125,700 |
| 30 September 2015 | <u>\$37,659,600</u> | <u>\$213,079</u> | <u>\$15,976,046</u> | <u>\$2,440,308</u> | <u>\$4,064,814</u> | <u>\$233,179</u> | <u>\$60,587,026</u> |
| Depreciation and impairment: | | | | | | | |
| 1 January 2016 | \$1,039,692 | \$- | \$- | \$45,634 | \$3,121,813 | \$15,848 | \$4,222,987 |
| Amortization | 1,559,538 | - | - | 258,608 | 261,644 | 41,198 | 2,120,988 |
| Reduction | - | - | - | - | (417,961) | - | (417,961) |
| Transfer from loss of control of a subsidiary | - | - | - | - | (56,089) | - | (56,089) |
| Exchange difference | - | - | - | (11,147) | (21,091) | (2,216) | (34,454) |
| 30 September 2016 | <u>\$2,599,230</u> | <u>\$-</u> | <u>\$-</u> | <u>\$293,095</u> | <u>\$2,888,316</u> | <u>\$54,830</u> | <u>\$5,835,471</u> |
| 1 January 2015 | \$- | \$- | \$- | \$- | \$3,089,915 | \$- | \$3,089,915 |
| Amortization | 519,846 | - | - | 6,205 | 251,973 | 1,865 | 779,889 |
| Reduction | - | - | - | - | (141,205) | - | (141,205) |
| Exchange difference | - | - | - | 11 | 5,886 | 3 | 5,900 |
| 30 September 2015 | <u>\$519,846</u> | <u>\$-</u> | <u>\$-</u> | <u>\$6,216</u> | <u>\$3,206,569</u> | <u>\$1,868</u> | <u>\$3,734,499</u> |
| 30 September 2016 | <u>\$35,060,370</u> | <u>\$370,715</u> | <u>\$19,168,224</u> | <u>\$3,059,428</u> | <u>\$1,059,384</u> | <u>\$183,133</u> | <u>\$58,901,254</u> |
| 31 December 2015 | <u>\$36,619,908</u> | <u>\$218,864</u> | <u>\$16,894,345</u> | <u>\$2,049,560</u> | <u>\$942,811</u> | <u>\$218,280</u> | <u>\$56,943,768</u> |
| 30 September 2015 | <u>\$37,139,754</u> | <u>\$213,079</u> | <u>\$15,976,046</u> | <u>\$2,434,092</u> | <u>\$858,245</u> | <u>\$231,311</u> | <u>\$56,852,527</u> |

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As of 30 September 2016, the book value of goodwill was \$10,564,773 thousand. The goodwill arose from the acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015. Cathay Life and its subsidiaries acquired 100% of Conning Holdings Limited on 18 September 2015 and 82.05% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of the Company on 1 February 2016.

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

Cathay United Bank's impairment testing of goodwill:

(1) Key assumptions used in value in use calculations:

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

(2) The calculation of value in use for the unit is most sensitive to the following assumptions:

j Discount rates

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

k Projected growth rates, used to extrapolate cash flows beyond the budget period:

Assumptions are based on published industry research.

(3) Sensitivity to changes in assumptions:

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

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

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17. Financial liabilities at fair value through profit or loss

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--|---------------------|----------------------|----------------------|
| Designated financial assets at fair value through profit or loss at initial recognition: | | | |
| Bond Investment | \$41,371,943 | \$40,598,667 | \$40,451,501 |
| Held for trading: | | | |
| Derivative financial instruments | 41,236,704 | 95,733,002 | 114,571,181 |
| Security lending payables hedging | 525,145 | 377,376 | 477,668 |
| Security lending payables non-hedging | 1,988,474 | 762,373 | 658,498 |
| Subtotal | 43,750,323 | 96,872,751 | 115,707,347 |
| Total | <u>\$85,122,266</u> | <u>\$137,471,418</u> | <u>\$156,158,848</u> |

- (1) Cathay United Bank was authorized to issue subordinated financial debentures amounting to US\$990 million in September 2014, which were issued in amounts of US\$660 million (perpetual) and US\$330 million (fifteen-years) with a fixed interest rate of 5.10% and 4.00%, respectively on 8 October 2014 with interests paid annually. Cathay United Bank was approved by the competent authorities to redeem the US\$660 million bonds at its book value upon maturity of 12 years.
- (2) Cathay United Bank was authorized to issue unsubordinated financial debentures amounting to US\$180 million (maturity of thirty years) on 30 March 2015. In addition to redemption by exercising callable rights, the principal of the debentures is repaid in lump sum on maturity in the form of zero-coupon bonds with internal rate of return of 4.20%.

18. Commercial paper payables

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--|---------------------|---------------------|---------------------|
| Commercial paper payable | \$36,120,000 | \$35,680,000 | \$26,780,000 |
| Less: Discount on commercial paper payable | (870) | (2,366) | (1,027) |
| Total | <u>\$36,119,130</u> | <u>\$35,677,634</u> | <u>\$26,778,973</u> |
| Average interest rates | <u>0.33%~0.95%</u> | <u>0.38%~0.958%</u> | <u>0.48%~0.84%</u> |

19. Deposits

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|------------------------------------|------------------------|------------------------|------------------------|
| Check deposits | \$13,424,416 | \$13,244,467 | \$14,853,045 |
| Demand deposits | 399,174,314 | 382,071,327 | 369,673,101 |
| Demand savings deposits | 756,407,427 | 704,544,214 | 700,073,419 |
| Time deposits | 428,855,184 | 375,594,219 | 364,525,959 |
| Negotiable Certificates of Deposit | 3,503,500 | 4,489,200 | 4,719,500 |
| Fixed savings deposits | 383,808,429 | 373,406,772 | 358,481,520 |
| Remittances | 1,744,277 | 1,145,632 | 2,073,691 |
| Total | <u>\$1,986,917,547</u> | <u>\$1,854,495,831</u> | <u>\$1,814,400,235</u> |

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20. Bonds payable

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|-----------------------------------|---------------------|---------------------|----------------------|
| Subordinated bonds payable - net | \$19,900,000 | \$19,900,000 | \$40,000,000 |
| Subordinated financial debentures | 51,900,000 | 51,900,000 | 65,545,445 |
| Discount on financial debentures | - | - | (1,431) |
| Valuation adjustment | - | - | 6,773 |
| Total | \$71,800,000 | \$71,800,000 | \$105,550,787 |

- (1) Cathay United Bank issued a 15-year US\$500,000 thousand subordinated financial debenture with a stated interest rate of 5.5% in 5 October 2005, and the interest is payable semiannually. Cathay United Bank can redeem the debenture after 10 years by exercising the call option. Cathay United Bank has adopted hedge accounting to account for the subordinated financial debenture. Cathay United Bank had bought back the debenture amounting to US\$172,620 in May 2009 and bought back the debenture in full in October 2015.
- (2) Cathay United Bank issued seven-year subordinated financial debentures totaling \$1,200,000 thousand and \$1,000,000 thousand with a stated interest rate of 2.95% and floating rate, respectively in September 2008, and the interests are payable quarterly. Cathay United Bank had bought back all these debentures in September 2015.
- (3) Cathay United Bank issued a seven-year subordinated financial debenture totaling \$2,800,000 with a stated interest rate of 2.95% in October 2008, and the interest is payable quarterly. Cathay United Bank had bought back the debenture in full in October 2015.
- (4) The Company issued seven-year unsecured subordinated bonds totaling \$20,000,000 thousand with a stated interest rate of 3.10% in December 2008, and the interest is payable annually. The Company had bought back the debentures in December 2015.
- (5) Cathay United Bank issued an eight-year subordinated financial debenture totaling \$3,650,000 thousand with a stated interest rate of 2.42% in June 2009, and the interest is payable quarterly.
- (6) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$1,500,000 thousand with a stated interest rate of 2.60% in July 2009, and the interest is payable quarterly.

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- (7) The Company issued a seven-year unsecured subordinated financial debenture totaling \$20,000,000 thousand with a stated interest rate of 2.65% on September 16, 2009. The subordinated financial debenture will be paid at maturity and the interest is payable annually.
- (8) Cathay United Bank issued a seven-year subordinated financial debenture totaling \$3,850,000 thousand with a stated interest rate of 1.65% in March 2011, and the interest is payable quarterly.
- (9) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$1,500,000 thousand with a stated interest rate of 1.72% in March 2011, and the interest is payable quarterly.
- (10) Cathay United Bank issued a seven-year subordinated financial debenture totaling \$3,900,000 thousand with a stated interest rate of 1.65% in June 2011, and the interest is payable quarterly.
- (11) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$2,500,000 thousand with a stated interest rate of 1.72% in June 2011, and the interest is payable quarterly.
- (12) Cathay United Bank issued a seven-year subordinated financial debenture totaling \$200,000 thousand with a stated interest rate of 1.48% in June 2012, and the interest is payable annually.
- (13) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$4,200,000 thousand with a stated interest rate of 1.65% in June 2012, and the interest is payable annually.
- (14) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$5,600,000 thousand with a stated interest rate of 1.65% in August 2012, and the interest is payable annually.
- (15) Cathay United Bank issued a seven-year subordinated financial debenture totaling \$100,000 thousand with a stated interest rate of 1.55% in April 2013, and the interest is payable annually.
- (16) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$9,900,000 thousand with a stated interest rate of 1.70% in April 2013, and the interest is payable annually.

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- (17) Cathay United Bank issued a seven-year subordinated financial debenture totaling \$3,000,000 thousand with a stated interest rate of 1.70% in May 2014, and the interest is payable annually.
- (18) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$12,000,000 thousand with a stated interest rate of 1.85% in May 2014, and the interest is payable annually.
- (19) Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.

21. Other financial liabilities

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|---|----------------------|----------------------|----------------------|
| Separate account insurance products - liabilities | \$496,548,030 | \$480,568,361 | \$467,992,665 |
| Principle received from the sale of structured products | 60,233,573 | 67,227,106 | 75,118,387 |
| Other financial liabilities | 1,458,781 | 1,768,586 | 1,661,493 |
| Total | <u>\$558,240,384</u> | <u>\$549,564,053</u> | <u>\$544,772,545</u> |

22. Provisions

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|---|------------------------|------------------------|------------------------|
| Unearned premium reserve | \$25,368,581 | \$26,428,864 | \$25,489,166 |
| Reserve for life insurance liabilities | 4,352,539,151 | 4,088,918,602 | 4,020,097,075 |
| Special reserve | 21,395,575 | 28,996,289 | 31,579,587 |
| Reserve for claims | 15,664,201 | 14,230,818 | 14,314,049 |
| Premium deficiency reserve | 26,691,599 | 22,609,864 | 21,442,180 |
| Reserve for insurance contracts with feature of financial instruments | 19,937,602 | 54,002,965 | 54,323,439 |
| Foreign exchange volatility reserve | 10,231,206 | 16,026,449 | 17,567,304 |
| Reserve for Guarantees | 70,276 | 104,895 | 102,973 |
| Reserve for employee benefits liabilities | 3,504,295 | 7,826,660 | 5,063,313 |
| Contingent liabilities reserve | 967,553 | 862,981 | 817,140 |
| Other operating reserve | 27,694 | 26,316 | 22,680 |
| Other reserve | 1,939,890 | 1,967,824 | 1,995,759 |
| Total | <u>\$4,478,337,623</u> | <u>\$4,262,002,527</u> | <u>\$4,192,814,665</u> |

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(1) Life insurance subsidiaries

As of 30 September 2016, 31 December 2015 and 30 September 2015 the details and changes of insurance contracts and financial instruments with discretionary participation feature are summarized below:

A. Reserve for life insurance liabilities:

| | 2016.9.30 | | | 2015.12.31 | | |
|---|--|---------------------|------------------------|--|---------------------|------------------------|
| | Financial instruments with discretionary participation | | | Financial instruments with discretionary participation | | |
| | Insurance contract | feature | Total | Insurance contract | feature | Total |
| Life insurance(Note) | \$3,796,360,323 | \$2,242,554 | \$3,798,602,877 | \$3,565,702,442 | \$5,913,047 | \$3,571,615,489 |
| Injury insurance | 7,682,955 | - | 7,682,955 | 7,781,512 | - | 7,781,512 |
| Health insurance | 504,170,439 | - | 504,170,439 | 459,714,950 | - | 459,714,950 |
| Annuity insurance | 1,391,633 | 39,989,138 | 41,380,771 | 1,375,262 | 47,592,078 | 48,967,340 |
| Investment-linked insurance | 702,085 | - | 702,085 | 839,311 | - | 839,311 |
| Subtotal | 4,310,307,435 | 42,231,692 | 4,352,539,127 | 4,035,413,477 | 53,505,125 | 4,088,918,602 |
| Less ceded reserve for life insurance liabilities : | | | | | | |
| Life insurance | 230,796 | - | 230,796 | 162,951 | - | 162,951 |
| Total | <u>\$4,310,076,639</u> | <u>\$42,231,692</u> | <u>\$4,352,308,331</u> | <u>\$4,035,250,526</u> | <u>\$53,505,125</u> | <u>\$4,088,755,651</u> |

| | 2015.9.30 | | |
|---|--|---------------------|------------------------|
| | Financial instruments with discretionary participation | | |
| | Insurance contract | feature | Total |
| Life insurance(Note) | \$3,508,022,933 | \$5,695,668 | \$3,513,718,601 |
| Injury insurance | 7,765,675 | - | 7,765,675 |
| Health insurance | 444,480,301 | - | 444,480,301 |
| Annuity insurance | 1,378,210 | 51,865,033 | 53,243,243 |
| Investment-linked insurance | 889,255 | - | 889,255 |
| Subtotal | 3,962,536,374 | 57,560,701 | 4,020,097,075 |
| Less ceded reserve for life insurance liabilities : | | | |
| Life insurance | 167,271 | - | 167,271 |
| Total | <u>\$3,962,369,103</u> | <u>\$57,560,701</u> | <u>\$4,019,929,804</u> |

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

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Reserve for life insurance liabilities is summarized below:

| | 2016.1.1~2016.9.30 | | | 2015.1.1~2015.9.30 | | |
|--|--|--------------|-----------------|--|--------------|-----------------|
| | Financial instruments with discretionary participation | | Total | Financial instruments with discretionary participation | | Total |
| | Insurance contract | feature | | Insurance contract | feature | |
| Beginning balance | \$4,035,413,477 | \$53,505,125 | \$4,088,918,602 | \$3,558,170,764 | \$69,956,566 | \$3,628,127,330 |
| Reserve | 486,090,870 | 81,312 | 486,172,182 | 419,011,886 | 540,598 | 419,552,484 |
| Recover | (167,735,850) | (11,327,502) | (179,063,352) | (157,669,494) | (14,170,485) | (171,839,979) |
| Losses(gains) on foreign exchange | (43,461,062) | (27,243) | (43,488,305) | 28,948,842 | (687,480) | 28,261,362 |
| Others (Note 2) | - | - | - | 114,074,376 | 1,921,502 | 115,995,878 |
| Ending balance | 4,310,307,435 | 42,231,692 | 4,352,539,127 | 3,962,536,374 | 57,560,701 | 4,020,097,075 |
| Less ceded reserve for life insurance liabilities: | | | | | | |
| Beginning balance (net) | 162,951 | - | 162,951 | 74,461 | - | 74,461 |
| Increase | 82,657 | - | 82,657 | 87,209 | - | 87,209 |
| Losses(gains) on foreign exchange | (14,812) | - | (14,812) | 5,601 | - | 5,601 |
| Ending balance (net) | 230,796 | - | 230,796 | 167,271 | - | 167,271 |
| Total | \$4,310,076,639 | \$42,231,692 | \$4,352,308,331 | \$3,962,369,103 | \$57,560,701 | \$4,019,929,804 |

B. Unearned premium reserve:

| | 2016.9.30 | | | 2015.12.31 | | |
|--------------------------------------|--|---------|--------------|--|---------|--------------|
| | Financial instruments with discretionary participation | | Total | Financial instruments with discretionary participation | | Total |
| | Insurance contract | feature | | Insurance contract | feature | |
| Individual life insurance | \$552,547 | \$- | \$552,547 | \$504,234 | \$- | \$504,234 |
| Individual injury insurance | 5,244,221 | - | 5,244,221 | 5,251,722 | - | 5,251,722 |
| Individual health insurance | 7,385,342 | - | 7,385,342 | 7,451,220 | - | 7,451,220 |
| Group insurance | 1,225,265 | - | 1,225,265 | 1,047,955 | - | 1,047,955 |
| Investment-linked insurance | 103,217 | - | 103,217 | 108,783 | - | 108,783 |
| Total | 14,510,592 | - | 14,510,592 | 14,363,914 | - | 14,363,914 |
| Less ceded unearned premium reserve: | | | | | | |
| Individual life insurance | 217,483 | - | 217,483 | 156,623 | - | 156,623 |
| Individual injury insurance | 6,084 | - | 6,084 | 6,697 | - | 6,697 |
| Individual health insurance | 5,829 | - | 5,829 | 6,873 | - | 6,873 |
| Group insurance | 7,282 | - | 7,282 | 12,132 | - | 12,132 |
| Total | 236,678 | - | 236,678 | 182,325 | - | 182,325 |
| Net | \$14,273,914 | \$- | \$14,273,914 | \$14,181,589 | \$- | \$14,181,589 |

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| | 2015.9.30 | | |
|--------------------------------------|--|------------|---------------------|
| | Financial instruments with discretionary participation | | |
| | Insurance contract | feature | Total |
| Individual life insurance | \$480,923 | \$- | \$480,923 |
| Individual injury insurance | 5,062,892 | - | 5,062,892 |
| Individual health insurance | 7,025,761 | - | 7,025,761 |
| Group insurance | 1,207,162 | - | 1,207,162 |
| Investment-linked insurance | 108,664 | - | 108,664 |
| Total | 13,885,402 | - | 13,885,402 |
| Less ceded unearned premium reserve: | | | |
| Individual life insurance | 99,749 | - | 99,749 |
| Individual injury insurance | 24,613 | - | 24,613 |
| Individual health insurance | 12,893 | - | 12,893 |
| Group insurance | 15,228 | - | 15,228 |
| Total | 152,483 | - | 152,483 |
| Net | \$13,732,919 | \$- | \$13,732,919 |

Unearned premium reserve is summarized below:

| | 2016.1.1~2016.9.30 | | | 2015.1.1~2015.9.30 | | |
|--------------------------------------|--|------------|---------------------|--|------------|---------------------|
| | Financial instruments with discretionary participation | | | Financial instruments with discretionary participation | | |
| | Insurance contract | feature | Total | Insurance contract | feature | Total |
| Beginning balance | \$14,363,914 | \$- | \$14,363,914 | \$13,202,867 | \$- | \$13,202,867 |
| Reserve | 14,522,549 | - | 14,522,549 | 13,455,837 | - | 13,455,837 |
| Recover | (14,351,613) | - | (14,351,613) | (13,181,520) | - | (13,181,520) |
| Losses(gains) on foreign exchange | (24,258) | - | (24,258) | 6,907 | - | 6,907 |
| Others (Note) | - | - | - | 401,311 | - | 401,311 |
| Ending balance | 14,510,592 | - | 14,510,592 | 13,885,402 | - | 13,885,402 |
| Less ceded unearned premium reserve: | | | | | | |
| Beginning balance - net | 182,325 | - | 182,325 | 137,914 | - | 137,914 |
| Increase | 55,673 | - | 55,673 | 2,234 | - | 2,234 |
| Decrease | (50) | - | (50) | (31,172) | - | (31,172) |
| Gains (losses) on foreign exchange | (1,270) | - | (1,270) | 189 | - | 189 |
| Others (Note) | - | - | - | 43,318 | - | 43,318 |
| Total | 236,678 | - | 236,678 | 152,483 | - | 152,483 |
| Ending balance - net | \$14,273,914 | \$- | \$14,273,914 | \$13,732,919 | \$- | \$13,732,919 |

Note: The amount is generated from acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015.

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C. Reserve for claims:

| | 2016.9.30 | | | 2015.12.31 | | |
|--------------------------------|--------------------|--|--------------------|--------------------|--|--------------------|
| | Insurance contract | Financial instruments with discretionary participation feature | Total | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Individual life insurance | | | | | | |
| — Reported but not paid claim | \$121,620 | \$1,056 | \$122,676 | \$144,751 | \$1,056 | \$145,807 |
| — Unreported claim | 106,626 | - | 106,626 | 62,734 | - | 62,734 |
| Individual injury insurance | | | | | | |
| — Reported but not paid claim | 87,050 | - | 87,050 | 106,722 | - | 106,722 |
| — Unreported claim | 1,489,524 | - | 1,489,524 | 1,336,273 | - | 1,336,273 |
| Individual health insurance | | | | | | |
| — Reported but not paid claim | 188,265 | - | 188,265 | 192,128 | - | 192,128 |
| — Unreported claim | 2,386,730 | - | 2,386,730 | 2,087,909 | - | 2,087,909 |
| Group insurance | | | | | | |
| — Reported but not paid claim | 58,336 | - | 58,336 | 106,298 | - | 106,298 |
| — Unreported claim | 1,152,928 | - | 1,152,928 | 1,134,707 | - | 1,134,707 |
| Investment-linked insurance | | | | | | |
| — Reported but not paid claim | - | - | - | 4,519 | - | 4,519 |
| — Unreported claim | 2,609 | - | 2,609 | - | - | - |
| Total | 5,593,688 | 1,056 | 5,594,744 | 5,176,041 | 1,056 | 5,177,097 |
| Less ceded reserve for claims: | | | | | | |
| Individual life insurance | 31,379 | - | 31,379 | 14,632 | - | 14,632 |
| Individual injury insurance | - | - | - | 5 | - | 5 |
| Individual health insurance | 4,583 | - | 4,583 | 10,289 | - | 10,289 |
| Group insurance | 9,669 | - | 9,669 | 13,707 | - | 13,707 |
| Total | 45,631 | - | 45,631 | 38,633 | - | 38,633 |
| Net | \$5,548,057 | \$1,056 | \$5,549,113 | \$5,137,408 | \$1,056 | \$5,138,464 |

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| | 2015.9.30 | | |
|--------------------------------|--|------------|--------------------|
| | Financial instruments with discretionary participation | | |
| | Insurance contract | feature | Total |
| Individual life insurance | | | |
| – Reported but not paid claim | \$157,525 | \$- | \$157,525 |
| – Unreported claim | 88,253 | - | 88,253 |
| Individual injury insurance | | | |
| – Reported but not paid claim | 101,655 | - | 101,655 |
| – Unreported claim | 1,410,832 | - | 1,410,832 |
| Individual health insurance | | | |
| – Reported but not paid claim | 170,789 | - | 170,789 |
| – Unreported claim | 2,155,189 | - | 2,155,189 |
| Group insurance | | | |
| – Reported but not paid claim | 81,263 | - | 81,263 |
| – Unreported claim | 1,268,158 | - | 1,268,158 |
| Investment-linked insurance | | | |
| – Reported but not paid claim | 4,451 | - | 4,451 |
| – Unreported claim | 2,404 | - | 2,404 |
| Total | 5,440,519 | - | 5,440,519 |
| Less ceded reserve for claims: | | | |
| Individual life insurance | 3,408 | - | 3,408 |
| Individual injury insurance | 12,768 | - | 12,768 |
| Individual health insurance | 19,956 | - | 19,956 |
| Group insurance | 41,579 | - | 41,579 |
| Total | 77,711 | - | 77,711 |
| Net | \$5,362,808 | \$- | \$5,362,808 |

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Reserve for claims is summarized below:

| | 2016.1.1~2016.9.30 | | | 2015.1.1~2015.9.30 | | |
|------------------------------------|--|---------|-------------|--|---------|-------------|
| | Financial instruments with discretionary participation | | Total | Financial instruments with discretionary participation | | Total |
| | Insurance contract | feature | | Insurance contract | feature | |
| Beginning balance | \$5,176,041 | \$1,056 | \$5,177,097 | \$4,689,841 | \$797 | \$4,690,638 |
| Reserve | 5,524,923 | 1,056 | 5,525,979 | 4,813,192 | - | 4,813,192 |
| Recover | (5,079,060) | (1,056) | (5,080,116) | (4,530,642) | (797) | (4,531,439) |
| Losses (gains) on foreign exchange | (28,216) | - | (28,216) | 7,767 | - | 7,767 |
| Others (Note) | - | - | - | 460,361 | - | 460,361 |
| Ending balance | 5,593,688 | 1,056 | 5,594,744 | 5,440,519 | - | 5,440,519 |
| Less ceded reserve for claims: | | | | | | |
| Beginning balance - net | 38,633 | - | 38,633 | 17,456 | - | 17,456 |
| Increase | 7,280 | - | 7,280 | 7,407 | - | 7,407 |
| Decrease | - | - | - | (16,770) | - | (16,770) |
| Gains (losses) on foreign exchange | (282) | - | (282) | 30 | - | 30 |
| Others (Note) | - | - | - | 69,588 | - | 69,588 |
| Total | 45,631 | - | 45,631 | 77,711 | - | 77,711 |
| Net | \$5,548,057 | \$1,056 | \$5,549,113 | \$5,362,808 | \$- | \$5,362,808 |

Note: The amount is generated from acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015.

D. Special reserve:

| | 2016.9.30 | | | | 2015.12.31 | | | |
|--|--|---------|--------------|--------------|--|---------|--------------|--------------|
| | Financial instruments with discretionary participation | | | Total | Financial instruments with discretionary participation | | | Total |
| | Insurance contract | feature | Other | | Insurance contract | feature | Other | |
| Participating policies | | | | | | | | |
| dividends reserve | \$(64,619) | \$- | \$- | \$(64,619) | \$(36,387) | \$- | \$- | \$(36,387) |
| Dividends reserve | 65,983 | - | - | 65,983 | 37,741 | - | - | 37,741 |
| Special reserve for revaluation increments of property | - | - | 17,946,619 | 17,946,619 | - | - | 25,416,619 | 25,416,619 |
| Total | \$1,364 | \$- | \$17,946,619 | \$17,947,983 | \$1,354 | \$- | \$25,416,619 | \$25,417,973 |

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| | 2015.9.30 | | | |
|--|--|------------|---------------------|---------------------|
| | Financial instruments with discretionary participation | | | |
| | Insurance contract | feature | Other | Total |
| | contract | feature | Other | Total |
| Participating policies | | | | |
| dividends reserve | \$(37,257) | \$- | \$- | \$(37,257) |
| Dividends reserve | 38,553 | - | - | 38,553 |
| Special reserve for revaluation increments of property | - | - | 27,946,619 | 27,946,619 |
| Total | \$1,296 | \$- | \$27,946,619 | \$27,947,915 |

Special reserve is summarized below:

| | 2016.1.1~2016.9.30 | | | | 2015.1.1~2015.9.30 | | | |
|---|--|------------|---------------------|---------------------|--|------------|---------------------|---------------------|
| | Financial instruments with discretionary participation | | | | Financial instruments with discretionary participation | | | |
| | Insurance contract | feature | Other | Total | Insurance contract | feature | Other | Total |
| | contract | feature | Other | Total | contract | feature | Other | Total |
| Beginning balance | \$1,354 | \$- | \$25,416,619 | \$25,417,973 | \$5,639 | \$- | \$35,416,619 | \$35,422,258 |
| Reserves for participating policies | | | | | | | | |
| dividends reserve | (27,333) | - | - | (27,333) | 25,350 | - | - | 25,350 |
| Participating policies | | | | | | | | |
| dividends recover | (898) | - | - | (898) | (1,122) | - | - | (1,122) |
| Dividends reserve | 28,241 | - | - | 28,241 | (24,563) | - | - | (24,563) |
| Special reserve for revaluation increments of property (Note 1) | - | - | (7,470,000) | (7,470,000) | - | - | (7,470,000) | (7,470,000) |
| Other -Participating policies | | | | | | | | |
| dividends reserve (Note 2) | - | - | - | - | (63,116) | - | - | (63,116) |
| Other – Reserves for dividends risk (Note 2) | - | - | - | - | 63,116 | - | - | 63,116 |
| Recover | - | - | - | - | (3,929) | - | - | (3,929) |
| Exchange difference | - | - | - | - | (79) | - | - | (79) |
| Ending balance | \$1,364 | \$- | \$17,946,619 | \$17,947,983 | \$1,296 | \$- | \$27,946,619 | \$27,947,915 |

Note 1: According to the regulations authorized by the FSC on 30 January 2016 and 2015, Cathay Life can recover special reserve for revaluation increments of property by month, and the total recovered amount in 2016 and 2015 are both NT \$10 billion.

Note 2: The amount is generated from acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015.

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E. Premium deficiency reserve:

| | 2016.9.30 | | | 2015.12.31 | | |
|-----------------------------|--|--------------|---------------------|--|--------------|---------------------|
| | Financial instruments with discretionary participation | | | Financial instruments with discretionary participation | | |
| | Insurance contract | feature | Total | Insurance contract | feature | Total |
| | Individual life insurance | \$24,869,501 | \$- | \$24,869,501 | \$20,333,625 | \$- |
| Individual health insurance | 1,803,508 | - | 1,803,508 | 1,908,526 | - | 1,908,526 |
| Group insurance | 401 | - | 401 | 426 | - | 426 |
| Total | \$26,673,410 | \$- | \$26,673,410 | \$22,242,577 | \$- | \$22,242,577 |

| | 2015.9.30 | | |
|-----------------------------|--|--------------|---------------------|
| | Financial instruments with discretionary participation | | |
| | Insurance contract | feature | Total |
| | Individual life insurance | \$19,130,902 | \$- |
| Individual health insurance | 1,957,733 | - | 1,957,733 |
| Group insurance | 9,117 | - | 9,117 |
| Total | \$21,097,752 | \$- | \$21,097,752 |

Premium deficiency reserve is summarized below:

| | 2016.1.1~2016.9.30 | | | 2015.1.1~2015.9.30 | | |
|------------------------------------|--|--------------|---------------------|--|--------------|---------------------|
| | Financial instruments with discretionary participation | | | Financial instruments with discretionary participation | | |
| | Insurance contract | feature | Total | Insurance contract | feature | Total |
| | Beginning balance | \$22,242,577 | \$- | \$22,242,577 | \$17,294,564 | \$- |
| Reserve | 5,160,566 | - | 5,160,566 | 2,441,139 | - | 2,441,139 |
| Recover | (355,446) | - | (355,446) | (1,233,254) | - | (1,233,254) |
| Losses (gains) on foreign exchange | (374,287) | - | (374,287) | 273,081 | - | 273,081 |
| Others (Note) | - | - | - | 2,322,222 | - | 2,322,222 |
| Ending balance | \$26,673,410 | \$- | \$26,673,410 | \$21,097,752 | \$- | \$21,097,752 |

Note: The amount is generated from acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015.

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F. Other reserve:

| | | 2016.9.30 | |
|--------|--------------------|--|-------------|
| | | Financial instruments with discretionary participation feature | |
| | Insurance contract | | Total |
| Others | \$1,939,890 | \$- | \$1,939,890 |

| | | 2015.12.31 | |
|--------|--------------------|--|-------------|
| | | Financial instruments with discretionary participation feature | |
| | Insurance contract | | Total |
| Others | \$1,967,824 | \$- | \$1,967,824 |

| | | 2015.9.30 | |
|--------|--------------------|--|-------------|
| | | Financial instruments with discretionary participation feature | |
| | Insurance contract | | Total |
| Others | \$1,995,759 | \$- | \$1,995,759 |

Other reserve is summarized below:

| | | 2016.1.1~2016.9.30 | |
|-------------------|--------------------|--|-------------|
| | | Financial instruments with discretionary participation feature | |
| | Insurance contract | | Total |
| Beginning balance | \$1,967,824 | \$- | \$1,967,824 |
| Recover | (27,934) | - | (27,934) |
| Ending balance | \$1,939,890 | \$- | \$1,939,890 |

| | | 2015.1.1~2015.9.30 | |
|-------------------|--------------------|--|-------------|
| | | Financial instruments with discretionary participation feature | |
| | Insurance contract | | Total |
| Beginning balance | \$- | \$- | \$- |
| Recover | (27,934) | - | (27,934) |
| Others (Note) | 2,023,693 | - | 2,023,693 |
| Ending balance | \$1,995,759 | \$- | \$1,995,759 |

Note: The amount is generated from acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015.

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G. Liability adequacy reserve

| | Insurance contract and financial instruments with discretionary participation feature | | |
|--|---|------------------------|------------------------|
| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Reserve for life insurance liabilities | \$4,352,539,127 | \$4,088,918,602 | \$4,020,097,075 |
| Unearned premium reserve | 14,510,592 | 14,363,914 | 13,885,402 |
| Premium deficiency reserve | 26,673,410 | 22,242,577 | 21,097,752 |
| Other reserve | 1,939,890 | 1,967,824 | 1,995,759 |
| Total | \$4,395,663,019 | \$4,127,492,917 | \$4,057,075,988 |
| Book value of insurance liabilities | <u>\$4,395,663,019</u> | <u>\$4,127,492,917</u> | <u>\$4,057,075,988</u> |
| Estimated present value of cash flows | <u>\$3,503,763,114</u> | <u>\$3,062,820,974</u> | <u>\$3,243,159,633</u> |
| Balance of liability adequacy reserve | <u>\$-</u> | <u>\$-</u> | <u>\$-</u> |

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

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

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

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

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|-------------|---|---|---|
| Test method | Gross premium valuation method (GPV) | Gross premium valuation method (GPV) | Gross premium valuation method (GPV) |
| Groups | Integrated testing | Integrated testing | Integrated testing |
| Assumptions | <p>(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 30 September 2016.</p> <p>(2) Discount rate: Under the assets allocation on 30 June 2016, the discount rates were calculated using the best estimated scenario investment return based on actuary report of 2015, with neutral assumption for discount rates after 30 years.</p> | <p>(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2015.</p> <p>(2) Discount rate: Under the assets allocation on 30 September 2015, the discount rates were calculated using the best estimated scenario investment return based on actuary report of 2014, with neutral assumption for discount rates after 30 years.</p> | <p>(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 30 September 2015.</p> <p>(2) Discount rate: The acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. was settled on 1 July 2015. Hence under assets allocation plan on 31 July 2015, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2014, with neutral assumption for discount rates after 30 years.</p> |

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

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|-------------|--|---|--|
| Test method | Gross premium valuation method (GPV) | Gross premium valuation method (GPV) | Gross premium valuation method (GPV) |
| Groups | Integrated testing | Integrated testing | Integrated testing |
| Assumptions | (1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 30 September 2016. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2015, with neutral assumption for discount rates after 30 years. | (1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 December 2015. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2014, with neutral assumption for discount rates after 30 years. | (1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 30 September 2015. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2014, with neutral assumption for discount rates after 30 years. |

H. Reserve for insurance contract with feature of financial instruments:

Life insurance subsidiaries issues non-investment-linked insurance contract without discretionary participation feature of financial instruments. As of 30 September 2016, 31 December 2015 and 30 September 2015, reserve for insurance contract with feature of financial instruments is summarized below:

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|------------------------------------|---------------------|------------------------|------------------------|
| Life insurance | \$19,889,306 | \$53,979,737 | \$54,315,232 |
| Investment-linked insurance | 48,296 | 23,228 | 8,207 |
| Total | <u>\$19,937,602</u> | <u>\$54,002,965</u> | <u>\$54,323,439</u> |
| | | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
| Beginning balance | | \$54,002,965 | \$55,094,699 |
| Premiums received | | 1,363,745 | 543,267 |
| Insurance claim payments | | (35,182,174) | (1,585,102) |
| Net provision of statutory reserve | | 171,581 | 175,003 |
| Losses (gains) on foreign exchange | | (418,515) | 95,572 |
| Ending balance | | <u>\$19,937,602</u> | <u>\$54,323,439</u> |

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I. Foreign exchange volatility reserve

(A) The hedge strategy and risk exposure:

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

(B) Adjustment in foreign exchange volatility reserve:

| | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|---------------------------------------|------------------------|------------------------|
| Beginning balance | \$16,026,449 | \$16,846,406 |
| Reserve: | | |
| Compulsory reserve | 3,113,279 | 2,729,672 |
| Extra reserve | 364,986 | 5,783,111 |
| Subtotal | 3,478,265 | 8,512,783 |
| Recover | (9,273,508) | (8,040,203) |
| Acquisition from business combination | - | 248,318 |
| Ending balance: | \$10,231,206 | \$17,567,304 |

(C) Effects due to foreign exchange volatility reserve:

| 2016.1.1~2016.9.30 | | | |
|-------------------------------------|----------------------------|--------------------------|---------------------------|
| Item | Inapplicable amount (1) | Applicable amount (2) | Effects (3)= (2) - (1) |
| Consolidated income | \$34,439,419 | \$39,249,470 | \$4,810,051 |
| Earnings per share | 2.70 | 3.08 | 0.38 |
| Foreign exchange volatility reserve | - | 10,231,206 | 10,231,206 |
| Equity | \$503,169,974 | \$498,628,644 | (4,541,330) |

| 2015.1.1~2015.9.30 | | | |
|-------------------------------------|----------------------------|--------------------------|---------------------------|
| Item | Inapplicable amount (1) | Applicable amount (2) | Effects (3)= (2) - (1) |
| Consolidated income | \$55,276,994 | \$54,884,753 | \$(392,241) |
| Earnings per share | 4.36 | 4.33 | (0.03) |
| Foreign exchange volatility reserve | - | 17,567,304 | 17,567,304 |
| Equity | 454,081,317 | 443,451,026 | (10,630,291) |

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(2) Century Insurance subsidiaries

A. Unearned premiums reserve

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

| Item | 2016.9.30 | | | |
|---|--------------------------|----------------------|--------------------------------|--------------------|
| | Unearned premium reserve | | Ceded unearned premium reserve | |
| | Direct business | Assumed | Ceded reinsurance | |
| | | reinsurance business | business | Retained business |
| Fire insurance | \$1,863,802 | \$90,460 | \$1,092,379 | \$861,883 |
| Marine insurance | 110,234 | 8,436 | 82,178 | 36,492 |
| Land and air insurance | 4,223,059 | 12,565 | 186,476 | 4,049,148 |
| Liability insurance | 581,942 | 1,106 | 181,439 | 401,609 |
| Bonding insurance | 45,832 | 590 | 31,051 | 15,371 |
| Other property insurance | 572,618 | 24,600 | 266,149 | 331,069 |
| Accident insurance | 1,469,610 | 2,496 | 73,791 | 1,398,315 |
| Health insurance | 58,000 | - | 4 | 57,996 |
| Compulsory automobile liability insurance | 1,300,056 | 492,583 | 774,759 | 1,017,880 |
| Total | \$10,225,153 | \$632,836 | \$2,688,226 | \$8,169,763 |

| Item | 2015.12.31 | | | |
|---|--------------------------|----------------------|--------------------------------|--------------------|
| | Unearned premium reserve | | Ceded unearned premium reserve | |
| | Direct business | Assumed | Ceded reinsurance | |
| | | reinsurance business | business | Retained business |
| Fire insurance | \$1,922,146 | \$72,493 | \$1,051,066 | \$943,573 |
| Marine insurance | 100,452 | 9,482 | 72,090 | 37,844 |
| Land and air insurance | 4,261,434 | 15,224 | 301,559 | 3,975,099 |
| Liability insurance | 598,540 | 1,570 | 197,525 | 402,585 |
| Bonding insurance | 44,812 | 757 | 28,168 | 17,401 |
| Other property insurance | 1,393,279 | 26,700 | 352,242 | 1,067,737 |
| Accident insurance | 1,438,577 | 2,389 | 56,036 | 1,384,930 |
| Health insurance | 54,641 | - | 9 | 54,632 |
| Compulsory automobile liability insurance | 1,658,486 | 463,968 | 727,555 | 1,394,899 |
| Total | \$11,472,367 | \$592,583 | \$2,786,250 | \$9,278,700 |

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| Item | 2015.9.30 | | | |
|---|--------------------------|------------------------------|--------------------------------|--------------------|
| | Unearned premium reserve | | Ceded unearned premium reserve | |
| | Direct business | Assumed reinsurance business | Ceded reinsurance business | |
| | | | Retained business | |
| Fire insurance | \$1,869,309 | \$70,806 | \$985,041 | \$955,074 |
| Marine insurance | 142,944 | 7,698 | 109,507 | 41,135 |
| Land and air insurance | 3,876,532 | 10,704 | 185,894 | 3,701,342 |
| Liability insurance | 561,951 | 988 | 180,790 | 382,149 |
| Bonding insurance | 55,819 | 663 | 39,001 | 17,481 |
| Other property insurance | 1,415,812 | 24,568 | 376,900 | 1,063,480 |
| Accident insurance | 1,487,655 | 2,487 | 70,696 | 1,419,446 |
| Health insurance | 57,584 | - | 7 | 57,577 |
| Compulsory automobile liability insurance | 1,634,494 | 383,750 | 668,101 | 1,350,143 |
| Total | \$11,102,100 | \$501,664 | \$2,615,937 | \$8,987,827 |

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

| Item | 2016.1.1~2016.9.30 | | 2015.1.1~2015.9.30 | |
|----------------------------------|--------------------------|--------------------------------|--------------------------|--------------------------------|
| | Unearned premium reserve | Ceded unearned premium reserve | Unearned premium reserve | Ceded unearned premium reserve |
| Beginning balance | \$12,064,950 | \$2,786,250 | \$11,950,213 | \$2,750,419 |
| Reserve | 12,126,449 | 2,857,046 | 11,580,354 | 2,613,418 |
| Recover | (12,058,760) | (2,788,040) | (11,950,105) | (2,749,932) |
| Effects of exchange rate changes | (71,933) | (9,746) | 23,302 | 2,032 |
| Loss of control | (1,202,717) | (157,284) | - | - |
| Ending balance | \$10,857,989 | \$2,688,226 | \$11,603,764 | \$2,615,937 |

B. Claims reserve

a. Claims reserve and ceded claims reserve

| Item | 2016.9.30 | | | |
|----------------------------------|------------------------------|------------------------------|----------------------------|--------------------|
| | Claims reserve | | Ceded claims reserve | |
| | Direct underwriting business | Assumed reinsurance business | Ceded reinsurance business | |
| | | | (1) | (2) |
| Claims reported but not paid off | \$6,025,289 | \$232,954 | \$3,647,369 | \$2,610,874 |
| Unreported claims | 3,419,910 | 391,304 | 988,280 | 2,822,934 |
| Total | \$9,445,199 | \$624,258 | \$4,635,649 | \$5,433,808 |

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| 2015.12.31 | | | | |
|----------------------------------|------------------------------|------------------------------|----------------------------|--------------------|
| Item | Claims reserve | | Ceded claims reserve | |
| | Direct underwriting business | Assumed reinsurance business | Ceded reinsurance business | |
| | (1) | (2) | (3) | (4)=(1)+(2)-(3) |
| Claims reported but not paid off | \$4,543,959 | \$334,115 | \$1,537,115 | \$3,340,959 |
| Unreported claims | 3,889,745 | 285,902 | 1,038,317 | 3,137,330 |
| Total | \$8,433,704 | \$620,017 | \$2,575,432 | \$6,478,289 |

| 2015.9.30 | | | | |
|----------------------------------|------------------------------|------------------------------|----------------------------|--------------------|
| Item | Claims reserve | | Ceded claims reserve | |
| | Direct underwriting business | Assumed reinsurance business | Ceded reinsurance business | |
| | (1) | (2) | (3) | (4)=(1)+(2)-(3) |
| Claims reported but not paid off | \$4,303,252 | \$313,759 | \$1,294,992 | \$3,322,019 |
| Unreported claims | 3,989,180 | 267,339 | 997,804 | 3,258,715 |
| Total | \$8,292,432 | \$581,098 | \$2,292,796 | \$6,580,734 |

b. Net changes for claims reserve and ceded claims reserve

| 2016.1.1~2016.9.30 | | | | | | | | |
|----------------------------------|------------------------------|--------------------|------------------------------|------------------|--|----------------------------|--------------------|--|
| Item | Direct underwriting business | | Assumed reinsurance business | | Net change for claims reserve (5)=(1)-(2)+(3)-(4) | Ceded reinsurance business | | Net change for ceded claims reserve (8)=(6)-(7) |
| | Reserve (1) | Recover (2) | Reserve (3) | Recover (4) | | Reserve (6) | Recover (7) | |
| Claims reported but not paid off | \$6,926,581 | \$4,552,013 | \$232,954 | \$334,116 | \$2,273,406 | \$3,776,115 | \$1,549,927 | \$2,226,188 |
| Unreported claims | 3,945,592 | 3,884,974 | 393,168 | 285,866 | 167,920 | 1,047,858 | 1,037,259 | 10,599 |
| Total | \$10,872,173 | \$8,436,987 | \$626,122 | \$619,982 | \$2,441,326 | \$4,823,973 | \$2,587,186 | \$2,236,787 |

| 2015.1.1~2015.9.30 | | | | | | | | |
|----------------------------------|------------------------------|--------------------|------------------------------|------------------|--|----------------------------|--------------------|--|
| Item | Direct underwriting business | | Assumed reinsurance business | | Net change for claims reserve (5)=(1)-(2)+(3)-(4) | Ceded reinsurance business | | Net change for ceded claims reserve (8)=(6)-(7) |
| | Reserve (1) | Recover (2) | Reserve (3) | Recover (4) | | Reserve (6) | Recover (7) | |
| Claims reported but not paid off | \$4,283,832 | \$4,064,575 | \$313,759 | \$223,378 | \$309,638 | \$1,288,872 | \$1,320,537 | \$(31,665) |
| Unreported claims | 3,978,576 | 3,646,873 | 267,296 | 211,055 | 387,944 | 995,696 | 920,499 | 75,197 |
| Total | \$8,262,408 | \$7,711,448 | \$581,055 | \$434,433 | \$697,582 | \$2,284,568 | \$2,241,036 | \$43,532 |

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

| Item | 2016.9.30 | | |
|--|------------------------------------|----------------------|---------------------|
| | Claims reserve | | |
| | Claim reported but not paid off | Unreported claims | Total |
| Fire insurance | \$3,394,733 | \$159,232 | \$3,553,965 |
| Marine insurance | 241,662 | 50,950 | 292,612 |
| Land and air insurance | 1,234,674 | 1,032,411 | 2,267,085 |
| Liability insurance | 371,496 | 424,591 | 796,087 |
| Bonding insurance | 47,989 | 90,250 | 138,239 |
| Other property insurance | 402,199 | 77,741 | 479,940 |
| Accident insurance | 117,751 | 439,002 | 556,753 |
| Health insurance | 7,221 | 44,608 | 51,829 |
| Compulsory automobile liability insurance | 440,518 | 1,492,429 | 1,932,947 |
| Total | \$6,258,243 | \$3,811,214 | \$10,069,457 |

| Item | 2015.12.31 | | |
|--|------------------------------------|----------------------|--------------------|
| | Claims reserve | | |
| | Claim reported but not paid off | Unreported claims | Total |
| Fire insurance | \$1,273,927 | \$122,200 | \$1,396,127 |
| Marine insurance | 302,768 | 67,946 | 370,714 |
| Land and air insurance | 948,712 | 1,000,889 | 1,949,601 |
| Liability insurance | 465,420 | 439,981 | 905,401 |
| Bonding insurance | 41,204 | 67,272 | 108,476 |
| Other property insurance | 920,655 | 359,572 | 1,280,227 |
| Accident insurance | 129,040 | 433,197 | 562,237 |
| Health insurance | 8,258 | 50,841 | 59,099 |
| Compulsory automobile liability insurance | 788,090 | 1,633,749 | 2,421,839 |
| Total | \$4,878,074 | \$4,175,647 | \$9,053,721 |

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| Item | 2015.9.30 | | |
|--|------------------------------------|----------------------|--------------------|
| | Claims reserve | | |
| | Claim reported but not paid off | Unreported claims | Total |
| Fire insurance | \$1,263,780 | \$123,098 | \$1,386,878 |
| Marine insurance | 410,576 | 65,212 | 475,788 |
| Land and air insurance | 966,884 | 972,608 | 1,939,492 |
| Liability insurance | 265,934 | 583,955 | 849,889 |
| Bonding insurance | 23,000 | 44,398 | 67,398 |
| Other property insurance | 797,592 | 322,510 | 1,120,102 |
| Accident insurance | 120,660 | 477,485 | 598,145 |
| Health insurance | 4,448 | 57,637 | 62,085 |
| Compulsory automobile liability insurance | 764,137 | 1,609,616 | 2,373,753 |
| Total | \$4,617,011 | \$4,256,519 | \$8,873,530 |

d. Reinsurance asset- ceded claims reserve for policyholder

| Item | 2016.9.30 | | |
|--|------------------------------------|----------------------|--------------------|
| | Ceded claims reserve | | |
| | Claim reported but not paid off | Unreported claims | Total |
| Fire insurance | \$2,872,123 | \$14,500 | \$2,886,623 |
| Marine insurance | 158,593 | 32,055 | 190,648 |
| Land and air insurance | 64,926 | 29,824 | 94,750 |
| Liability insurance | 217,613 | 159,946 | 377,559 |
| Bonding insurance | 25,731 | 71,423 | 97,154 |
| Other property insurance | 151,823 | 18,868 | 170,691 |
| Accident insurance | 8,378 | 35,443 | 43,821 |
| Health insurance | - | 453 | 453 |
| Compulsory automobile liability insurance | 148,182 | 625,768 | 773,950 |
| Total | \$3,647,369 | \$988,280 | \$4,635,649 |

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| Item | 2015.12.31 | | |
|--|------------------------------------|----------------------|--------------------|
| | Ceded claims reserve | | |
| | Claim reported but not paid off | Unreported claims | Total |
| Fire insurance | \$604,278 | \$63,437 | \$667,715 |
| Marine insurance | 190,358 | 35,902 | 226,260 |
| Land and air insurance | 48,285 | 28,992 | 77,277 |
| Liability insurance | 268,371 | 117,732 | 386,103 |
| Bonding insurance | 33,553 | 60,202 | 93,755 |
| Other property insurance | 231,629 | 83,555 | 315,184 |
| Accident insurance | 9,628 | 45,716 | 55,344 |
| Health insurance | - | 75 | 75 |
| Compulsory automobile liability insurance | 151,013 | 602,706 | 753,719 |
| Total | \$1,537,115 | \$1,038,317 | \$2,575,432 |

| Item | 2015.9.30 | | |
|--|------------------------------------|----------------------|--------------------|
| | Ceded claims reserve | | |
| | Claim reported but not paid off | Unreported claims | Total |
| Fire insurance | \$515,328 | \$32,655 | \$547,983 |
| Marine insurance | 251,686 | 32,012 | 283,698 |
| Land and air insurance | 46,232 | 25,663 | 71,895 |
| Liability insurance | 74,472 | 169,536 | 244,008 |
| Bonding insurance | 18,804 | 33,735 | 52,539 |
| Other property insurance | 233,979 | 57,724 | 291,703 |
| Accident insurance | 9,947 | 61,525 | 71,472 |
| Health insurance | - | 1,552 | 1,552 |
| Compulsory automobile liability insurance | 144,544 | 583,402 | 727,946 |
| Total | \$1,294,992 | \$997,804 | \$2,292,796 |

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e. Reconciliation statement of claims reserve and ceded claims reserve

| Item | 2016.1.1~2016.9.30 | | 2015.1.1~2015.9.30 | |
|----------------------------------|---------------------|----------------------|--------------------|----------------------|
| | Claims reserve | Ceded claims reserve | Claims reserve | Ceded claims reserve |
| Beginning balance | \$9,053,720 | \$2,575,432 | \$8,154,755 | \$2,249,673 |
| Reserve | 11,498,295 | 4,823,973 | 8,843,463 | 2,284,568 |
| Recover | (9,056,969) | (2,587,186) | (8,145,881) | (2,241,036) |
| Effects of exchange rate changes | (74,587) | (6,330) | 21,193 | (409) |
| Loss of control | (1,351,002) | (170,240) | - | - |
| Ending balance | <u>\$10,069,457</u> | <u>\$4,635,649</u> | <u>\$8,873,530</u> | <u>\$2,292,796</u> |

C. Special reserve

a. Special reserve - Compulsory automobile liability insurance

| Item | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|-------------------|------------------------|------------------------|
| Beginning balance | \$1,487,506 | \$1,528,545 |
| Reserve | 53,886 | 116,606 |
| Recover | (48,877) | (124,071) |
| Ending balance | <u>\$1,492,515</u> | <u>\$1,521,080</u> |

b. Special reserve - Non-compulsory automobile liability insurance

| | Liability | | | | | |
|-------------------|--------------------|----------------------|--------------------|--------------------|----------------------|--------------------|
| | 2016.1.1~2016.9.30 | | | 2015.1.1~2015.9.30 | | |
| | Major incidents | Fluctuation of risks | Total | Major incidents | Fluctuation of risks | Total |
| Beginning balance | \$505,626 | \$1,585,184 | \$2,090,810 | \$524,353 | \$1,586,239 | \$2,110,592 |
| Reserve | - | - | - | - | - | - |
| Recover | - | (135,733) | (135,733) | - | - | - |
| Ending balance | <u>\$505,626</u> | <u>\$1,449,451</u> | <u>\$1,955,077</u> | <u>\$524,353</u> | <u>\$1,586,239</u> | <u>\$2,110,592</u> |

“Precautions of Strengthening Disaster Insurance of Property Insurance Industry (Commercial Earthquake and Typhoons Flood Insurance)”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”, “Regulations for the Management of the Various Reserves for the nuclear Insurance”, and other reserves do not have impact on Cathay Century’s and its subsidiaries’ income before tax, liability and equity with \$135,733 thousand decreased, \$1,646,578 thousand increased and \$992,706 thousand decreased, respectively.

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D. Premiums deficiency reserve

a. Premiums deficiency reserve and ceded premium deficiency reserve

| Item | 2016.9.30 | | | |
|---|-----------------------------|----------------------|-----------------------------------|-------------------|
| | Premiums deficiency reserve | | Ceded premiums deficiency reserve | |
| | Direct business | Assumed | Ceded | Retained business |
| | | reinsurance business | reinsurance business | |
| Fire insurance | \$- | \$- | \$- | \$- |
| Marine insurance | - | - | - | - |
| Land and air insurance | 2,658 | 15,531 | - | 18,189 |
| Liability insurance | - | - | - | - |
| Bonding insurance | - | - | - | - |
| Other property insurance | - | - | - | - |
| Accident insurance | - | - | - | - |
| Health insurance | - | - | - | - |
| Compulsory automobile liability insurance | - | - | - | - |
| Total | \$2,658 | \$15,531 | \$- | \$18,189 |

| Item | 2015.12.31 | | | |
|---|-----------------------------|----------------------|-----------------------------------|-------------------|
| | Premiums deficiency reserve | | Ceded premiums deficiency reserve | |
| | Direct business | Assumed | Ceded | Retained business |
| | | reinsurance business | reinsurance business | |
| Fire insurance | \$- | \$- | \$627 | \$(627) |
| Marine insurance | - | - | - | - |
| Land and air insurance | - | 13,988 | (13,542) | 27,530 |
| Liability insurance | 12,503 | (3) | 5,962 | 6,538 |
| Bonding insurance | - | - | 4 | (4) |
| Other property insurance | 278,729 | 33 | 37 | 278,725 |
| Accident insurance | - | - | - | - |
| Health insurance | - | - | - | - |
| Compulsory automobile liability insurance | 62,037 | - | - | 62,037 |
| Total | \$353,269 | \$14,018 | \$(6,912) | \$374,199 |

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| 2015.9.30 | | | | |
|---|-----------------------------|------------------------------|-----------------------------------|-------------------|
| Item | Premiums deficiency reserve | | Ceded premiums deficiency reserve | |
| | Direct business | Assumed reinsurance business | Ceded reinsurance business | Retained business |
| Fire insurance | \$34 | \$- | \$606 | \$(572) |
| Marine insurance | - | - | 55 | (55) |
| Land and air insurance | - | 9,368 | - | 9,368 |
| Liability insurance | 13,720 | (7) | 7,583 | 6,130 |
| Bonding insurance | 74 | - | 24 | 50 |
| Other property insurance | 263,085 | 68 | 2,814 | 260,339 |
| Accident insurance | - | - | - | - |
| Health insurance | - | - | - | - |
| Compulsory automobile liability insurance | 58,086 | - | - | 58,086 |
| Total | \$334,999 | \$9,429 | \$11,082 | \$333,346 |

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

| 2016.1.1~2016.9.30 | | | | | | | | | |
|---|------------------------------|------------------|------------------------------|-----------------|---|----------------------------|------------------|---|---|
| Item | Direct underwriting business | | Assumed reinsurance business | | Net change for premiums deficiency reserve (5)=(1)+(2)+(3)+(4) | Ceded reinsurance business | | Net change for ceded premiums deficiency reserve (8)=(6)+(7) | Recognized net loss (gain) for premiums deficiency reserve (9)=(5)+(8) |
| | Reserve | Recover | Reserve | Recover | | Reserve | Recover | | |
| | (1) | (2) | (3) | (4) | | (6) | (7) | | |
| Fire insurance | \$70 | \$- | \$- | \$- | \$70 | \$468 | \$622 | \$(154) | \$224 |
| Marine insurance | - | - | - | - | - | 14 | 43 | (29) | 29 |
| Land and air insurance | 2,658 | - | 15,531 | 13,988 | 4,201 | - | (13,586) | 13,586 | (9,385) |
| Liability insurance | 13,661 | 12,401 | 5 | (3) | 1,268 | 5,273 | 5,913 | (640) | 1,908 |
| Bonding insurance | 11 | - | - | - | 11 | 4 | 4 | - | 11 |
| Other property insurance | 294,628 | 276,441 | - | 32 | 18,155 | 82 | 37 | 45 | 18,110 |
| Accident insurance | - | - | - | - | - | - | - | - | - |
| Health insurance | - | - | - | - | - | - | - | - | - |
| Compulsory automobile liability insurance | 67,353 | 61,528 | - | - | 5,825 | - | - | - | 5,825 |
| Total | \$378,381 | \$350,370 | \$15,536 | \$14,017 | \$29,530 | \$5,841 | \$(6,967) | \$12,808 | \$16,722 |

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2015.1.1~2015.9.30

| Item | Direct underwriting business | | Assumed reinsurance business | | Net change for premiums deficiency reserve | Ceded reinsurance business | | Net change for ceded premiums deficiency reserve | Recognized net loss (gain) for premiums deficiency reserve |
|---|------------------------------|------------------|------------------------------|----------------|--|----------------------------|-----------------|--|--|
| | Reserve | Recover | Reserve | Recover | | Reserve | Recover | | |
| | (1) | (2) | (3) | (4) | (5)=(1)+(2)+(3)+(4) | (6) | (7) | (8)=(6)+(7) | (9)=(5)+(8) |
| Fire insurance | \$34 | \$- | \$- | \$- | \$34 | \$595 | \$- | \$595 | \$(561) |
| Marine insurance | - | - | - | 7 | (7) | 54 | (1,183) | 1,237 | (1,244) |
| Land and air insurance | - | - | 9,368 | 1,095 | 8,273 | - | - | - | 8,273 |
| Liability insurance | 13,474 | 14,913 | (7) | 5 | (1,451) | 7,447 | 2,073 | 5,374 | (6,825) |
| Bonding insurance | 73 | 510 | - | - | (437) | 23 | 8 | 15 | (452) |
| Other property insurance | 258,364 | 137,114 | 66 | 1 | 121,315 | 2,764 | 38,621 | (35,857) | 157,172 |
| Accident insurance | - | - | - | - | - | - | - | - | - |
| Health insurance | - | - | - | - | - | - | - | - | - |
| Compulsory automobile liability insurance | 57,044 | 46,321 | - | - | 10,723 | - | - | - | 10,723 |
| Total | \$328,989 | \$198,858 | \$9,427 | \$1,108 | \$138,450 | \$10,883 | \$39,519 | \$(28,636) | \$167,086 |

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

| Item | 2016.1.1~2016.9.30 | | 2015.1.1~2015.9.30 | |
|----------------------------------|-----------------------------|-----------------------------------|-----------------------------|-----------------------------------|
| | Premiums deficiency reserve | Ceded premiums deficiency reserve | Premiums deficiency reserve | Ceded premiums deficiency reserve |
| Beginning balance | \$367,287 | \$(6,912) | \$199,764 | \$39,478 |
| Reserve | 393,917 | 5,841 | 338,416 | 10,883 |
| Recover | (364,387) | 6,967 | (199,966) | (39,519) |
| Effects of exchange rate changes | (20,674) | (331) | 6,214 | 240 |
| Loss of control | (357,954) | (5,565) | - | - |
| Ending balance | \$18,189 | \$- | \$344,428 | \$11,082 |

d. Effects for the change of estimation and assumption

Premium deficiency reserve is a measurement of present value for future expenditure. The expected final loss ratio was referred to the data in the past three years, spectacular compensation case and the trend of loss. The expected operation expense ratio was referred to the insurance expense exhibits 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.

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E. Liability reserve

a. Liability reserve and liability-ceded reserve

| | For the nine-month period ended 30 September 2016 | | | |
|------------------|---|----------------------|-------------------------|-----------------|
| | Liability reserve | | Liability-ceded reserve | |
| | Direct written business | Reinsurance ceded-in | Reinsurance ceded-out | Retention |
| | (1) | (2) | (3) | (4)=(1)+(2)-(3) |
| Health insurance | \$24 | \$- | \$- | \$24 |

b. Net change for liability reserve and liability reserve ceded

| | For the nine-month period ended 30 September 2016 | | | | | | | |
|------------------|---|---------|----------------------|---------|----------------------------------|-----------------------|---------|--|
| | Direct written business | | Reinsurance ceded-in | | Net change for liability reserve | Reinsurance ceded-out | | Net change for liability reserve ceded |
| | Reserve | Recover | Reserve | Recover | | Reserve | Recover | |
| | (1) | (2) | (3) | (4) | (5)=(1)-(2)+(3)-(4) | (6) | (7) | (8)=(6)-(7) |
| Health insurance | \$25 | \$1 | \$- | \$- | \$24 | \$- | \$- | \$- |

23. Post-employment benefits

(1) Defined contribution plans

The Group recognized expenses for defined contribution plans amounting to \$412,966 thousand, \$369,553 thousand, \$1,176,922 thousand, and \$1,049,123 thousand for the three-month and nine-month periods ended 30 September 2016 and 2015, respectively.

(2) Defined benefit plans

The Group recognized expenses for defined benefit plans amounting to \$141,774 thousand, \$142,428 thousand, \$437,831 thousand, and \$426,762 thousand for the three-month and nine-month periods ended 30 September 2016 and 2015, respectively.

(3) Employee preferential interest deposit plan

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

Cathay United Bank recognized expenses for preferential interest rate deposits plan amounted to \$79,456 thousand, \$78,228 thousand, \$238,305 thousand and \$234,806 thousand for the three-month and nine-month periods ended 30 September 2016 and 2015, respectively, and recorded as “Employee benefits expenses”.

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24. Common Stock

- (1) As of 30 September 2016, 31 December 2015 and 30 September 2015 all the authorized share capital amounted to \$180,000,000 thousand and all the issued share capital amounted to \$125,632,102 thousand and \$12,563,210 thousand shares, respectively. These shares are common stock with par value of \$10.
- (2) On 31 December 2001, the Company listed its shares on Taiwan Stock Exchange Corporation (TWSE) in accordance with relevant regulations. On 29 July 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depository Shares (GDSs).

25. Capital surplus

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|---|---------------------|---------------------|---------------------|
| Additional paid-in capital | \$84,858,972 | \$84,858,972 | \$84,858,972 |
| Treasury share transactions | 2,539,377 | 2,539,377 | 2,539,377 |
| Differences between share price and book value from acquisition or disposal of subsidiaries | 29,142 | 29,142 | 29,142 |
| Additional paid-in capital-Employee stock option | 203,408 | 203,408 | 203,408 |
| Convertible bonds to convert | 1,144,486 | 1,144,486 | 1,144,486 |
| Others | 7,285 | 5,789 | 5,789 |
| Total | \$88,782,670 | \$88,781,174 | \$88,781,174 |

- (1) The capital surplus of the Company consists of consolidation premium from share exchange, additional paid-in capital from issuance of shares for cash accumulated adjustments on paid-in capital from investment under equity method, and transactions of treasury stocks and employee stock options. Capital surplus were \$88,782,670 thousand, \$88,781,174 thousand and \$88,781,174 thousand as of 30 September 2016, 31 December 2015 and 30 September 2015, respectively.
- (2) According to the Letter Taiwan-Finance-Securities (VI) No. 0910003413 issued by Ministry of Finance on 11 September 2002, capital surplus of financial holding companies from the share exchange, in compliance with Item 4 of Article 47 of the Financial Holding Company Act, is allowed to be distributed as cash dividends or to be capitalized if the capital surplus was from the financial institution's undistributed earnings before the share exchange. In addition, the capitalization amount is not restricted to the article 72-1 of the "Regulations Governing the Offering and Issuance of Securities by Securities Issuers".

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

26. Retained earnings

- (1) Legal reserve

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

On 8 June 2016, the Board of Shareholders resolved to recognize the legal capital reserves of \$5,757,629 thousand. On 12 June 2015, the Board of Shareholders resolved to recognize the legal capital reserves of \$5,035,694 thousand.

- (2) Special reserve

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

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

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- C. In accordance with IFRS 4, provisions for possible claims under contracts that are not in existence at the reporting date are prohibited. Based on the “Regulation Governing the Setting Aside of Various Reserves by Insurance Enterprises”, the reserves under liability recorded before 31 December 2012 should be reclassified to special capital reserve considering the reclassification of balance after tax according to IAS 12 to retained earnings on 1 January 2013. In addition, in order to maintain the consistency and sustainability, the amount should be adjusted retrospectively to 1 January 2012. As of 1 January 2012, the “Special Reserve for Major Incidents” and “Special Reserve for Fluctuation of Risks” amounted to \$9,022,812 thousand. Half of this amount was set aside to be reclassified as the opening balance of foreign exchange volatility reserve on 1 March 2012, and the rest of it in the amount of \$4,511,405 thousand after deducting the effect of income tax was diverted to special capital reserve under retained earnings, an increase of \$3,744,467 thousand. The Company has appropriated to the special reserve an amount of \$3,744,467 thousand during the year ended 31 December 2013.
- D. Cathay Life has elected to use the fair value of certain investment properties on the transition date to TIFRS as their deemed costs. In accordance with Article 32 of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, the incremental value from fair value revaluation can be used to offset the negative impact from transition and shall be set aside an equal amount of retained earnings; the residual amount should be recognized under special reserve. According to Order No. 10202508140 issued by Insurance Bureau, the abovementioned amount \$2,994,565 thousand shall be set aside under special capital reserve in accordance with Order No. Financial-Supervisory-Insurance-Corporate-10102508861. The Company appropriated to the special reserve an amount of \$2,994,565 thousand during the year ended 31 December 2013.
- E. In 2014, the Group changed the subsequent measurement of investment properties from cost model to fair value model. According to Order No. Financial-Supervisory-Securities-Corporate-1030006415, on the first-time adoption of fair value model for investment properties subsequent measurement, the group shall set aside an equal amount of special reserve when transfer the fair value increment of investment properties to retained earnings. The Company appropriated to the special reserve an amount of \$75,242,150 thousand on 31 December 2013.

The Group also reclassified \$0 thousand and \$33,796 thousand of special reserve to undistributed earnings due to the Group’s reclassification of relevant assets which are used, disposed of, reclassified by Cathay Bank for nine-month periods ended 30 September 2016 and 2015.

As of 30 September 2016, 31 December 2015 and 30 September 2015, the special reserves amounted to \$107,271,395 thousand, \$98,348,179 thousand and \$75,232,984 thousand respectively.

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- F. On 27 April 2016, Cathay Life's board of directors, acting on behalf of the shareholders, resolved to recognize special capital reserves of \$27,940,507 thousand, among which special reserves for major incidents and special reserves for fluctuation of risks in the amount of \$1,616,451 thousand had been recognized at the end of 2015 in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises." The rest of them will be recognized in 2016.
- G. On 27 April 2016, Cathay Century's board of directors, acting on behalf of the shareholders, resolved to recognize special capital reserves of \$858,776 thousand, among which special reserves for major incidents and special reserves for fluctuation of risks in the amount of \$483,754 thousand had been recognized at the end of 2015 in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises." The rest of them will be recognized in 2016.
- H. In accordance with Order No. Financial-Supervisory-Insurance-Corporate-10402029590, Cathay Life recognized special capital reserve amounting to \$34,764,311 thousand. The amount was originally recognized in insurance liabilities.

(3) Undistributed earnings

- A. According to the Company's Articles of Incorporation, the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated as legal capital reserve and special capital reserve. The total remaining amount plus beginning undistributed earnings are the distributable earnings. The distributable earnings must be appropriated in accordance with the resolution by the stockholders' meeting.
- B. The Company cannot distribute overdue undistributed earnings. Before 2004, the Company has to pay an extra 10% income tax on approved taxable income. From (including) 2005, the calculation of extra 10% income tax should be based on current-year net income (after tax) generated according to Business Entity Accounting Act. Earnings that have been taxed will not be taxed again if the earnings are not distributed in the following years.
- C. According to Article 41 of Securities and Exchange Act, when distributing earnings, listed companies shall appropriate, in addition to legal reserve, special reserve equal to net deductions from shareholders' equity. The special reserve for the current year's net deductions shall be appropriated from current year's net income and prior periods' accumulated undistributed earnings. The special reserve for the prior periods' net deductions shall be appropriated only from prior periods' accumulated undistributed earnings. For any subsequent reversal of net deductions from shareholders' equity, the amount reversed may be distributed.

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- D. According to the addition of Article 235-1 of the Company Act announced on 20 May, 2015, the Company shall provide a fixed amount or percentage of the actual profit for a year to be distributed as “employee remuneration”, after deducting and setting aside an amount equal to the cumulative losses (if any). The aforementioned employee remuneration may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders’ meeting. Furthermore the Articles of Incorporation may stipulate that the employee remuneration could be distributed to employees of affiliated enterprises meeting certain criteria. On 8 June 2016, the company amended the related regulations in the Company’s Articles of Incorporation according to the aforementioned addition.
- E. Special reserves for major incidents and special reserves for fluctuation of risks are recorded as special capital reserve under equity at the end of this year. As of 30 September 2016, Cathay Life recognized the addition amounting to \$1,080,025 thousand.
- F. Special reserves for major incidents and special reserves for fluctuation of risks are recorded as special capital reserve under equity at the end of this year. As of 30 September 2016, Cathay Century recognized the addition amounting to \$2,433,579 thousand.
- G. Details of the years ended 31 December 2015 and 2014 earnings distribution and dividends per share as approved by the shareholders’ meeting on 8 June 2016 and 12 June 2015, respectively, are as follows:

| | Appropriation of earnings | | Dividend per share | |
|----------------------------|---------------------------|-------------------------|-------------------------|-------------------------|
| | 2015.1.1~ 2015.12.31 | 2014.1.1~ 2014.12.31 | 2015.1.1~ 2015.12.31 | 2014.1.1~ 2014.12.31 |
| Legal reserve | \$5,757,629 | \$5,035,694 | \$- | \$- |
| Common stock-cash dividend | 25,126,420 | 25,126,420 | 2.0 | 2.0 |

Information regarding the employee bonuses and remuneration to directors and supervisors can be obtained from Note 28.

- H. The Company’s distribution of 2015 retained earnings has been approved by the Board of Directors as of the independent auditors’ opinion date. For related information please refer to the “Market Observation Post System” website of the Taiwan Stock Exchange Corporation.

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27. Non-controlling interests

| | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|---|------------------------|------------------------|
| Beginning balance | \$6,005,208 | \$5,639,845 |
| Net income attributed to non-controlling interests | 497,960 | 454,079 |
| Other comprehensive income attributed to non-controlling interests: | | |
| Exchange differences resulting from translating the financial statements of a foreign operation | (385,812) | 215,678 |
| Unrealized gains from available-for-sale financial assets | (26,915) | (24,940) |
| Changes in non-controlling interests | 75,731 | (218,883) |
| Ending balance | <u>\$6,166,172</u> | <u>\$6,065,779</u> |

28. Employee benefits, depreciation and amortization

Summary statement of employee benefits and depreciation expenses breakdown:

| | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|----------------------------|------------------------|------------------------|------------------------|------------------------|
| Employee benefits expense | | | | |
| Salary and wages | \$8,343,084 | \$7,550,886 | \$25,561,242 | \$22,254,374 |
| Labor and health insurance | 976,337 | 818,405 | 2,927,770 | 2,439,819 |
| Pension expense | 576,835 | 534,418 | 1,682,275 | 1,544,615 |
| Other employee benefits | 1,147,285 | 732,187 | 3,456,014 | 1,983,925 |
| Depreciation | 548,314 | 530,915 | 1,659,506 | 1,585,164 |
| Amortization | 708,623 | 612,961 | 2,120,988 | 779,889 |

Based on resolution of the Company's Board of Shareholders meeting held on 8 June 2016 to amend the Articles of Incorporation of the Company. According to the resolution, 0.01% to 0.05% of profit of the current year is distributable as employees' compensation and no higher than 0.05% of profit of the current year is distributable as remuneration to directors. However, the company's accumulated losses shall have been covered. The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on the profit for the nine-month period ended 30 September 2016, the Company provides that 0.01% to 0.05% of profit of the current year is distributable as employees' compensation and no higher than 0.05% of profit of the current year is distributable as remuneration to directors. The Company recognized employees' compensation and remuneration of \$4,066 thousand and \$1,575 thousand for the nine-month period ended 30 September 2016, respectively, recognized as operating expenses. If estimated amount is different from the actual distributable amount passed by the Board of Directors, it will be recognized as the next year loss.

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Based on resolution of the Company's Board of Directors meeting held on 17 March 2016 to distribute \$5,903 thousand and \$2,100 thousand in cash as employees' compensation and remuneration to directors for 2015, respectively. Both amounts distributed were the same as the amount recognized as expense on the financial report in 2015.

As of 30 September 2016 and 30 September 2015, the total numbers of the employees of the Group were 47,825 and 45,496, respectively.

29. The Components of other comprehensive income

For the three-month period ended 30 September 2016:

| | Reclassification adjustments | Other | Income tax | Other | |
|---|---------------------------------|-------------------------|----------------------|--|---------------------|
| Arising during the period | during the period | comprehensive income | benefit (expense) | comprehensive income, net of tax | |
| Not to be reclassified to profit or loss in subsequent periods: | | | | | |
| Share of other comprehensive income of associates and joint ventures accounted for using the equity method | \$9,861 | \$- | \$9,861 | \$(1,676) | \$8,185 |
| Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk | (700,039) | - | (700,039) | 119,006 | (581,033) |
| To be reclassified to profit or loss in subsequent periods: | | | | | |
| Exchange differences resulting from translating the financial statements of a foreign operation | (3,705,961) | - | (3,705,961) | 246,772 | (3,459,189) |
| Unrealized gains (losses) from available-for-sale financial assets | 28,117,368 | (5,427,567) | 22,689,801 | (874,043) | 21,815,758 |
| Losses (gains) on cash flow hedges | (17,371) | (46,378) | (63,749) | 10,837 | (52,912) |
| Share of other comprehensive income of associates and joint ventures accounted for using the equity method | (735,325) | - | (735,325) | (132) | (735,457) |
| Total | \$22,968,533 | \$(5,473,945) | \$17,494,588 | \$(499,236) | \$16,995,352 |

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For the three-month period ended 30 September 2015:

| | Reclassification adjustments | Other | Income tax | Other comprehensive | |
|---|---------------------------------|-------------------------|-----------------------|------------------------|-----------------------|
| Arising during the period | during the period | comprehensive income | benefit (expense) | income, net of tax | |
| Not to be reclassified to profit or loss in subsequent periods: | | | | | |
| Share of other comprehensive income of associates and joint ventures accounted for using the equity method | \$(6,411) | \$- | \$(6,411) | \$1,090 | \$(5,321) |
| Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk | 764,361 | - | 764,361 | (129,942) | 634,419 |
| To be reclassified to profit or loss in subsequent periods: | | | | | |
| Exchange differences resulting from translating the financial statements of a foreign operation | 3,260,859 | - | 3,260,859 | (265,892) | 2,994,967 |
| Unrealized gains (losses) from available-for-sale financial assets | (48,539,132) | 5,034,703 | (43,504,429) | 1,599,036 | (41,905,393) |
| Gains (losses) on cash flow hedges | 205,406 | (36,218) | 169,188 | (28,763) | 140,425 |
| Share of other comprehensive income of associates and joint ventures accounted for using the equity method | 302,269 | - | 302,269 | (6,607) | 295,662 |
| Total | \$(44,012,648) | \$4,998,485 | \$(39,014,163) | \$1,168,922 | \$(37,845,241) |

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For the nine-month period ended 30 September 2016

| | Reclassification | | Other | Income tax | Other |
|---|---------------------|-----------------------|---------------------|--------------------|---------------------|
| | adjustments | Other | | | |
| | Arising during | during the | comprehensive | benefit | income, net of |
| | the period | period | income | (expense) | tax |
| Not to be reclassified to profit or loss in subsequent periods: | | | | | |
| Share of other comprehensive income of associates and joint ventures accounted for using the equity method | \$6,802 | \$- | \$6,802 | \$(1,156) | \$5,646 |
| Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk | 199,409 | - | 199,409 | (33,900) | 165,509 |
| To be reclassified to profit or loss in subsequent periods: | | | | | |
| Exchange differences resulting from translating the financial statements of a foreign operation | (8,810,541) | - | (8,810,541) | 370,621 | (8,439,920) |
| Unrealized gains (losses) from available-for-sale financial assets | 50,104,094 | (18,880,623) | 31,223,471 | 1,377,204 | 32,600,675 |
| Gains (losses) on cash flow hedges | 138,977 | (131,395) | 7,582 | (1,289) | 6,293 |
| Share of other comprehensive income of associates and joint ventures accounted for using the equity method | (977,868) | - | (977,868) | 5,830 | (972,038) |
| Total | \$40,660,873 | \$(19,012,018) | \$21,648,855 | \$1,717,310 | \$23,366,165 |

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For the nine-month period ended 30 September 2015

| | Reclassification adjustments | Other comprehensive income | Income tax benefit (expense) | Other comprehensive income, net of tax | |
|---|---------------------------------|----------------------------------|------------------------------------|---|-----------------------|
| Arising during the period | during the period | comprehensive income | benefit (expense) | income, net of tax | |
| Not to be reclassified to profit or loss in subsequent periods: | | | | | |
| Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk | \$(5,654) | \$- | \$(5,654) | \$961 | \$(4,693) |
| Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk | 1,022,064 | - | 1,022,064 | (173,751) | 848,313 |
| To be reclassified to profit or loss in subsequent periods: | | | | | |
| Exchange differences resulting from translating the financial statements of a foreign operation | 2,275,840 | - | 2,275,840 | (167,279) | 2,108,561 |
| Unrealized gains (losses) from available-for-sale financial assets | (36,298,048) | (30,717,364) | (67,015,412) | 3,812,993 | (63,202,419) |
| Gains (losses) on cash flow hedges | 284,689 | (112,633) | 172,056 | (29,887) | 142,169 |
| Share of other comprehensive income of associates and joint ventures accounted for using the equity method | 106,567 | - | 106,567 | 29,447 | 136,014 |
| Total | \$(32,614,542) | \$(30,829,997) | \$(63,444,539) | \$3,472,484 | \$(59,972,055) |

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30. Income taxes

(1) The major components of income tax expense are as follows:

Income tax expense recognized in profit or loss

| | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 |
|--|------------------------|------------------------|
| Current income tax expense (income): | | |
| Current income tax charge | \$7,452,589 | \$(5,891,955) |
| Adjustments in respect of current income tax of prior periods | 9,205 | 384,629 |
| Deferred tax expense (income): | | |
| Deferred tax expense relating to origination and reversal of temporary differences | (7,716,841) | 6,477,297 |
| Deferred tax income relating to origination and reversal of tax loss and tax credit | 2,335,713 | 338,828 |
| Tax expense recognized in the period for previously unrecognized tax loss, tax credit or temporary difference of prior periods | 99,238 | 99,238 |
| Other components of deferred tax expense | 25,068 | (852,765) |
| Total income tax expense | \$2,204,972 | \$555,272 |
| | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
| Current income tax expense (income): | | |
| Current income tax charge | \$9,182,104 | \$(3,208,470) |
| Adjustments in respect of current income tax of prior periods | (188,183) | (28,592) |
| Deferred tax expense (income): | | |
| Deferred tax (income) expense relating to origination and reversal of temporary differences | (3,099,062) | 9,966,595 |
| Deferred tax income relating to origination and reversal of tax loss and tax credit | (154,226) | (202,656) |
| Tax expense recognized in the period for previously unrecognized tax loss, tax credit or temporary difference of prior periods | (29,032) | 297,715 |
| Other components of deferred tax expense | 2,002,132 | 1,574,593 |
| Total income tax expense | \$7,713,733 | \$8,399,185 |

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Income tax relating to components of other comprehensive income

| | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 |
|--|------------------------|------------------------|
| Current income tax expense: | | |
| Current income tax charge | \$- | \$- |
| Deferred tax expense (income): | | |
| Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk | (119,006) | 129,942 |
| Exchange difference resulting from translating the financial statements of a foreign operation | (246,772) | 265,892 |
| Unrealized gains (losses) from available-for-sale financial assets | 874,043 | (1,599,036) |
| (Losses) gains on cash flow hedges | (10,837) | 28,763 |
| Share of other comprehensive income of associates and joint ventures accounted for using the equity method | 1,808 | 5,517 |
| Income tax relating to components of other comprehensive income | <u>\$499,236</u> | <u>\$(1,168,922)</u> |

| | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|--|------------------------|------------------------|
| Current income tax expense: | | |
| Current income tax charge | \$- | \$- |
| Deferred tax expense (income): | | |
| Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk | 33,900 | 173,751 |
| Exchange difference resulting from translating the financial statements of a foreign operation | (370,621) | 167,279 |
| Unrealized losses from available-for-sale financial assets | (1,377,204) | (3,812,993) |
| Gains on cash flow hedges | 1,289 | 29,887 |
| Share of other comprehensive income of associates and joint ventures accounted for using the equity method | (4,674) | (30,408) |
| Income tax relating to components of other comprehensive income | <u>\$(1,717,310)</u> | <u>\$(3,472,484)</u> |

Income tax changed directly to equity

| | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 |
|---|------------------------|------------------------|
| Deferred tax expense (income): | | |
| Capital surplus | <u>\$151,143</u> | <u>\$(231)</u> |
| Income taxes relating to components of equity | <u>\$151,143</u> | <u>\$(231)</u> |

| | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|---|------------------------|------------------------|
| Deferred tax expense (income): | | |
| Capital surplus | <u>\$151,147</u> | <u>\$(231)</u> |
| Income taxes relating to components of equity | <u>\$151,147</u> | <u>\$(231)</u> |

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(2) Income tax returns:

| | 2016.9.30 | |
|------------------------------------|---|--|
| | Income tax returns examined by tax authorities | Notes |
| The Company | through 2010 | - |
| Cathay Life | through 2010 | Cathay Life was in the process of administrative remedy for 2007 and 2009. |
| Cathay United Bank | through 2010 | Cathay United Bank was in the process of administrative remedy from 2008 to 2010. |
| Cathay Century | through 2010 | Cathay Century was in the process of administrative remedy for 2007. |
| Cathay Securities | through 2010 | Cathay Securities was in the process of administrative remedy for 2007, 2009 and 2010. |
| Cathay Venture | through 2010 | - |
| Cathay Securities Investment Trust | through 2011 | - |
| Cathay Futures | through 2014 | - |

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

(3) Information related to imputation credit account:

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--------------------------------------|-------------|------------|-----------|
| Balance of imputation credit account | \$1,365,704 | \$201,096 | \$385,031 |

The Company's cash dividends-imputed tax credit ratio applied to actual distribution was 5.70% for the year ended 31 December 2015. The cash dividends-imputed tax credit rates applied to actual distribution were 2.05% for the year ended 31 December 2014.

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

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31. Earnings per share

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

The Group did not issue dilutive potential common stock; therefore, the basic earnings per share need not be adjusted.

| | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|--|------------------------|------------------------|------------------------|------------------------|
| Basic earnings per share | | | | |
| Profit attributable to ordinary equity holders of the Company (in thousands) | <u>\$24,867,699</u> | <u>\$13,535,384</u> | <u>\$38,751,510</u> | <u>\$54,430,674</u> |
| Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands) | <u>12,563,210</u> | <u>12,563,210</u> | <u>12,563,210</u> | <u>12,563,210</u> |
| Basic earnings per share (in dollars) | <u>\$1.97</u> | <u>\$1.07</u> | <u>\$3.08</u> | <u>\$4.33</u> |

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

32. Business combinations

Cathay Life

- (1) Approved by the board of directors, Cathay Life has participated and won the public auction for assets, liabilities and operations of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. The public auction holder, Taiwan Insurance Guaranty Fund, provided compensation of \$30,300,000 thousand for the takeover. The price for acquiring the assets, liabilities and operations of the target firms would be adjusted based on the effect on the equity resulted from the amount changes in the designated accounts on 1 July 2015. Pursuant to IFRS 3 *Business Combinations*, Cathay Life recognized goodwill at the excess of fair value of the identifiable net assets and the aggregation of the consideration transferred.

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The assumed assets, liabilities and goodwill generated from the business combination on 1 July 2015 are disclosed as follows (reserved assets and liabilities are not assumed and thus were excluded):

| | Fair value recognized on the acquisition date | |
|--|---|----------------|
| Purchase consideration (Compensation received) | | \$(30,300,000) |
| Cash and cash equivalents | \$16,157,186 | |
| Receivables | 1,026,998 | |
| Financial assets at fair value through profit or loss | 463,179 | |
| Available-for-sale financial assets | 8,779,212 | |
| Debt instrument investments for which no active market exists | 54,801,260 | |
| Investment property | 2,609,545 | |
| Loans | 9,795,866 | |
| Reinsurance assets | 130,977 | |
| Property and equipment | 57,038 | |
| Intangible assets (Licenses and computer software) | 37,676,033 | |
| Other assets | 3,032,899 | |
| Separate account product assets | 431,208 | |
| Payables | (503,929) | |
| Financial liabilities at fair value through profit or loss | (126,168) | |
| Insurance liabilities | (166,649,257) | |
| Foreign exchange volatility reserve | (248,318) | |
| Provisions | (5,220) | |
| Other liabilities | (215,691) | |
| Separate account product liabilities | (431,208) | |
| Identifiable net assets acquired at fair value | <u>\$ (33,218,390)</u> | |
| Acquisition ratio | 100% | |
| Intangible assets (Goodwill) | | \$2,918,390 |

(2) Acquisition of subsidiary

On 18 September 2015, Cathay Life and its subsidiaries acquired 100% of the equity of Conning Holdings Limited with \$7,839,676 thousand cash and have obtained control of Conning Holdings Limited. Cathay Life and its subsidiaries have acquired Conning Holdings Limited because the acquisition accomplished Cathay Life and its subsidiaries' vision for developing global asset management business to improve the efficiency of insurance fund allocation.

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

| | <u>Fair value recognized on the acquisition date</u> | |
|--|--|-------------|
| Purchase consideration | | \$7,839,676 |
| Cash and cash equivalents | \$861,258 | |
| Receivables | 864,136 | |
| Debt instrument investments for which no active market exists | 3,289 | |
| Property and equipment | 131,700 | |
| Intangible assets (Except for goodwill) | 2,550,377 | |
| Other assets | 200,849 | |
| Payables | (869,047) | |
| Provisions | (66,311) | |
| Deferred tax liabilities | (578,523) | |
| Other liabilities | (268,088) | |
| Non-controlling interests | (77,927) | |
| Identifiable net assets acquired at fair value | <u>\$2,751,713</u> | |
| Acquisition ratio | 100% | |
| Intangible assets (Goodwill) | | \$5,087,963 |

- (3) On 1 February 2016, Cathay Life and its subsidiaries acquired 82.05% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of the Company, with \$4,708,746 thousand of cash and obtained control of Octagon Credit Investors, LLC. The acquisition enabled Cathay Life and its subsidiaries to provide investment solution for clients, maximize the use of various resources and stabilize the investment performance.

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

| | <u>Fair value recognized on the acquisition date</u> | |
|---|--|--------------------|
| Cash and cash equivalents | | \$38 |
| Receivables | | 277,361 |
| Held-to-maturity financial assets | | 439,991 |
| Intangible assets (Except for goodwill) | | 1,640,402 |
| Other assets | | 44,166 |
| Payables | | (104,633) |
| Provisions | | (265,993) |
| Other liabilities | | (57,820) |
| Identifiable net assets | | <u>\$1,973,512</u> |

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| | Fair value recognized on the acquisition date |
|--|---|
| Goodwill of Octagon Credit Investors, LLC is as follows: | |
| Purchase consideration | \$4,708,746 |
| Add: Non-controlling interests at fair value | 228,364 |
| Less: Identifiable net assets at fair value | (1,973,512) |
| Goodwill | \$2,963,598 |

At the date of approval and issuance of the consolidated financial statements, the market value and pertinent amount have not yet been determined; therefore, the abovementioned amount are disclosed at managements' best estimate.

Cathay Securities

(1) Acquisition of subsidiary

On 4 September 2015, Cathay Securities acquired 100% of the equity of Cathay Securities (Hong Kong) with \$154,548 thousand cash and have obtained control of Cathay Securities (Hong Kong). Cathay Securities have acquired Cathay Securities (Hong Kong) because the acquisition accomplished Cathay Securities' vision for developing global asset management business to improve the efficiency of insurance fund allocation.

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

| | Fair value recognized on the acquisition date | |
|--|---|-----------|
| Purchase consideration | | \$154,548 |
| Cash and cash equivalents | \$306,860 | |
| Receivables | 5,147 | |
| Prepayments | 18,400 | |
| Property and equipment | 851 | |
| Intangible assets (Except for goodwill) | 2,109 | |
| Other assets | 868 | |
| Payables | (187,396) | |
| Accrued expense | (920) | |
| Identifiable net assets acquired at fair value | \$145,919 | |
| Acquisition ratio | 100% | |
| Intangible assets (Goodwill) | | \$8,629 |

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Cathay Century

(1) Loss of control of a subsidiary

Cathay Century did not participate in the capital increase of its subsidiary, Cathay Century (China), during July 2016 and therefore, Cathay Century's ownership over Cathay Century (China) decreased to 24.5%. The subsidiary is accounted for using the equity method since Cathay Century lost control of the subsidiary but still retained significant influence. The fair value of the remaining 24.5% ownership on disposal day was \$1,457,612 thousand and therefore, Cathay Century recognized a revaluation gains of \$1,354,739 thousand.

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

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

32. Risk management for insurance contract

(1) Life insurance subsidiaries

Risk management objectives, policies, procedures and methods:

A. Objectives of risk management

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

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B. Framework of risk management, organization structure and responsibilities

(A) Board of directors

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

(B) Risk management committee

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

(C) Chief Risk Officer

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

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(D) Risk management department

- a. The department is responsible for monitoring, measuring and evaluating daily risks and should perform its duties independently.
- b. The department should perform the following functions with regard to different business activities:
 - (a) Propose and execute the risk management policies set by the board of directors.
 - (b) Suggest the risk limits based on risk appetite
 - (c) Summarize the risk information provided by all departments, facilitate the execution of the policies and discuss the risk limits with departments respectively
 - (d) Regularly generate risk management related reports
 - (e) Regularly review all department's risk limits and cope with the violation of such limits
 - (f) Execute stress testing
 - (g) Execute back testing if necessary
 - (h) Manage other risk management related issues

(E) Operating departments

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

(F) Audit department

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

The risk management department formulates risk management standards and policies

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

C. The scope and types of risk assessment and reporting

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

(A) Market risk

This risk can be defined as the risk of losses in value of Cathay Life's financial assets arising from adverse movements in market prices of financial instruments. Cathay Life applies one-week 95% and 99% value-at-risk (VaR) to measuring market risk. Cathay Life also uses back testing regularly to ensure the accuracy of the market risk model. Furthermore, Cathay Life applies scenario analysis and stress testing to evaluating the changes in the value of certain asset groups due to significant domestic and/or international events. In response to the enforcement of foreign exchange volatility reserve, Cathay Life determines the ceiling of foreign exchange risk, implements early warning system and also monitors the foreign exchange risk regularly.

(B) Credit risk

This risk refers to Cathay Life's losses due to the default of debtors or counterparties. The measurements that Cathay Life uses include credit rating, concentration analysis and value-at-risk (VaR) under 95% confidence level. Furthermore, Cathay Life applies scenario analysis and stress testing to evaluate the changes in the value of the asset groups due to significant domestic and/or international events.

(C) Sovereign risk

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

(D) Liquidity risk

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

(E) Operating risk

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

(F) Insurance risk

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

(G) Asset and liability matching risk

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

(H) Risk-based capital (RBC) ratio

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

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

(A) The process of assuming, measuring, monitoring and controlling risks:

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

(B) The way to determine a proper risk classification, a premium level and underwriting policies:

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

E. The scope of insurance risk assessment and management from a company-wise perspective

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(A) Insurance risk assessment covers the following topics:

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

(B) The scope of management of insurance risk

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

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

The method that Cathay Life mainly uses to limit or transfer insurance risk exposure and to avoid inappropriate concentration risk is the reinsurance management plan which is made considering Cathay Life's risk profiling and risk taking ability and legal issues. 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

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- (A) Cathay Life has an asset/liability management committee to establish management structure, to ensure full application of the management policy, to integrate human capital and resources, to review the strategy and practice regularly and, furthermore, to reduce all types of risks.
 - (B) Authorized departments will review the measurement of asset/liability management regularly and report to the asset/liability management committee regularly; following that, the results will be sent to the risk management committee of Cathay Life. Furthermore, the annual report should be delivered to the risk management committee of the Cathay Financial Holdings.
 - (C) When an exceptional situation occurs, the affected departments should propose possible solutions to the asset/liability management committee, the risk management committee in Cathay Life and that in the Cathay Financial Holdings.
- H. The procedure to manage, monitor and control a special event which results in extra liability to be taken or extra owner equity to be committed

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

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

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

- I. Risk mitigation and avoidance policies and risk monitoring procedures

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- (A) Cathay Life enters into derivative transactions to reduce market risk and credit risk of the assets. The derivative contracts such as stock index options, index futures, interest rate futures, interest rate swaps, currency forwards, cross currency swaps and credit default swaps are applied to hedge risks arising from investments, such as equity risk, interest rate risk, cash flow risk, foreign exchange risk and credit risk; however, the derivatives not qualified for hedge accounting are measured at fair value through profit or loss.
- (B) Hedging instrument against business risks and implementation are made preliminarily based on the risk tolerance levels. Cathay Life executes hedge and exercises authorized financial instruments to adjust the overall risk level to the tolerance levels based on the market dynamics, business strategies, the characteristics of products and risk management policies.
- (C) Cathay Life assesses and reviews the effectiveness of the hedge instruments and hedged items regularly. The assessment report is issued and forwarded to the management which is delegated by board of directors; meanwhile, a copy of the assessment report is delivered to the audit department for future reference.

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

Taking in into consideration the relevant factors affecting credit risk, Cathay Life has set credit and investment limits by business groups, industries and countries. When such limits has been 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 on Sovereign Risk Management” and “Guidelines on Credit and Investment Risk Management on Conglomerate and Other Corporate Institutions”.

Information of insurance risk

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

(A) Cathay Life

| | For the nine-month period ended 30 September 2016 | | |
|---------------------|---|----------------------------------|----------------------------------|
| | Scenarios | Change in income before tax | Change in equity |
| Mortality/Morbidity | ×1.05 (×0.95) | Decrease (increase) 1,754,889 | Decrease (increase) 1,456,558 |
| Expense | ×1.05 (×0.95) | Decrease (increase) 2,418,196 | Decrease (increase) 2,007,103 |
| Surrender rates | ×1.05 (×0.95) | Increase (decrease) 315,897 | Increase (decrease) 262,194 |
| Rate of return | +0.1% | Increase 3,404,345 | Increase 2,825,606 |
| Rate of return | -0.1% | Decrease 3,406,858 | Decrease 2,827,692 |

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| For the nine-month period ended 30 September 2015 | | | |
|---|---------------|----------------------------------|----------------------------------|
| | Scenarios | Change in income before tax | Change in equity |
| Mortality/Morbidity | ×1.05 (×0.95) | Decrease (increase) 1,583,923 | Decrease (increase) 1,314,656 |
| Expense | ×1.05 (×0.95) | Decrease (increase) 2,089,162 | Decrease (increase) 1,734,005 |
| Surrender rates | ×1.05 (×0.95) | Increase (decrease) 209,782 | Increase (decrease) 174,119 |
| Rate of return | +0.1% | Increase 3,101,475 | Increase 2,574,224 |
| Rate of return | -0.1% | Decrease 3,103,762 | Decrease 2,576,123 |

(B) Cathay Lujiazui Life

| For the nine -month period ended 30 September 2016 | | | |
|--|---------------|--------------------------------|--------------------------------|
| | Scenarios | Change in income before tax | Change in equity |
| Mortality/Morbidity | ×1.10 (×0.90) | Decrease (increase) 209,938 | Decrease (increase) 157,453 |
| Expense | ×1.05 (×0.95) | Decrease (increase) 123,699 | Decrease (increase) 92,774 |
| Surrender rates | ×1.10 (×0.90) | Increase (decrease) 107,711 | Increase (decrease) 80,784 |
| Rate of return | +0.25% | Increase 394,101 | Increase 295,576 |
| Rate of return | -0.25% | Decrease 429,046 | Decrease 321,784 |

| For the nine -month period ended 30 September 2015 | | | |
|--|---------------|-------------------------------|-------------------------------|
| | Scenarios | Change in income before tax | Change in equity |
| Mortality/Morbidity | ×1.10 (×0.90) | Decrease (increase) 94,110 | Decrease (increase) 70,582 |
| Expense | ×1.05 (×0.95) | Decrease (increase) 64,019 | Decrease (increase) 48,014 |
| Surrender rates | ×1.10 (×0.90) | Increase (decrease) 20,416 | Increase (decrease) 15,312 |
| Rate of return | +0.25% | Increase 334,723 | Increase 251,042 |
| Rate of return | -0.25% | Decrease 380,170 | Decrease 285,128 |

(C) Cathay Life (Vietnam)

| For the nine -month period ended 30 September 2016 | | | |
|--|---------------|-------------------------------|------------------------------|
| | Scenarios | Change in income before tax | Change in equity |
| Mortality/Morbidity | ×1.05 (×0.95) | Decrease (increase) 192 | Decrease (increase) 154 |
| Expense | ×1.05 (×0.95) | Decrease (increase) 11,260 | Decrease (increase) 9,008 |
| Surrender rates | ×1.05 (×0.95) | Increase (decrease) 1,017 | Increase (decrease) 813 |
| Rate of return | +0.1% | Increase 3,922 | Increase 3,137 |
| Rate of return | -0.1% | Decrease 3,924 | Decrease 3,140 |

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| | For the nine -month period ended 30 September 2015 | | |
|---------------------|--|------------------------------|------------------------------|
| | Scenarios | Change in income before tax | Change in equity |
| Mortality/Morbidity | ×1.05 (×0.95) | Decrease (increase) 173 | Decrease (increase) 135 |
| Expense | ×1.05 (×0.95) | Decrease (increase) 8,221 | Decrease (increase) 6,413 |
| Surrender rates | ×1.05 (×0.95) | Increase (decrease) 735 | Increase (decrease) 573 |
| Rate of return | +0.1% | Increase 2,945 | Increase 2,297 |
| Rate of return | -0.1% | Decrease 2,947 | Decrease 2,299 |

- a. Changes in income before tax listed above refer to the effects of income before tax arising from the assumption for nine-month periods ended 30 September 2016 and 2015. The influence on equities of Cathay Life, Cathay Lujiazui Life and Cathay Life (Vietnam) is assumed that the income tax is calculated on pre-tax income at rates of 17%, 25% and 20% (22% for the nine-month period ended 30 September 2015) individually.
- b. An increase (decrease) of 0.1% on discount rate applied to liability adequacy test has no impact on income before tax and equity. The result of the test shows Cathay Life's adequacy. However, if the discount rate keeps declining significantly, income before tax and equity will probably be affected.
- c. Sensitivity Test
- Mortality/Morbidity test is executed by multiplying mortality, morbidity and the occurrence rate of injury insurance by the changes of assumptions and results in the corresponding changes in income before tax.
 - Expense sensitivity is executed by multiplying all expense items listed in statements of comprehensive income (Note 1) by the changes of assumptions and results in the corresponding changes in income before tax.
 - Surrender rate sensitivity test is executed by multiplying surrender rate by the changes of assumptions and results in the corresponding changes in income before tax.
 - The rate of returns sensitivity test is executed by multiplying the rate of returns (Note 2) increases (decreases) by the changes of assumptions and results in the corresponding changes in income before tax.

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

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

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B. Interpretation of concentration of insurance risks

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

Cathay Life reviews the profits and losses on compensation and the capability of assuming risk as a whole periodically. Cathay Life will also evaluate the retention amount according to the risk features and approve by competent authority. For the excess of retention amount, Cathay Life cedes this portion of amounts to reinsurers. At the same time, Cathay Life takes the possibility of unexpected human and natural disasters into account periodically and estimates the reasonable maximum amount of losses from retained risks. Cathay Life determines whether it is necessary to adjust the reinsured amount or catastrophe reinsurance according to the range of losses. Hence, the insurance risk to some extent has been diversified to reduce the potential impact on unexpected losses.

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

(3) Claim development trend

A. Cathay Life

a. Direct business development trend

| Accident year | Development year | | | | | | | Unreported claim | Reserve for unreported claim |
|---------------|------------------|------------|------------|------------|------------|------------|------------|--|------------------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | | |
| 2009Q4~2010Q3 | 14,360,885 | 17,628,221 | 17,910,357 | 18,014,824 | 18,080,317 | 18,105,779 | 18,116,277 | - | - |
| 2010Q4~2011Q3 | 15,141,074 | 18,792,387 | 19,163,394 | 19,235,042 | 19,288,407 | 19,327,473 | 19,343,004 | 15,531 | 15,562 |
| 2011Q4~2012Q3 | 15,132,675 | 18,515,317 | 18,845,586 | 18,924,014 | 18,976,108 | 19,006,370 | 19,020,685 | 44,577 | 44,666 |
| 2012Q4~2013Q3 | 14,208,383 | 17,626,098 | 17,941,782 | 17,996,194 | 18,038,204 | 18,062,602 | 18,074,407 | 78,213 | 78,369 |
| 2013Q4~2014Q3 | 14,369,530 | 17,761,644 | 18,099,196 | 18,168,126 | 18,208,857 | 18,233,281 | 18,245,221 | 146,025 | 146,317 |
| 2014Q4~2015Q3 | 14,692,344 | 18,282,975 | 18,594,273 | 18,664,661 | 18,705,393 | 18,730,202 | 18,742,477 | 459,502 | 460,421 |
| 2015Q4~2016Q3 | 15,693,180 | 19,240,681 | 19,568,887 | 19,641,535 | 19,683,953 | 19,709,764 | 19,722,576 | 4,029,396 | 4,037,455 |
| | | | | | | | | Expected future payment | \$4,782,790 |
| | | | | | | | | Add: Assumed reserve for incurred but not reported claim | 60,766 |
| | | | | | | | | Reserve for unreported claim | 4,843,556 |
| | | | | | | | | Add: Reported but not paid claim | 422,476 |
| | | | | | | | | Claims reserve balance | <u>\$5,266,032</u> |

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b. Retained business development trend

| Accident year | Development year | | | | | | | Unreported claim | Reserve for unreported claim |
|---------------|------------------|------------|------------|------------|------------|------------|------------|------------------|------------------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | | |
| 2009Q4~2010Q3 | 14,412,608 | 17,680,388 | 17,964,450 | 18,068,928 | 18,134,734 | 18,160,633 | 18,171,330 | - | - |
| 2010Q4~2011Q3 | 15,181,824 | 18,823,933 | 19,197,699 | 19,269,938 | 19,323,884 | 19,363,449 | 19,379,196 | 15,747 | 15,779 |
| 2011Q4~2012Q3 | 15,185,916 | 18,606,599 | 18,937,991 | 19,017,068 | 19,069,643 | 19,100,473 | 19,115,050 | 45,407 | 45,498 |
| 2012Q4~2013Q3 | 14,332,044 | 17,758,618 | 18,077,616 | 18,132,830 | 18,175,439 | 18,200,489 | 18,212,591 | 79,761 | 79,920 |
| 2013Q4~2014Q3 | 14,437,832 | 17,854,021 | 18,194,677 | 18,264,238 | 18,305,406 | 18,330,304 | 18,342,459 | 147,782 | 148,078 |
| 2014Q4~2015Q3 | 14,794,067 | 18,411,178 | 18,726,678 | 18,797,943 | 18,839,210 | 18,864,608 | 18,877,146 | 465,968 | 466,900 |
| 2015Q4~2016Q3 | 15,796,769 | 19,381,201 | 19,713,963 | 19,787,541 | 19,830,493 | 19,856,896 | 19,869,971 | 4,073,202 | 4,081,349 |

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

| | |
|----------------------------------|-------------|
| Expected future payment | \$4,837,524 |
| Add: Reported but not paid claim | 413,891 |
| Retained claims reserve balance | \$5,251,415 |

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

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

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B. Cathay Lujiazui Life

a. Direct business development trend

| Accident year | Development year | | | | | | | Expected future payment |
|---------------|------------------|---------|---------|---------|---------|---------|---------|-------------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| 2009Q4~2010Q3 | 235,332 | 435,510 | 454,901 | 454,901 | 454,964 | 454,964 | 454,964 | - |
| 2010Q4~2011Q3 | 243,325 | 450,301 | 477,202 | 477,202 | 493,362 | 493,362 | 493,362 | - |
| 2011Q4~2012Q3 | 259,165 | 506,137 | 547,019 | 551,181 | 554,653 | 554,653 | 554,653 | - |
| 2012Q4~2013Q3 | 383,184 | 615,993 | 654,613 | 661,795 | 661,795 | 661,795 | 661,795 | - |
| 2013Q4~2014Q3 | 224,894 | 420,914 | 440,569 | 448,201 | 448,201 | 448,201 | 448,201 | 7,632 |
| 2014Q4~2015Q3 | 266,864 | 418,495 | 443,556 | 514,918 | 514,918 | 514,918 | 514,918 | 96,423 |
| 2015Q4~2016Q3 | 181,856 | 321,069 | 340,296 | 396,792 | 396,792 | 396,792 | 396,791 | 214,935 |

| | |
|--|------------------|
| Expected future payment | \$318,990 |
| Less: Expected reported but not paid claim | (24,761) |
| Reserve for unreported claim | 294,229 |
| Add: Reported but not paid claim | 32,915 |
| Claims reserve balance | <u>\$327,144</u> |

b. Retained business development trend

| Accident year | Development year | | | | | | | Expected future payment |
|---------------|------------------|---------|---------|---------|---------|---------|---------|-------------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| 2009Q4~2010Q3 | 231,208 | 435,190 | 454,889 | 454,901 | 454,901 | 454,901 | 454,901 | - |
| 2010Q4~2011Q3 | 239,041 | 449,933 | 477,202 | 477,202 | 484,464 | 484,464 | 484,464 | - |
| 2011Q4~2012Q3 | 253,336 | 504,855 | 546,996 | 551,158 | 554,630 | 554,630 | 554,630 | - |
| 2012Q4~2013Q3 | 325,386 | 607,027 | 645,602 | 652,785 | 652,785 | 652,785 | 652,785 | - |
| 2013Q4~2014Q3 | 201,544 | 397,128 | 416,783 | 424,347 | 424,347 | 424,347 | 424,347 | 7,564 |
| 2014Q4~2015Q3 | 264,172 | 415,803 | 441,392 | 511,366 | 511,366 | 511,366 | 511,366 | 95,563 |
| 2015Q4~2016Q3 | 179,415 | 332,838 | 353,321 | 391,874 | 391,874 | 391,874 | 391,874 | 212,459 |

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

| | |
|--|------------------|
| Expected future payment | \$315,586 |
| Less: Expected reported but not paid claim | (24,761) |
| Add: Reported but not paid claim | 32,915 |
| Retained claims reserve balance | <u>\$323,740</u> |

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

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

C. Cathay life (Vietnam)

Direct business development trend (and retained business development trend)

| Accident year | Development year | | | | |
|-----------------|------------------|-------|-------|-------|-------|
| | 1 | 2 | 3 | 4 | 5 |
| 2011Q4 ~ 2012Q3 | 1,116 | 1,292 | 1,292 | 1,292 | 1,292 |
| 2012Q4 ~ 2013Q3 | 847 | 928 | 928 | 928 | 928 |
| 2013Q4 ~ 2014Q3 | 667 | 765 | 765 | 765 | 765 |
| 2014Q4 ~ 2015Q3 | 1,238 | 1,357 | 1,357 | 1,357 | 1,357 |
| 2015Q4 ~ 2016Q3 | 1,180 | 1,340 | 1,340 | 1,340 | 1,340 |

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

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

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

A. Credit risk

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

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

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

B. Liquidity risk

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

| | Unit: 100 million | | |
|------------|---|--------------|--------------|
| | Insurance contracts and financial instruments with discretionary participation features | | |
| | Within 1 year | 1 to 5 years | Over 5 years |
| 2016.9.30 | \$(1,853) | \$(1,192) | \$165,192 |
| 2015.12.31 | (1,170) | 46 | 154,465 |
| 2015.9.30 | (1,041) | 275 | 152,768 |

Note: Separate account products are not included.

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C. Market risk

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

(2) Century insurance subsidiaries

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

A. The framework, organization, and responsibility of risk management

Responsibility:

(A) Board of directors

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

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(B) Risk Management Committee

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

(C) Chief Risk Officer

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

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

(D) Risk management department

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

Responsibility of risk management division:

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

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(E) Business unit

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

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

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

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

(F) Internal audit room

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

B. Scope and nature of risk reporting and evaluation system of property insurance

(A) Risks reporting

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

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(B) Scope and nature of risk evaluation system

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

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

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

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

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

E. Methods with which property insurance business limit insurance risk exposure and improper risk concentration

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

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

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

| Item | 2016 | 2015 |
|-----------------------------|-------------|-------------|
| Fire insurance | NT\$898,000 | NT\$827,000 |
| Marine insurance | NT\$898,000 | NT\$827,000 |
| Engineering insurance | NT\$898,000 | NT\$827,000 |
| Other property insurance | NT\$898,000 | NT\$827,000 |
| Automobile insurance | NT\$898,000 | NT\$827,000 |
| Health and injury insurance | NT\$898,000 | NT\$827,000 |

F. Methods of asset/liability management

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

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

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

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

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

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Receivables and payables of insurance contracts

A. Receivables of insurance contracts

| Item | Premiums receivable (Note) | | |
|---|----------------------------|-------------|-------------|
| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Fire insurance | \$645,700 | \$760,232 | \$596,556 |
| Marine insurance | 202,366 | 243,481 | 278,148 |
| Land and air insurance | 82,640 | 177,558 | 165,790 |
| Liability insurance | 184,691 | 173,119 | 149,096 |
| Bonding insurance | 40,512 | 43,048 | 53,595 |
| Other property insurance | 247,431 | 293,262 | 338,735 |
| Accident insurance | 126,387 | 134,114 | 158,537 |
| Health insurance | 11,457 | 14,718 | 16,336 |
| Compulsory automobile liability insurance | 23,573 | 19,614 | 38,340 |
| Total | 1,564,757 | 1,859,146 | 1,795,133 |
| Less: Allowance for bad debts | (82,105) | (101,470) | (108,325) |
| Net | \$1,482,652 | \$1,757,676 | \$1,686,808 |

Ageing analysis of receivable:

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|-----------|-------------|-------------|-------------|
| ≤ 90 days | \$974,818 | \$1,596,096 | \$1,335,688 |
| > 90 days | 589,939 | 263,050 | 459,445 |
| Total | \$1,564,757 | \$1,859,146 | \$1,795,133 |

Note: As of 30 September 2016, 31 December 2015 and 30 September 2015, the receivables included overdue receivables amounted to \$588,385 thousand, \$216,525 thousand and \$395,521 thousand, respectively, and the allowance for bad debts amounted to \$71,846 thousand, \$65,494 thousand and \$74,599 thousand, respectively.

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

| Item | Claims reported and paid off | | |
|---|------------------------------|------------|-----------|
| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Fire insurance | \$423,901 | \$45,435 | \$10,894 |
| Marine insurance | 19,153 | 22,730 | 26,452 |
| Land and air insurance | 45,820 | 40,360 | 53,056 |
| Liability insurance | 17,750 | 17,874 | 17,130 |
| Bonding insurance | 13 | 38,430 | 126 |
| Other property insurance | 28,171 | 27,756 | 12,074 |
| Accident insurance | 16,543 | 17,103 | 15,898 |
| Health insurance | - | - | - |
| Compulsory automobile liability insurance | 187,927 | 145,137 | 127,807 |
| Total | 739,278 | 354,825 | 263,437 |
| Less: Allowance for bad debts | - | - | - |
| Net | \$739,278 | \$354,825 | \$263,437 |

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C. Payables of insurance contract

| 2016.9.30 | | | |
|---|---------------------|------------------|------------------|
| Item | Commission payables | Other payables | Total |
| Fire insurance | \$26,047 | \$15,198 | \$41,245 |
| Marine insurance | 6,198 | 9,957 | 16,155 |
| Land and air insurance | 23,224 | 176,242 | 199,466 |
| Liability insurance | 11,984 | 17,094 | 29,078 |
| Bonding insurance | 5,616 | 452 | 6,068 |
| Other property insurance | 3,672 | 11,084 | 14,756 |
| Accident insurance | 12,809 | 86,205 | 99,014 |
| Health insurance | 3,833 | 5,490 | 9,323 |
| Compulsory automobile liability insurance | 35,837 | 35,837 | 71,674 |
| Total | \$129,220 | \$357,559 | \$486,779 |

| 2015.12.31 | | | |
|---|---------------------|------------------|------------------|
| Item | Commission payables | Other payables | Total |
| Fire insurance | \$37,552 | \$19,059 | \$56,611 |
| Marine insurance | 11,642 | 9,764 | 21,406 |
| Land and air insurance | 26,159 | 160,717 | 186,876 |
| Liability insurance | 17,423 | 17,082 | 34,505 |
| Bonding insurance | 5,027 | 1,597 | 6,624 |
| Other property insurance | 29,277 | 12,039 | 41,316 |
| Accident insurance | 10,159 | 64,426 | 74,585 |
| Health insurance | 4,159 | 2,713 | 6,872 |
| Compulsory automobile liability insurance | 61,787 | - | 61,787 |
| Total | \$203,185 | \$287,397 | \$490,582 |

| 2015.9.30 | | | |
|---|---------------------|------------------|------------------|
| Item | Commission payables | Other payables | Total |
| Fire insurance | \$40,265 | \$16,391 | \$56,656 |
| Marine insurance | 10,780 | 8,946 | 19,726 |
| Land and air insurance | 24,658 | 104,868 | 129,526 |
| Liability insurance | 17,875 | 11,906 | 29,781 |
| Bonding insurance | 5,660 | 1,425 | 7,085 |
| Other property insurance | 35,312 | 9,449 | 44,761 |
| Accident insurance | 9,742 | 54,093 | 63,835 |
| Health insurance | 4,145 | 2,756 | 6,901 |
| Compulsory automobile liability insurance | 52,654 | 40,964 | 93,618 |
| Total | \$201,091 | \$250,798 | \$451,889 |

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

| Item | 2016.9.30 | |
|---|---|--|
| | Due from reinsurers and ceding companies (Note) | Due to reinsurers and ceding companies |
| Non-Life Insurance Association of the R.O.C | \$140,735 | \$337,323 |
| Marsh | 20,828 | 255,282 |
| Willis | 2,193 | 114,082 |
| Swiss Re | 1,123 | 78,296 |
| Sompo Japan Nipponkoa | 35,666 | 26,743 |
| Others | 307,965 | 447,556 |
| Total | 508,510 | 1,259,282 |
| Less: Allowance for bad debts | (18,438) | - |
| Net | \$490,072 | \$1,259,282 |

| Item | 2015.12.31 | |
|---|---|--|
| | Due from reinsurers and ceding companies (Note) | Due to reinsurers and ceding companies |
| Non-Life Insurance Association of the R.O.C | \$126,360 | \$323,938 |
| Sompo Japan Nipponkoa Insurance (China) | 89,844 | 38,097 |
| Guy Carpenter | 59,628 | 20,582 |
| Marsh | 19,937 | 255,959 |
| Taian | 24,893 | 3,898 |
| Sompo Japan Nipponkoa | 17,435 | 24,953 |
| Others | 348,862 | 843,147 |
| Total | 686,959 | 1,510,574 |
| Less: Allowance for bad debts | (59,823) | - |
| Net | \$627,136 | \$1,510,574 |

| Item | 2015.9.30 | |
|---|---|--|
| | Due from reinsurers and ceding companies (Note) | Due to reinsurers and ceding companies |
| Non-Life Insurance Association of the R.O.C | \$108,994 | \$284,025 |
| Sompo Japan Nipponkoa Insurance (China) | 91,697 | 36,952 |
| Guy Carpenter | 61,022 | 73,127 |
| Marsh | 46,384 | 167,838 |
| AON | 24,943 | 98,529 |
| Others | 316,301 | 674,566 |
| Total | 649,341 | 1,335,037 |
| Less: Allowance for bad debts | (50,875) | - |
| Net | \$598,466 | \$1,335,037 |

Notes: As of 30 September 2016, 31 December 2015 and 30 September 2015, the due from reinsurers and ceding companies included overdue receivables amounted to \$18,439 thousand, \$29,649 thousand and \$30,027 thousand, respectively, and the allowance for bad debts amounted to \$18,439 thousand, \$29,649 thousand and \$30,027 thousand, respectively.

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Information of management achievements

A. Acquisition cost for insurance contracts

| Item | 2016.7.1~2016.9.30 | | | | |
|---|--------------------|------------------|---------------------------|------------------|------------------|
| | Commission | | Reinsurance commission | | Total |
| | expense | Surcharge | expense | Other cost | |
| Fire insurance | \$28,331 | \$2,615 | \$6,767 | \$18,288 | \$56,001 |
| Marine insurance | 2,564 | 173 | 130 | 8,178 | 11,045 |
| Land and air insurance | 51,610 | - | 4 | 236,809 | 288,423 |
| Liability insurance | 12,310 | 1,267 | 67 | 24,437 | 38,081 |
| Bonding insurance | 2,045 | 13 | 4 | 398 | 2,460 |
| Other property insurance | 4,155 | 20,723 | 1,212 | 10,843 | 36,933 |
| Accident insurance | 18,584 | - | 1 | 110,384 | 128,969 |
| Health insurance | 5,860 | - | - | 9,333 | 15,193 |
| Compulsory automobile liability insurance | - | 105,797 | - | - | 105,797 |
| Total | \$125,459 | \$130,588 | \$8,185 | \$418,670 | \$682,902 |

| Item | 2015.7.1~2015.9.30 | | | | |
|---|--------------------|------------------|---------------------------|------------------|------------------|
| | Commission | | Reinsurance commission | | Total |
| | expense | Surcharge | expense | Other cost | |
| Fire insurance | \$16,073 | \$13,134 | \$1,704 | \$24,963 | \$55,874 |
| Marine insurance | 2,866 | 1,365 | 959 | 8,422 | 13,612 |
| Land and air insurance | 42,038 | - | 57 | 230,090 | 272,185 |
| Liability insurance | 9,641 | 6,034 | 76 | 21,003 | 36,754 |
| Bonding insurance | 2,215 | 33 | - | 1,472 | 3,720 |
| Other property insurance | 3,237 | 122,250 | 2,247 | 11,574 | 139,308 |
| Accident insurance | 11,207 | - | - | 113,145 | 124,352 |
| Health insurance | 6,957 | - | - | 8,007 | 14,964 |
| Compulsory automobile liability insurance | - | 114,254 | - | - | 114,254 |
| Total | \$94,234 | \$257,070 | \$5,043 | \$418,676 | \$775,023 |

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| 2016.1.1~2016.9.30 | | | | | |
|--|------------------|------------------|---------------------------|--------------------|--------------------|
| Item | Commission | | Reinsurance commission | | Total |
| | expense | Surcharge | expense | Other cost | |
| Fire insurance | \$58,801 | \$24,943 | \$13,893 | \$64,036 | \$161,673 |
| Marine insurance | 8,975 | 1,762 | 426 | 25,255 | 36,418 |
| Land and air insurance | 135,379 | - | 81 | 729,337 | 864,797 |
| Liability insurance | 32,446 | 17,048 | 111 | 66,905 | 116,510 |
| Bonding insurance | 9,010 | 170 | 48 | 2,169 | 11,397 |
| Other property insurance | 12,009 | 278,712 | 4,606 | 35,756 | 331,083 |
| Accident insurance | 46,343 | - | 1 | 320,870 | 367,214 |
| Health insurance | 15,469 | - | - | 25,353 | 40,822 |
| Compulsory automobile liability insurance | - | 321,079 | - | 1 | 321,080 |
| Total | \$318,432 | \$643,714 | \$19,166 | \$1,269,682 | \$2,250,994 |

| 2015.1.1~2015.9.30 | | | | | |
|--|------------------|------------------|---------------------------|--------------------|--------------------|
| Item | Commission | | Reinsurance commission | | Total |
| | expense | Surcharge | expense | Other cost | |
| Fire insurance | \$46,563 | \$31,974 | \$9,826 | \$75,472 | \$163,835 |
| Marine insurance | 11,054 | 4,630 | 1,858 | 25,900 | 43,442 |
| Land and air insurance | 98,354 | - | 649 | 689,203 | 788,206 |
| Liability insurance | 28,157 | 16,446 | 457 | 58,562 | 103,622 |
| Bonding insurance | 8,629 | 319 | 3 | 3,221 | 12,172 |
| Other property insurance | 10,176 | 313,987 | 4,836 | 40,150 | 369,149 |
| Accident insurance | 29,456 | - | - | 320,390 | 349,846 |
| Health insurance | 16,509 | - | - | 20,777 | 37,286 |
| Compulsory automobile liability insurance | - | 335,746 | - | - | 335,746 |
| Total | \$248,898 | \$703,102 | \$17,629 | \$1,233,675 | \$2,203,304 |

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B. Disclosure for insurance cost benefit analysis

(A) Cost benefit analysis for direct underwriting

| Item | 2016.7.1~2016.9.30 | | | | | |
|---|--------------------|------------------|--------------------|----------------------|------------------|--------------------|
| | Direct | Net change for | Acquisition | Insurance | Net change for | Net gain (loss) |
| | premium | unearned | cost for | claims paid | claims reserve | |
| income | premiums | insurance | contract | claims paid | claims reserve | |
| Fire insurance | \$721,864 | \$50,764 | \$(49,234) | \$(959,531) | \$490,315 | \$254,178 |
| Marine insurance | 125,075 | 22,888 | (10,915) | (177,107) | 185,993 | 145,934 |
| Land and air insurance | 1,925,991 | 121,213 | (288,419) | (1,136,250) | (66,310) | 556,225 |
| Liability insurance | 316,065 | (36,485) | (38,014) | (110,106) | (104,332) | 27,128 |
| Bonding insurance | 22,119 | 12,630 | (2,456) | (4,321) | (56,885) | (28,913) |
| Other property insurance | 216,903 | 120,918 | (35,721) | (134,393) | 62,038 | 229,745 |
| Accident insurance | 762,782 | 8,230 | (128,968) | (284,736) | 10,017 | 367,325 |
| Health insurance | 75,024 | (2,359) | (15,193) | (25,722) | 4,612 | 36,362 |
| Compulsory automobile liability insurance | 812,742 | 24,872 | (105,797) | (763,740) | (19,295) | (51,218) |
| Total | \$4,978,565 | \$322,671 | \$(674,717) | \$(3,595,906) | \$506,153 | \$1,536,766 |

| Item | 2015.7.1~2015.9.30 | | | | | |
|---|--------------------|------------------|--------------------|----------------------|--------------------|--------------------|
| | Direct | Net change for | Acquisition | Insurance | Net change for | Net gain (loss) |
| | premium | unearned | cost for | claims paid | claims reserve | |
| income | premiums | insurance | contract | claims paid | claims reserve | |
| Fire insurance | \$632,678 | \$207,151 | \$(54,170) | \$(183,752) | \$(235,942) | \$365,965 |
| Marine insurance | 166,245 | 35,038 | (12,653) | (72,856) | 29,160 | 144,934 |
| Land and air insurance | 1,777,899 | 150,652 | (272,128) | (1,081,163) | (10,113) | 565,147 |
| Liability insurance | 301,959 | (18,226) | (36,678) | (117,832) | 86,457 | 215,680 |
| Bonding insurance | 32,332 | 3,169 | (3,720) | 12,836 | 27,229 | 71,846 |
| Other property insurance | 693,594 | (51,548) | (137,061) | (328,431) | (59,863) | 116,691 |
| Accident insurance | 727,825 | 17,172 | (124,352) | (266,732) | (49,570) | 304,343 |
| Health insurance | 72,007 | (11,951) | (14,964) | (37,505) | (4,958) | 2,629 |
| Compulsory automobile liability insurance | 1,008,301 | (36,676) | (114,254) | (616,925) | 23,529 | 263,975 |
| Total | \$5,412,840 | \$294,781 | \$(769,980) | \$(2,692,360) | \$(194,071) | \$2,051,210 |

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2016.1.1~2016.9.30

| Item | Net change for | | Acquisition | Insurance | Net change for | |
|---|-----------------------|---------------------------|-----------------------------|----------------------|----------------------|--------------------|
| | Direct premium income | unearned premiums reserve | cost for insurance contract | | claims paid | claims reserve |
| Fire insurance | \$2,392,018 | \$(56,493) | \$(147,780) | \$(1,670,853) | \$(2,313,946) | \$(1,797,054) |
| Marine insurance | 448,258 | (11,517) | (35,992) | (298,515) | 32,656 | 134,890 |
| Land and air insurance | 5,926,284 | 38,043 | (864,716) | (3,317,788) | (318,871) | 1,462,952 |
| Liability insurance | 972,702 | (60,860) | (116,399) | (344,551) | (55,014) | 395,878 |
| Bonding insurance | 100,406 | (2,127) | (11,349) | (34,491) | (31,036) | 21,403 |
| Other property insurance | 1,456,179 | 158,652 | (326,477) | (802,858) | 140,933 | 626,429 |
| Accident insurance | 2,226,672 | (31,194) | (367,213) | (815,376) | 5,012 | 1,017,901 |
| Health insurance | 201,617 | (3,359) | (40,822) | (80,651) | 7,270 | 84,055 |
| Compulsory automobile liability insurance | 2,770,902 | (58,304) | (321,080) | (1,878,565) | 97,810 | 610,763 |
| Total | \$16,495,038 | \$(27,159) | \$(2,231,828) | \$(9,243,648) | \$(2,435,186) | \$2,557,217 |

2015.1.1~2015.9.30

| Item | Net change for | | Acquisition | Insurance | Net change for | |
|---|-----------------------|---------------------------|-----------------------------|----------------------|--------------------|--------------------|
| | Direct premium income | unearned premiums reserve | cost for insurance contract | | claims paid | claims reserve |
| Fire insurance | \$2,161,107 | \$157,691 | \$(154,009) | \$(449,914) | \$(156,113) | \$1,558,762 |
| Marine insurance | 523,237 | (24,385) | (41,584) | (192,381) | 38,914 | 303,801 |
| Land and air insurance | 4,985,809 | 363,105 | (787,557) | (3,291,511) | (214,149) | 1,055,697 |
| Liability insurance | 870,185 | (43,022) | (103,165) | (379,705) | (61,960) | 282,333 |
| Bonding insurance | 108,197 | (10,865) | (12,169) | 3,688 | 15 | 88,866 |
| Other property insurance | 1,855,940 | (16,440) | (364,313) | (866,050) | (71,956) | 537,181 |
| Accident insurance | 2,003,208 | 127,526 | (349,846) | (727,079) | (42,070) | 1,011,739 |
| Health insurance | 175,250 | (13,475) | (37,286) | (90,253) | (10,654) | 23,582 |
| Compulsory automobile liability insurance | 2,694,809 | 13,705 | (335,746) | (1,827,318) | (32,987) | 512,463 |
| Total | \$15,377,742 | \$553,840 | \$(2,185,675) | \$(7,820,523) | \$(550,960) | \$5,374,424 |

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(B) Recognized gain (loss) for reinsurance contract purchased

| Item | 2016.7.1~2016.9.30 | | | | | Net (loss) gain for assumed reinsurance business |
|--|----------------------------------|---------------------------------|--------------------------------------|-------------------------------|----------------------------------|---|
| | Net change for | | | | Net change for claims reserve | |
| | Reinsurance premium income | unearned premiums reserve | Reinsurance commission expense | Reinsurance claims paid | | |
| Fire insurance | \$50,795 | \$(15,403) | \$(6,767) | \$(17,614) | \$24,381 | \$35,392 |
| Marine insurance | 3,357 | 1,435 | (130) | (2,794) | 6,093 | 7,961 |
| Land and air insurance | 4,407 | 2,631 | (4) | (1,273) | 37 | 5,798 |
| Liability insurance | 1,484 | (559) | (67) | - | 28 | 886 |
| Bonding insurance | 267 | 67 | (4) | - | (18) | 312 |
| Other property insurance | 8,052 | 1,834 | (1,212) | (2,496) | (3,894) | 2,284 |
| Accident insurance | 1,688 | 43 | (1) | (6) | 45 | 1,769 |
| Health insurance | - | - | - | - | - | - |
| Compulsory automobile liability insurance | 192,151 | 12,789 | - | (210,690) | (28,939) | (34,689) |
| Total | \$262,201 | \$2,837 | \$(8,185) | \$(234,873) | \$(2,267) | \$19,713 |

| Item | 2015.7.1~2015.9.30 | | | | | Net (loss) gain for assumed reinsurance business |
|--|----------------------------------|---------------------------------|--------------------------------------|-------------------------------|----------------------------------|---|
| | Net change for | | | | Net change for claims reserve | |
| | Reinsurance premium income | unearned premiums reserve | Reinsurance commission expense | Reinsurance claims paid | | |
| Fire insurance | \$22,138 | \$9,211 | \$(1,704) | \$(1,368) | \$2,698 | \$30,975 |
| Marine insurance | 14,952 | 7,966 | (959) | (26,091) | (38,872) | (43,004) |
| Land and air insurance | 4,305 | (3,808) | (57) | (2,812) | 8,522 | 6,150 |
| Liability insurance | 4,364 | (54) | (76) | (18) | (36) | 4,180 |
| Bonding insurance | 248 | 107 | - | (125) | 7 | 237 |
| Other property insurance | 10,227 | 1,039 | (2,247) | (6,071) | (755) | 2,193 |
| Accident insurance | 1,701 | (21) | - | (139) | 500 | 2,041 |
| Health insurance | - | - | - | - | - | - |
| Compulsory automobile liability insurance | 231,369 | (83,539) | - | (109,156) | (57,069) | (18,395) |
| Total | \$289,304 | \$(69,099) | \$(5,043) | \$(145,780) | \$(85,005) | \$(15,623) |

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2016.1.1~2016.9.30

| Item | Net change for | | | | | Net (loss) gain for assumed reinsurance business |
|---|----------------------------|---------------------------|--------------------------------|-------------------------|-------------------------------|--|
| | Reinsurance premium income | unearned premiums reserve | Reinsurance commission expense | Reinsurance claims paid | Net change for claims reserve | |
| Fire insurance | \$122,421 | \$(18,157) | \$(13,893) | \$(61,436) | \$73,441 | \$102,376 |
| Marine insurance | 8,827 | 1,046 | (426) | (20,846) | 19,299 | 7,900 |
| Land and air insurance | 16,324 | 2,659 | (81) | (1,368) | 1,267 | 18,801 |
| Liability insurance | 1,155 | 315 | (111) | (5) | 54 | 1,408 |
| Bonding insurance | 997 | 167 | (48) | (150) | 53 | 1,019 |
| Other property insurance | 25,729 | 2,161 | (4,606) | (11,241) | 3,262 | 15,305 |
| Accident insurance | 5,003 | (106) | (1) | (108) | 11 | 4,799 |
| Health insurance | - | - | - | - | - | - |
| Compulsory automobile liability insurance | 576,201 | (28,615) | - | (489,848) | (103,527) | (45,789) |
| Total | \$756,657 | \$(40,530) | \$(19,166) | \$(585,002) | \$(6,140) | \$105,819 |

2015.1.1~2015.9.30

| Item | Net change for | | | | | Net (loss) gain for assumed reinsurance business |
|---|----------------------------|---------------------------|--------------------------------|-------------------------|-------------------------------|--|
| | Reinsurance premium income | unearned premiums reserve | Reinsurance commission expense | Reinsurance claims paid | Net change for claims reserve | |
| Fire insurance | \$103,883 | \$975 | \$(9,826) | \$(22,243) | \$3,318 | \$76,107 |
| Marine insurance | 22,888 | 2,370 | (1,858) | (36,408) | (5,536) | (18,544) |
| Land and air insurance | 13,596 | (5,450) | (649) | (82,723) | 3,813 | (71,413) |
| Liability insurance | 5,952 | 4 | (457) | (87) | (278) | 5,134 |
| Bonding insurance | 833 | 234 | (3) | (189) | (17) | 858 |
| Other property insurance | 25,575 | 561 | (4,836) | (10,034) | 3,012 | 14,278 |
| Accident insurance | 4,844 | (109) | - | (139) | 531 | 5,127 |
| Health insurance | - | - | - | - | - | - |
| Compulsory automobile liability insurance | 560,168 | (182,674) | - | (287,034) | (151,465) | (61,005) |
| Total | \$737,739 | \$(184,089) | \$(17,629) | \$(438,857) | \$(146,622) | \$(49,458) |

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(C) Recognized gain (loss) for reinsurance contract purchased

| Item | 2016.7.1~2016.9.30 | | | | | | |
|---|---------------------|--|--------------------|-------------------------------|----------------------------------|-------------------------------------|---------------------------------------|
| | Reinsurance expense | Net change for unearned premiums reserve ceded | | Reinsurance commission earned | Claims recovered from reinsurers | Net change for claims reserve ceded | Net loss (gain) for reinsurance ceded |
| | | | | | | | |
| Fire insurance | \$468,115 | \$37,696 | \$(33,494) | \$(574,662) | \$323,223 | \$220,878 | |
| Marine insurance | 80,183 | 25,731 | (11,026) | (145,685) | 154,610 | 103,813 | |
| Land and air insurance | 79,593 | 48,924 | (22,997) | (47,851) | 3,708 | 61,377 | |
| Liability insurance | 110,255 | (48,237) | (24,345) | (24,089) | (77,679) | (64,095) | |
| Bonding insurance | 14,313 | 8,424 | (2,992) | (4,173) | (35,575) | (20,003) | |
| Other property insurance | 85,200 | 1,080 | (10,050) | (42,842) | 57,444 | 90,832 | |
| Accident insurance | 40,410 | 12,234 | (10,541) | (20,886) | 4,995 | 26,212 | |
| Health insurance | - | - | - | - | (90) | (90) | |
| Compulsory automobile liability insurance | 321,867 | (4,342) | - | (354,580) | (31,453) | (68,508) | |
| Total | \$1,199,936 | \$81,510 | \$(115,445) | \$(1,214,768) | \$399,183 | \$350,416 | |

| Item | 2015.7.1~2015.9.30 | | | | | | |
|---|---------------------|--|--------------------|-------------------------------|----------------------------------|-------------------------------------|---------------------------------------|
| | Reinsurance expense | Net change for unearned premiums reserve ceded | | Reinsurance commission earned | Claims recovered from reinsurers | Net change for claims reserve ceded | Net loss (gain) for reinsurance ceded |
| | | | | | | | |
| Fire insurance | \$431,308 | \$93,452 | \$(41,150) | \$(95,283) | \$(75,132) | \$313,195 | |
| Marine insurance | 137,291 | 35,695 | (14,914) | (46,193) | 6,548 | 118,427 | |
| Land and air insurance | 72,978 | 51,140 | (18,334) | (67,034) | 25,156 | 63,906 | |
| Liability insurance | 116,810 | (11,254) | (23,438) | (25,283) | 7,054 | 63,889 | |
| Bonding insurance | 27,631 | (2,055) | (4,830) | 14,060 | 24,998 | 59,804 | |
| Other property insurance | 88,428 | (34,886) | (7,249) | (69,565) | 6,411 | (16,861) | |
| Accident insurance | 39,360 | 9,561 | (10,455) | (29,148) | 5,578 | 14,896 | |
| Health insurance | 7 | (7) | - | - | (1,962) | (1,962) | |
| Compulsory automobile liability insurance | 324,275 | (58,837) | - | (206,037) | (24,506) | 34,895 | |
| Total | \$1,238,088 | \$82,809 | \$(120,370) | \$(524,483) | \$(25,855) | \$650,189 | |

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| 2016.1.1~2016.9.30 | | | | | | |
|---|---------------------|---------------------------------|-------------------------------|---------------------------|-------------------------------------|---------------------------------------|
| Item | Reinsurance expense | Net change for | | Claims | | Net loss (gain) for reinsurance ceded |
| | | unearned premiums reserve ceded | Reinsurance commission earned | recovered from reinsurers | Net change for claims reserve ceded | |
| Fire insurance | \$1,722,939 | \$(107,564) | \$(122,205) | \$ (999,698) | \$(2,267,592) | \$(1,774,120) |
| Marine insurance | 322,012 | (6,316) | (39,668) | (232,559) | 31,769 | 75,238 |
| Land and air insurance | 266,214 | 115,081 | (72,932) | (133,013) | (17,472) | 157,878 |
| Liability insurance | 368,452 | (59,613) | (82,038) | (107,522) | (73,672) | 45,607 |
| Bonding insurance | 68,413 | (3,539) | (12,687) | (32,567) | (3,995) | 15,625 |
| Other property insurance | 185,792 | 57,900 | (33,637) | (118,734) | 103,260 | 194,581 |
| Accident insurance | 195,691 | (17,755) | (48,181) | (59,735) | 11,523 | 81,543 |
| Health insurance | (5) | 4 | - | - | (378) | (379) |
| Compulsory automobile liability insurance | 942,004 | (47,204) | - | (781,984) | (20,230) | 92,586 |
| Total | \$4,071,512 | \$(69,006) | \$(411,348) | \$(2,465,812) | \$(2,236,787) | \$(1,111,441) |

| 2015.1.1~2015.9.30 | | | | | | |
|---|---------------------|---------------------------------|-------------------------------|---------------------------|-------------------------------------|---------------------------------------|
| Item | Reinsurance expense | Net change for | | Claims | | Net loss (gain) for reinsurance ceded |
| | | unearned premiums reserve ceded | Reinsurance commission earned | recovered from reinsurers | Net change for claims reserve ceded | |
| Fire insurance | \$1,431,332 | \$12,753 | \$(118,322) | \$ (204,667) | \$(44,151) | \$1,076,945 |
| Marine insurance | 382,472 | (22,734) | (43,787) | (119,448) | 21,506 | 218,009 |
| Land and air insurance | 223,086 | 135,452 | (61,862) | (403,737) | 1,683 | (105,378) |
| Liability insurance | 321,217 | (25,224) | (59,761) | (127,181) | (23,871) | 85,180 |
| Bonding insurance | 81,065 | (14,472) | (14,866) | 5,841 | (1,329) | 56,239 |
| Other property insurance | 215,028 | 176,879 | (37,564) | (214,465) | 86,570 | 226,448 |
| Accident insurance | 182,727 | 3,402 | (44,805) | (89,051) | (11,833) | 40,440 |
| Health insurance | 28 | (7) | - | - | (1,867) | (1,846) |
| Compulsory automobile liability insurance | 877,526 | (129,535) | - | (604,072) | (70,240) | 73,679 |
| Total | \$3,714,481 | \$136,514 | \$(380,967) | \$(1,756,780) | \$(43,532) | \$1,669,716 |

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Sensitivity of insurance risk

A. Cathay Century

| Insurance type | Premium income | Expected loss ratio | The impact to profit and loss when the expected loss ratio increases 5% | |
|---|----------------|---------------------|---|-------------------|
| | | | Before reinsurance | After reinsurance |
| Fire insurance | \$2,111,846 | 60.92 | \$105,592 | \$52,789 |
| Marine insurance | 425,560 | 63.30 | 21,278 | 6,076 |
| Land and air insurance | 5,870,746 | 66.19 | 293,537 | 181,061 |
| Liability insurance | 855,187 | 66.21 | 42,759 | 17,390 |
| Bonding insurance | 99,198 | 67.06 | 4,960 | 353 |
| Other property insurance | 398,304 | 60.75 | 19,915 | 9,505 |
| Accident insurance | 2,212,960 | 75.95 | 110,648 | 75,310 |
| Health insurance | 201,617 | 72.20 | 10,081 | 7,267 |
| Compulsory automobile liability insurance | 2,269,682 | N/A | N/A | N/A |

Note: Fire insurance does not include long-term fire insurance.

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

Concentration Risk

A. Cathay Century

(A) Situations that might cause concentration of insurance risk:

- a. Single insurance contract or few related contracts

For the nine-month period ended 30 September 2016, Cathay Century will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

- b. Exposure to unanticipated change in trend

For the nine-month period ended 30 September 2016, the loss rates of the rest insurance categories are still within reasonable range.

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

“Regulations for Assisting Lawsuit Cases of Cathay Century Insurance” is set up to safeguard the rights of Cathay Century and the 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 of compliance matters, so that possible legal risk is minimized. For the nine-month period ended 30 September 2016, no material lawsuit or legal risks has taken place.

- d. Correlation and mutual influence between different risks

In case of a catastrophe, beside huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of Cathay 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 nine-month period ended 30 September 2016, there is no catastrophe has taken place.

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

Since the 3rd stage of liberalization of property insurance fee took effect, Cathay Century has conducted regular fee reviews on car insurance, fire insurance, and residential fire insurance in accordance with regulation. Fee will be raised when actual loss rate exceeds 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.

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

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

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f. Concentration risks in geographic regions and operating segments

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

(B) Following table summarizes the concentration risk of Cathay Century before and after reinsurance by types of insurance:

| Insurance type | 2016.7.1~2016.9.30 | | | | |
|---|--------------------------------|----------------------------|------------------------------|---------------------|---------|
| | Direct Written premiums income | Reinsurance premium income | Premiums ceded to reinsurers | Net premiums income | % |
| Fire insurance | \$674,093 | \$50,634 | \$414,533 | \$310,194 | 7.94% |
| Marine insurance | 121,519 | 2,468 | 77,714 | 46,273 | 1.19% |
| Land and air insurance | 1,907,863 | 4,375 | 79,593 | 1,832,645 | 46.94% |
| Liability insurance | 306,761 | 1,033 | 96,065 | 211,729 | 5.42% |
| Bonding insurance | 22,023 | 275 | 14,193 | 8,105 | 0.21% |
| Other property insurance | 132,861 | 7,884 | 83,248 | 57,497 | 1.47% |
| Accident insurance | 758,383 | 1,687 | 40,410 | 719,660 | 18.43% |
| Health insurance | 75,024 | - | - | 75,024 | 1.92% |
| Compulsory automobile liability insurance | 773,175 | 192,152 | 321,867 | 643,460 | 16.48% |
| Total | \$4,771,702 | \$260,508 | \$1,127,623 | \$3,904,587 | 100.00% |

| Insurance type | 2016.1.1~2016.9.30 | | | | |
|---|--------------------------------|----------------------------|------------------------------|---------------------|---------|
| | Direct Written premiums income | Reinsurance premium income | Premiums ceded to reinsurers | Net premiums income | % |
| Fire insurance | \$2,110,689 | \$121,381 | \$1,491,376 | \$740,694 | 6.46% |
| Marine insurance | 425,560 | 8,886 | 312,222 | 122,224 | 1.07% |
| Land and air insurance | 5,870,746 | 16,263 | 266,164 | 5,620,845 | 49.05% |
| Liability insurance | 855,187 | 1,184 | 287,240 | 569,131 | 4.97% |
| Bonding insurance | 99,198 | 997 | 67,737 | 32,458 | 0.28% |
| Other property insurance | 398,304 | 25,738 | 177,792 | 246,250 | 2.15% |
| Accident insurance | 2,212,960 | 5,003 | 195,691 | 2,022,272 | 17.65% |
| Health insurance | 201,617 | - | (5) | 201,622 | 1.76% |
| Compulsory automobile liability insurance | 2,269,682 | 576,201 | 942,004 | 1,903,879 | 16.61% |
| Total | \$14,443,943 | \$755,653 | \$3,740,221 | \$11,459,375 | 100.00% |

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(C) Disclosure the prior management performance in the risk, which had huge effect but relative low occurrence frequency, to help financial statement user to evaluate the uncertainty of this risk related cash flow.

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

Cathay Century in order to control the occurrence of low frequency, but will affect greatly the risk of an event, the event has special coverage for natural disasters, the subject of risk assessment and loss prevention seminars are held regularly to help customers reduce the incidence of disasters.

Claim development table

A. Cathay Century

| | -2010.9.30 | 2010.10.1- 2011.9.30 | 2011.10.1- 2012.9.30 | 2012.10.1- 2013.9.30 | 2013.10.1- 2014.9.30 | 2014.10.1- 2015.9.30 | 2015.10.1- 2016.9.30 | Total |
|---|--------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|--------------|
| Estimate of cumulative claims incurred: | | | | | | | | |
| At end of underwriting year | \$10,316,711 | \$5,408,275 | \$4,851,463 | \$5,576,672 | \$6,483,154 | \$7,170,324 | \$11,311,543 | |
| One year later | 12,992,396 | 5,667,748 | 5,603,829 | 5,804,078 | 6,675,204 | 7,200,409 | | |
| Two year later | 13,221,749 | 5,849,408 | 5,722,516 | 5,725,506 | 7,098,571 | | | |
| Three year later | 13,129,395 | 5,850,808 | 5,735,543 | 5,879,936 | | | | |
| Four year later | 13,199,933 | 5,832,373 | 5,767,081 | | | | | |
| Five year later | 13,356,179 | 5,786,704 | | | | | | |
| Six year later | 13,764,903 | | | | | | | |
| Estimate of cumulative claims incurred | 13,764,903 | 5,786,704 | 5,767,081 | 5,879,936 | 7,098,571 | 7,200,409 | 11,311,543 | \$56,809,147 |
| Cumulative payment to date | 13,729,286 | 5,729,973 | 5,710,884 | 5,713,006 | 6,765,426 | 6,393,989 | 5,018,839 | 49,061,403 |
| Subtotal | 35,617 | 56,731 | 56,197 | 166,930 | 333,145 | 806,420 | 6,292,704 | 7,747,744 |
| Reconciliation | - | - | - | - | - | - | 105,855 | 105,855 |
| Recorded in balance sheet | \$35,617 | \$56,731 | \$56,197 | \$166,930 | \$333,145 | \$806,420 | \$6,398,559 | \$7,853,599 |

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

It is excluded claim reserve of compulsory automobile liability insurance \$1,932,947 thousand and assumed reinsurance from the upper table (except compulsory automobile liability insurance) \$66,907 thousand.

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B. Cathay Century (Vietnam)

As Cathay Century (Vietnam) is in 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 premiums.

33. Related party transactions

(1) Related parties

| Name | Relationship |
|---|---------------------------|
| Cathay Life | Subsidiary of the Company |
| Cathay United Bank | " |
| Cathay Century | " |
| Cathay Securities | " |
| Cathay Venture | " |
| Cathay Securities Investment Trust | " |
| Cathay Lujiazui Life | " |
| Cathay Life (Vietnam) | " |
| Cathay Insurance (Bermuda) | " |
| Cathay Woolgate Exchange Holding 1 Limited | " |
| Cathay Woolgate Exchange Holding 2 Limited | " |
| Cathay Walbrook Holding 1 Limited | " |
| Cathay Walbrook Holding 2 Limited | " |
| Conning Holdings Limited | " |
| Conning U.S. Holdings, Inc. | " |
| Conning Holdings Corp. | " |
| Conning & Company | " |
| Conning, Inc. | " |
| Goodwin Capital Advisors, Inc. | " |
| Conning Investments Products, Inc. | " |
| Conning Holdco (UK) Ltd. (Note 1) | " |
| Conning Asset Management Ltd | " |
| Conning (Germany) GmbH | " |
| Conning Japan Ltd. | " |
| Octagon Credit Investors, LLC | " |
| Octagon Multi-Strategy Corporate Credit GP, LLC | " |
| Octagon Funds GP LLC | " |

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| Name | Relationship |
|---|---------------------------|
| Octagon Funds GP II LLC | Subsidiary of the Company |
| Conning Asia Pacific Ltd. (Note 2) | " |
| Cathay Securities Investment Consulting Co., Ltd. | " |
| Lin Yuan (Shanghai) Real Estate Co., Ltd. | " |
| Cathay Insurance (Vietnam) Co., Ltd. | " |
| Indovina Bank Limited (Vietnam) | " |
| Seaward Card Co., Ltd. | " |
| CUBC Bank (Cambodia) | " |
| Cathay Futures Co., Ltd. | " |
| Cathay Investment Consulting(Shanghai) co, ltd | " |
| Cathay Securities (Hong Kong) Limited | " |
| Taiwan Real-estate Management Corp. | Associate |
| Cathay Century (China) (Note 3) | " |
| Symphox Information Co., Ltd. | " |
| Tien-Tai Energy Corp. | " |
| Vietinbank | Other related party |
| Cathay Dragon Fund etc. | " |
| Lin Yuan Property Management Co., Ltd. | " |
| Cathay Medical Care Corporate | " |
| Cathay Real Estate Development Co., Ltd. | " |
| San Ching Engineering Co., Ltd. | " |
| Cathay Healthcare Management Co., Ltd. | " |
| Cathay Hospitality Management Co., Ltd. | " |
| Liang-Ting Co., Ltd. | " |
| Ally Logistic Property | " |
| Charity Foundation of Cathay Life | " |
| Cathay Cultural Foundation | " |
| Culture and Charity Foundation of the CUB | " |
| Others | " |

Note 1: Conning Holdco (UK) Ltd. started its liquidation process on 18 December 2015 and finalized the process on 29 March 2016.

Note 2: Cathay Conning Asset Management Ltd. has been renamed as Conning Asia Pacific Ltd. on 18 April 2016.

Note 3: Cathay Century (China) was not included in the Group's consolidated financial statements from 26 July 2016.

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(2) Significant transactions with related parties:

A. Cash and cash equivalent

(A) Call loans to banks

| Name | Ending balance | | |
|---------------------|----------------|-------------|-------------|
| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Other related party | | | |
| Vietinbank | \$5,728,824 | \$4,404,972 | \$5,909,998 |

| Name | Interest income | | | |
|---------------------|------------------------|------------------------|------------------------|------------------------|
| | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
| Other related party | | | | |
| Vietinbank | \$18,201 | \$43,403 | \$32,612 | \$84,109 |

(B) Due to commercial banks

| Name | Ending balance | | |
|---------------------|----------------|------------|-------------|
| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Other related party | | | |
| Vietinbank | \$5,719,543 | \$- | \$1,513,385 |

| Name | Interest expense | | | |
|---------------------|------------------------|------------------------|------------------------|------------------------|
| | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
| Other related party | | | | |
| Vietinbank | \$4,585 | \$28,506 | \$5,115 | \$41,966 |

B. Financial assets at fair value through profit or loss

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|-------------------------|-----------|-------------|-----------|
| Other related party | | | |
| Cathay Dragon Fund etc. | \$215,201 | \$1,249,491 | \$975,718 |

C. Receivables

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|---------------------------------|-----------|------------|-----------|
| Other related party | | | |
| San Ching Engineering Co., Ltd. | \$3,650 | \$2,568 | \$4,299 |
| Cathay Dragon Fund etc. | 113,267 | 97,496 | 87,810 |
| Total | \$116,917 | \$100,064 | \$92,109 |

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D. Reinsurance assets

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|----------------------------|-----------|------------|-----------|
| Subsidiary | | | |
| Cathay Insurance (Bermuda) | \$8,391 | \$1,035 | \$30,191 |

E. Loans

| Name | Ending balance | | |
|--|----------------|-------------|-------------|
| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Associate | | | |
| Taiwan Real-estate Management Corp. | \$35,000 | \$- | \$- |
| Tien-Tai Energy Corp. | 98,223 | 104,498 | 106,590 |
| Other related party | | | |
| Cathay Real Estate Development Co., Ltd. | 10,000 | 10,000 | 50,000 |
| Liang-Ting Co., Ltd. | 28,561 | 44,935 | 45,423 |
| Others | 2,362,938 | 2,210,134 | 2,181,599 |
| Total | \$2,534,722 | \$2,369,567 | \$2,383,612 |

| Name | Interest income | | | |
|--|------------------------|------------------------|------------------------|------------------------|
| | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
| Associate | | | | |
| Taiwan Real-estate Management Corp. | \$90 | \$- | \$105 | \$300 |
| Tien-Tai Energy Corp. | 806 | 951 | 2,501 | 2,875 |
| Other related party | | | | |
| Cathay Real Estate Development Co., Ltd. | 2 | 1,657 | 14 | 2,082 |
| Cathay Medical Care Corporate | - | - | - | 20,847 |
| Liang-Ting Co., Ltd. | 157 | 294 | 563 | 1,107 |
| Others | 10,174 | 11,024 | 30,730 | 32,800 |
| Total | \$11,229 | \$13,926 | \$33,913 | \$60,011 |

F. Available-for-sale financial assets

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--|-----------|-------------|-------------|
| Other related party | | | |
| Cathay Dragon Fund etc. | \$525,560 | \$1,218,738 | \$1,425,553 |
| Cathay Healthcare Management Co., Ltd. | 68,148 | 65,610 | 62,708 |
| Total | \$593,708 | \$1,284,348 | \$1,488,261 |

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G. Deposit

| Name | Ending balance | | |
|--|---------------------|---------------------|---------------------|
| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Associate | | | |
| Symphox Information Co., Ltd. | \$85,837 | \$170,947 | \$186,962 |
| Other related party | | | |
| Cathay Real Estate Development Co., Ltd. | 260,475 | 80,649 | 83,297 |
| Cathay Dragon Fund etc. | 198,427 | 24,098 | 175,872 |
| Others | 13,816,683 | 13,039,785 | 13,233,545 |
| Total | <u>\$14,361,422</u> | <u>\$13,315,479</u> | <u>\$13,679,676</u> |

| Name | Interest expense | | | |
|--|------------------------|------------------------|------------------------|------------------------|
| | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
| Associate | | | | |
| Symphox Information Co., Ltd. | \$148 | \$379 | \$686 | \$1,036 |
| Other related party | | | | |
| Cathay Real Estate Development Co., Ltd. | 13 | 16 | 48 | 77 |
| Cathay Dragon Fund etc. | - | - | 1 | 2 |
| Others | 24,528 | 29,480 | 82,254 | 85,724 |
| Total | <u>\$24,689</u> | <u>\$29,875</u> | <u>\$82,989</u> | <u>\$86,839</u> |

H. Property transactions

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

| Name | 2016.1.1~2016.9.30 | |
|--|---------------------------------|--------------------|
| | Item | Amount |
| Other related party | | |
| Lin Yuan Property Management Co., Ltd. | Dunnan Xinyi Building, etc. | \$29,035 |
| San Ching Engineering Co., Ltd. | Cathay Land Mark, etc. | 437,567 |
| Cathay Real Estate Development Co., Ltd. | Minsheng Jingguo Building, etc. | 322,203 |
| Ally Logistic Property | Jui-Fang Logistic Park, etc. | 1,129,862 |
| | Total | <u>\$1,918,667</u> |

| Name | 2015.1.1~2015.9.30 | |
|--|------------------------------|--------------------|
| | Item | Amount |
| Other related party | | |
| Lin Yuan Property Management Co., Ltd. | Cathay Cosmos Building, etc. | \$27,609 |
| San Ching Engineering Co., Ltd. | Cathay Land Mark, etc. | 1,445,323 |
| Cathay Real Estate Development Co., Ltd. | Cathay Land Mark, etc. | 155,181 |
| Ally Logistic Property | Jui-Fang Logistic Park, etc. | 1,112,846 |
| | Total | <u>\$2,740,959</u> |

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The total amounts of contracted projects for real estate as of 30 September 2016, 31 December 2015 and 30 September 2015 between Cathay Life and Lin Yuan Property Management Co., Ltd. were \$17,252 thousand, \$19,778 thousand and \$23,723 thousand, respectively.

The total amounts of contracted projects for real estate as of 30 September 2016, 31 December 2015 and 30 September 2015 between Cathay Life and San Ching Engineering Co., Ltd. were \$1,853,332 thousand, \$8,222,939 thousand and \$7,294,139 thousand, respectively.

The total amounts of contracted projects for real estate as of 30 September 2016, 31 December 2015 and 30 September 2015 between Cathay Life and Cathay Real Estate Development Co., Ltd. were \$1,742,250 thousand, \$1,728,876 thousand and \$1,708,592 thousand, respectively.

The total amounts of contracted projects for real estate as of 30 September 2016, 31 December 2015 and 30 September 2015 between Cathay Life and Ally Logistic Property were \$3,383,783 thousand, \$4,647,704 thousand and \$2,756,476 thousand, respectively.

(B) Real estate rental income from Cathay Life:

| Name | Rental income | | | |
|---|------------------------|------------------------|------------------------|------------------------|
| | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
| Subsidiary | | | | |
| Cathay Securities Investment Consulting Co., Ltd. | \$2,276 | \$2,210 | \$6,730 | \$6,631 |
| Associate | | | | |
| Symphox Information Co., Ltd. | 9,219 | 8,595 | 26,483 | 25,809 |
| Cathay Century (China) (Note) | 4,748 | 5,216 | 14,755 | 15,499 |
| Other related party | | | | |
| Cathay Real Estate Development Co., Ltd. | 4,485 | 4,233 | 12,931 | 11,698 |
| San Ching Engineering Co., Ltd. | 1,402 | 992 | 4,207 | 3,360 |
| Cathay Medical Care Corporate | 11,442 | 10,830 | 101,486 | 99,925 |
| Cathay Healthcare Management Co., Ltd. | 14,068 | 13,230 | 41,623 | 39,510 |
| Cathay Hospitality Management Co., Ltd. | 51,933 | 48,077 | 152,963 | 139,264 |
| Ally Logistic Property | 46,360 | 25,959 | 110,985 | 66,479 |
| Total | \$145,933 | \$119,342 | \$472,163 | \$408,175 |

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| Name | Guarantee deposits received | | |
|---|-----------------------------|------------------|------------------|
| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Subsidiary | | | |
| Cathay Securities Investment Consulting Co., Ltd. | \$4,108 | \$2,019 | \$2,019 |
| Associate | | | |
| Symphox Information Co., Ltd. | 8,870 | 8,343 | 8,343 |
| Cathay Century (China) (Note) | 5,278 | 5,444 | 5,572 |
| Other related party | | | |
| Cathay Real Estate Development Co., Ltd. | 3,998 | 3,751 | 3,751 |
| Cathay Medical Care Corporate | 10,655 | 10,566 | 10,166 |
| Cathay Healthcare Management Co., Ltd. | 12,775 | 12,289 | 12,289 |
| Cathay Hospitality Management Co., Ltd. | 214,437 | 212,511 | 212,096 |
| Ally Logistic Property | 55,649 | 18,650 | 18,650 |
| Total | <u>\$315,770</u> | <u>\$273,573</u> | <u>\$272,886</u> |

Note: Cathay Century (China) was the subsidiary of the Company until 26 July 2016.

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

(C) Real estate rental expense from Cathay Life:

| Name | Rental expense | | | |
|--|------------------------|------------------------|------------------------|------------------------|
| | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
| Other related party | | | | |
| Cathay Real Estate Development Co., Ltd. | \$1,853 | \$1,927 | \$5,559 | \$5,853 |

Lease periods are usually between 1 to 2 years and rentals are paid on a monthly basis.

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

| Name | Rental income | | | |
|---|------------------------|------------------------|------------------------|------------------------|
| | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
| Other related party | | | | |
| Culture and Charity Foundation of the CUB | \$1,158 | \$1,158 | \$3,474 | \$3,474 |

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

| Name | Rental expense | | | |
|---|------------------------|------------------------|------------------------|------------------------|
| | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
| Other related party Cathay Real Estate Development Co., Ltd. | \$5,316 | \$5,709 | \$15,959 | \$17,801 |

| Name | Guarantee deposits paid | | |
|---|-------------------------|------------|-----------|
| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Other related party Cathay Real Estate Development Co., Ltd. | \$4,605 | \$4,605 | \$4,038 |

I. Guarantee deposits received

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|---|-----------|------------|-----------|
| Other related party Lin Yuan Property Management Co., Ltd. | \$5,000 | \$5,000 | \$5,000 |
| San Ching Engineering Co., Ltd. | 297,433 | 275,286 | 93,232 |
| Cathay Hospitality Management Co., Ltd. | 120,257 | 120,257 | 120,257 |
| Ally Logistic Property | 382,618 | 382,705 | 220,500 |
| Total | \$805,308 | \$783,248 | \$438,989 |

J. Futures traders' equity

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--|-----------|------------|-----------|
| Other related party Cathay Dragon Fund etc. | \$96,480 | \$153,252 | \$147,092 |

K. Payables

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|---|-----------|------------|-----------|
| Subsidiary Seaward Card Co., Ltd. | \$23,730 | \$23,872 | \$22,913 |
| Cathay Insurance (Bermuda) Associate | - | - | 16,107 |
| Symphox Information Co., Ltd. | 99,510 | 56,799 | 68,112 |
| Other related party Lin Yuan Property Management Co., Ltd. | 47,965 | 5,594 | 51,808 |
| Total | \$171,205 | \$86,265 | \$158,940 |

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L. Investment balance of related parties' discretionary investment

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|-----------------------------------|-----------|------------|-----------|
| Other related party | | | |
| Charity Foundation of Cathay Life | \$65,101 | \$62,249 | \$60,509 |
| Cathay Cultural Foundation | 51,755 | 48,879 | 47,042 |
| Total | \$116,856 | \$111,128 | \$107,551 |

M. Net commission and handling fee

(A) Handling fee income

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|---|------------------------|------------------------|------------------------|------------------------|
| Subsidiary | | | | |
| Cathay Securities Investment Consulting Co., Ltd. | \$4,793 | \$6,732 | \$13,483 | \$20,948 |

(B) Reinsurance service expense

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|----------------------------|------------------------|------------------------|------------------------|------------------------|
| Subsidiary | | | | |
| Cathay Insurance (Bermuda) | \$1,777 | \$2,012 | \$7,242 | \$5,426 |

N. Net premiums from insurance business

(A) Insurance income

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|--|------------------------|------------------------|------------------------|------------------------|
| Other related party | | | | |
| Cathay Real Estate Development Co., Ltd. | \$2,164 | \$2,320 | \$5,221 | \$5,278 |
| Cathay Medical Care Corporate | 13,655 | 12,881 | 34,944 | 34,626 |
| San Ching Engineering Co., Ltd. | 4,476 | 5,671 | 4,476 | 7,360 |
| Others | 64,598 | 65,001 | 151,192 | 128,902 |
| Total | \$84,893 | \$85,873 | \$195,833 | \$176,166 |

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(B) Reinsurance income

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|----------------------------|------------------------|------------------------|------------------------|------------------------|
| Subsidiary | | | | |
| Cathay Insurance (Bermuda) | \$31,581 | \$37,193 | \$98,255 | \$98,051 |

On 1 April 2000, Cathay Insurance (Bermuda) engaged in the reinsurance business providing reinsurance for RGA Global Reinsurance Company and Central Reinsurance Corporation's accidental insurance. For nine-month periods ended 30 September 2016 and 2015, Cathay Life assumed 90% of the reinsurance business from Cathay Insurance (Bermuda).

(C) Reinsurance claims payment

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|----------------------------|------------------------|------------------------|------------------------|------------------------|
| Subsidiary | | | | |
| Cathay Insurance (Bermuda) | \$20,735 | \$49,594 | \$104,953 | \$104,227 |

(D) Insurance claims payment

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|---------------------------------|------------------------|------------------------|------------------------|------------------------|
| Other related party | | | | |
| San Ching Engineering Co., Ltd. | \$- | \$- | \$- | \$3,000 |

O. Net other non-interest income

• Management fee income

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|-------------------------|------------------------|------------------------|------------------------|------------------------|
| Other related party | | | | |
| Cathay Dragon Fund etc. | \$335,466 | \$303,908 | \$937,653 | \$838,804 |

, Other income

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|--|------------------------|------------------------|------------------------|------------------------|
| Other related party | | | | |
| Cathay Healthcare Management Co., Ltd. | \$798 | \$719 | \$3,180 | \$2,854 |
| Cathay Medical Care Corporate | 605 | 1,154 | 2,420 | 3,921 |
| Total | \$1,403 | \$1,873 | \$5,600 | \$6,775 |

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P. Operating expenses

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|---|------------------------|------------------------|------------------------|------------------------|
| Subsidiary | | | | |
| Seaward Card Co., Ltd. | \$69,487 | \$66,668 | \$222,735 | \$217,052 |
| Cathay Securities Investment Consulting Co., Ltd. | 8,750 | - | 26,250 | - |
| Associate | | | | |
| Symphox Information Co., Ltd. | 189,135 | 204,529 | 638,583 | 593,189 |
| Other related party | | | | |
| Cathay Real Estate Development Co., Ltd. | 3,043 | 3,906 | 8,980 | 12,200 |
| Lin Yuan Property Management Co., Ltd. | 187,741 | 176,723 | 568,867 | 511,257 |
| Cathay Healthcare Management Co., Ltd. | 7,143 | 3,806 | 15,921 | 12,817 |
| Conning Asia Pacific Limited (Note) | - | 1,553 | - | 5,179 |
| Cathay Medical Care Corporate Charity Foundation of Cathay Life | - | - | 5,703 | - |
| Total | \$465,845 | \$457,525 | \$1,494,305 | \$1,352,548 |

Note: Conning Asia Pacific Limited was not a consolidated subsidiary until 18 September 2015.

Q. Key management personnel compensation

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|-----------------------------------|------------------------|------------------------|------------------------|------------------------|
| Short-term employee benefits | \$148,300 | \$115,258 | \$561,540 | \$450,278 |
| Post-employment pension | 4,134 | 3,001 | 11,865 | 8,743 |
| Other long-term employee benefits | - | - | 96 | - |
| Termination benefits | - | - | - | 4,128 |
| Total | \$152,434 | \$118,259 | \$573,501 | \$463,149 |

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

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(3) The Company

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

A. Cash in bank

| Name | Item | Ending balance | | |
|--------------------|--------------|----------------|------------|-----------|
| | | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Subsidiary | | | | |
| Cathay United Bank | Cash in bank | \$176,649 | \$728,634 | \$719,821 |

Interest income from Cathay United Bank for three-month and nine-month periods ended 30 September 2016 and 2015 were \$73 thousand, \$69 thousand, \$370 thousand, and \$88 thousand, respectively.

B. Receivables

| Name | Item | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|------------------------------------|---|-----------|-------------|-------------|
| Subsidiaries | | | | |
| Cathay Life | Interest | \$286,727 | \$383,000 | \$679,134 |
| Cathay Century | Receivables due to consolidated income tax and interest | 248,153 | 274,450 | 225,442 |
| Cathay United Bank | Receivables due to consolidated income tax | - | 419,607 | 601,795 |
| Cathay Securities | Receivables due to consolidated income tax | 1,053 | 101,275 | 52,969 |
| Cathay Securities Investment Trust | Receivables due to consolidated income tax | 46,740 | 58,709 | 49,853 |
| Cathay Venture | Receivables due to consolidated income tax | - | 3,775 | 9,124 |
| Total | | \$582,673 | \$1,240,816 | \$1,618,317 |

C. Guarantee deposits paid

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|-------------|-----------|------------|-----------|
| Subsidiary | | | |
| Cathay Life | \$8,046 | \$8,046 | \$8,046 |

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D. Held-to-maturity financial asset

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|----------------|---------------------|---------------------|---------------------|
| Subsidiaries | | | |
| Cathay Life | \$15,000,000 | \$15,000,000 | \$30,000,000 |
| Cathay Century | 1,000,000 | 1,000,000 | 1,000,000 |
| Total | <u>\$16,000,000</u> | <u>\$16,000,000</u> | <u>\$31,000,000</u> |

E. Payables

| Name | Item | 2016.9.30 | 104.12.31 | 2015.9.30 |
|--------------------|--|------------------|--------------------|--------------------|
| Subsidiary | | | | |
| Cathay Life | Payable due to consolidated income tax | \$311,265 | \$7,748,130 | \$6,595,524 |
| Cathay United Bank | Payable due to consolidated income tax | 316,075 | - | - |
| Total | | <u>\$627,340</u> | <u>\$7,748,130</u> | <u>\$6,595,524</u> |

F. Bonds payable

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|-------------|------------------|------------------|------------------|
| Subsidiary | | | |
| Cathay Life | <u>\$100,000</u> | <u>\$100,000</u> | <u>\$100,000</u> |

G. Interest income

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|----------------|------------------------|------------------------|------------------------|------------------------|
| Subsidiaries | | | | |
| Cathay Life | \$96,273 | \$228,866 | \$286,727 | \$679,134 |
| Cathay Century | 4,676 | 4,688 | 13,925 | 13,912 |
| Total | <u>\$100,949</u> | <u>\$233,554</u> | <u>\$300,652</u> | <u>\$693,046</u> |

H. Operating expenses

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|--------------------|------------------------|------------------------|------------------------|------------------------|
| Subsidiary | | | | |
| Cathay Life | \$9,792 | \$9,909 | \$31,047 | \$31,799 |
| Cathay United Bank | 554 | 1,735 | 2,746 | 6,116 |
| Total | <u>\$10,346</u> | <u>\$11,644</u> | <u>\$33,793</u> | <u>\$37,915</u> |

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I. Sales of securities

There is no significant related parties transaction for the nine-month period ended 30 September 2016.

| Name | Securities | 2015.9.30 | |
|-------------|------------------------|-----------|-----------|
| | | Shares | Amount |
| Subsidiary | | | |
| Cathay Life | Conning Holdings Corp. | 100,695 | \$705,548 |

(4) Subsidiaries' significant transactions with related parties that are more than \$100 million:

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

A. Cathay Life and its subsidiaries

a. Cash in banks

| Name | Item | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--------------------|------------------|--------------|--------------|--------------|
| Subsidiaries | | | | |
| Cathay United Bank | Time deposit | \$98,580 | \$9,961 | \$7,482 |
| | Cash in bank | 16,165,228 | 19,052,573 | 21,277,323 |
| | Check deposit | 501,585 | 465,562 | 2,184,345 |
| | Security deposit | 6 | 2,187 | 2,186 |
| Indovina Bank | Cash in bank | 24,986 | 9,241 | 30,380 |
| | Total | \$16,790,385 | \$19,539,524 | \$23,501,716 |

Interest income from Cathay United Bank for the three-month and nine-month periods ended 30 September 2016 and 2015, were \$4,254 thousand, \$5,379 thousand, \$14,446 thousand, and \$18,283 thousand, respectively.

Interest income from Indovina Bank for the three-month and nine-month periods ended 30 September 2016 and 2015 were \$63 thousand, \$98 thousand, \$230 thousand, and \$180 thousand, respectively.

As of 30 September 2016, 31 December 2015 and 30 September 2015, time deposit pledged were \$4,482 thousand, \$4,482 thousand and \$4,482 thousand, respectively.

b. Investments in debt securities with no active market

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--------------------------|-----------|------------|-----------|
| The Company | | | |
| Cathay Financial Holding | \$100,000 | \$100,000 | \$100,000 |

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c. Other receivables

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|---------------------------------|------------------|--------------------|--------------------|
| The Company | | | |
| Cathay Financial Holding (Note) | \$311,265 | \$7,748,130 | \$6,595,524 |
| Subsidiary | | | |
| Cathay Century | 273,761 | 240,495 | 165,135 |
| Total | <u>\$585,026</u> | <u>\$7,988,625</u> | <u>\$6,760,659</u> |

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

d. Secured loans

| Name | 2016.1.1~2016.9.30 | | |
|---------------------|--------------------|-------------|------------------|
| | Maximum amount | Rate | Ending balance |
| Other related party | | | |
| Others | \$1,054,532 | 1.11%~3.53% | <u>\$988,800</u> |

| Name | 2015.1.1~2015.9.30 | | |
|---------------------|--------------------|-------------|------------------|
| | Maximum amount | Rate | Ending balance |
| Other related party | | | |
| Others | \$938,335 | 1.34%~3.78% | <u>\$928,932</u> |

Interest income from Others for three-month and nine-month periods ended 30 September 2016 and 2015 were \$4,187 thousand, \$4,698 thousand, \$12,185 thousand and \$12,833 thousand, respectively.

e. Financial assets at fair value through profit or loss-beneficiary certificates

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|-------------------------|-----------|-------------|-----------|
| Other related party | | | |
| Cathay Dragon Fund etc. | \$- | \$1,126,851 | \$849,092 |

f. Available-for-sale financial assets

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|-------------------------|------------------|--------------------|--------------------|
| Other related party | | | |
| Cathay Dragon Fund etc. | <u>\$100,084</u> | <u>\$1,018,874</u> | <u>\$1,024,582</u> |

g. Investment balance of related parties' discretionary investment

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|------------------------------------|----------------------|----------------------|----------------------|
| Subsidiary | | | |
| Cathay Securities Investment Trust | <u>\$192,982,915</u> | <u>\$174,054,401</u> | <u>\$195,763,910</u> |

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h. Guarantee deposits paid

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--------------------------|-------------|-------------|-------------|
| Subsidiary | | | |
| Cathay Futures Co., Ltd. | \$2,046,686 | \$1,180,845 | \$1,389,044 |

The guarantee deposits are futures margins of Cathay Futures Co., Ltd. The imputed interest income of guarantee deposit paid from Cathay Futures Co., Ltd. for the three-month and nine-month periods ended 30 September 2016 and 2015 were \$446 thousand, \$432 thousand, \$1,432 thousand, and \$761 thousand respectively.

i. Other payables

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|---------------------------------|-----------|------------|-------------|
| The Company | | | |
| Cathay Financial Holding (Note) | \$286,727 | \$383,000 | \$679,134 |
| Subsidiary | | | |
| Cathay United Bank | 384,193 | 362,393 | 518,638 |
| Total | \$670,920 | \$745,393 | \$1,197,772 |

Note: Interest payable accrued from preferred stock liability.

j. Preferred stock liability

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--------------------------|--------------|--------------|--------------|
| The Company | | | |
| Cathay Financial Holding | \$15,000,000 | \$15,000,000 | \$30,000,000 |

k. Property transactions

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

Real estate contracted projects of Cathay Life:

| Name | 2016.1.1~2016.9.30 | |
|--|---------------------------------|-------------|
| | Item | Amount |
| Other related party | | |
| San Ching Engineering Co., Ltd. | Cathay Land Mark, etc. | \$437,567 |
| Cathay Real Estate Development Co., Ltd. | Minsheng Jingguo Building, etc. | 322,203 |
| Ally Logistic Property | Jui-Fang Logistic Park, etc | 1,129,862 |
| | Total | \$1,889,632 |

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| Name | 2015.1.1~2015.9.30 | |
|--|-----------------------------|--------------------|
| | Item | Amount |
| Other related party | | |
| San Ching Engineering Co., Ltd. | Cathay Land Mark, etc. | \$1,445,323 |
| Cathay Real Estate Development Co., Ltd. | Cathay Land Mark, etc. | 155,181 |
| Ally Logistic Property | Jui-Fang Logistic Park, etc | 1,112,846 |
| | Total | <u>\$2,713,350</u> |

The total amounts of contracted projects for real estate as of 30 September 2016, 31 December 2015 and 30 September 2015 between Cathay Life and San Ching Engineering Co., Ltd. were \$1,853,332 thousand, \$8,222,939 thousand and \$7,294,139 thousand, respectively.

The total amounts of contracted projects for real estate as of 30 September 2016, 31 December 2015 and 30 September 2015 between Cathay Life and Cathay Real Estate Development Co., Ltd. were \$1,742,250 thousand, \$1,728,876 thousand and \$1,708,592 thousand, respectively.

The total amounts of contracted projects for real estate as of 30 September 2016, 31 December 2015 and 30 September 2015 between Cathay Life and Ally Logistic Property were \$3,383,783 thousand, \$4,647,704 thousand and \$2,756,476 thousand, respectively.

1. Rental income

| Name | Item | 2016.7.1~ | 2015.7.1~ | 2016.1.1~ | 2015.1.1~ |
|---|---------------------------|------------------|------------------|------------------|------------------|
| | | 2016.9.30 | 2015.9.30 | 2016.9.30 | 2015.9.30 |
| Subsidiary | | | | | |
| Cathay United Bank | Real-estate rental income | \$129,564 | \$108,228 | \$350,831 | \$319,597 |
| Other related party | | | | | |
| Cathay Medical Care Corporate | Real-estate rental income | 11,442 | 10,830 | 101,486 | 99,925 |
| Cathay Hospitality Management Co., Ltd. | Real-estate rental income | 51,933 | 48,077 | 152,963 | 139,264 |
| Ally Logistic Property | Real-estate rental income | 46,360 | 25,959 | 110,985 | 66,479 |
| Total | | <u>\$239,299</u> | <u>\$193,094</u> | <u>\$716,265</u> | <u>\$625,265</u> |

According to contracts, leasing periods are generally 2-5 years, and rental incomes are collected on a monthly basis.

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m. Guarantee deposits paid

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|---|--------------------|--------------------|------------------|
| Subsidiary | | | |
| Cathay United Bank | \$157,440 | \$101,838 | \$101,764 |
| Other related party | | | |
| San Ching Engineering Co., Ltd. | 297,433 | 275,286 | 93,232 |
| Cathay Hospitality Management Co., Ltd. | 334,694 | 332,768 | 332,353 |
| Ally Logistic Property | 438,267 | 401,355 | 239,150 |
| Total | <u>\$1,227,834</u> | <u>\$1,111,247</u> | <u>\$766,499</u> |

n. Insurance income

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|---------------------|------------------------|------------------------|------------------------|------------------------|
| Other related party | | | | |
| Other | <u>\$64,598</u> | <u>\$65,001</u> | <u>\$151,192</u> | <u>\$128,902</u> |

o. Reinsurance claims payment

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|----------------------------|------------------------|------------------------|------------------------|------------------------|
| Subsidiary | | | | |
| Cathay Insurance (Bermuda) | <u>\$20,735</u> | <u>\$49,594</u> | <u>\$104,953</u> | <u>\$104,227</u> |

p. Miscellaneous income

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|--------------------|------------------------|------------------------|------------------------|------------------------|
| Subsidiary | | | | |
| Cathay Century | \$315,248 | \$343,686 | \$961,140 | \$1,064,104 |
| Cathay United Bank | 37,772 | 29,471 | 113,193 | 102,162 |
| Total | <u>\$353,020</u> | <u>\$373,157</u> | <u>\$1,074,333</u> | <u>\$1,166,266</u> |

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

q. Insurance expenses

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|----------------|------------------------|------------------------|------------------------|------------------------|
| Subsidiary | | | | |
| Cathay Century | <u>\$7,102</u> | <u>\$13,238</u> | <u>\$108,997</u> | <u>\$134,444</u> |

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s. Operating expenses

| Name | 2016.7.1~ | 2015.7.1~ | 2016.1.1~ | 2015.1.1~ |
|--|--------------------|--------------------|--------------------|--------------------|
| | 2016.9.30 | 2015.9.30 | 2016.9.30 | 2015.9.30 |
| Subsidiary | | | | |
| Cathay United Bank | \$1,948,643 | \$1,918,511 | \$6,815,976 | \$5,256,578 |
| Associate | | | | |
| Symphox Information Co., Ltd. | 80,955 | 78,701 | 285,560 | 215,314 |
| Other related party | | | | |
| Lin Yuan Property Management Co., Ltd. | 185,417 | 174,546 | 561,766 | 505,184 |
| Total | <u>\$2,215,015</u> | <u>\$2,171,758</u> | <u>\$7,663,302</u> | <u>\$5,977,076</u> |

t. Non-operating expenses

| Name | 2016.7.1~ | 2015.7.1~ | 2016.1.1~ | 2015.1.1~ |
|--------------------------|-----------------|------------------|------------------|------------------|
| | 2016.9.30 | 2015.9.30 | 2016.9.30 | 2015.9.30 |
| The Company | | | | |
| Cathay Financial Holding | <u>\$96,273</u> | <u>\$228,866</u> | <u>\$286,727</u> | <u>\$679,134</u> |

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

u. Sales of securities

There is no significant related parties transaction for the nine-month period ended 30 September 2016.

| Name | Securities | 2015.9.30 | |
|-------------|------------------------|-----------|-----------|
| | | Shares | Amount |
| Subsidiary | | | |
| Cathay Life | Conning Holdings Corp. | 100,695 | \$705,548 |

v. Other disclosures

As of 30 September 2016, 31 December 2015 and 30 September 2015, the nominal amounts (in thousand) of the financial instruments transactions between Cathay Life and Cathay United Bank are summarized as below:

| Item | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--------------|----------------------|----------------------|----------------------|
| CS contracts | <u>USD 3,019,000</u> | <u>USD 2,893,000</u> | <u>USD 2,663,000</u> |

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B. Cathay United Bank and its subsidiaries

a. Loans and deposits

| Account/Name | Ending balance | | |
|-----------------------|--------------------|--------------------|--------------------|
| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Loans | | | |
| Associate | | | |
| Tien-Tai Energy Corp. | \$98,223 | \$104,498 | \$106,590 |
| Other related party | | | |
| Others | 1,337,450 | 1,198,989 | 1,219,568 |
| Total | <u>\$1,435,673</u> | <u>\$1,303,487</u> | <u>\$1,326,158</u> |

| Account/Name | Ending balance | | |
|--|---------------------|---------------------|---------------------|
| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Deposits | | | |
| The Company | | | |
| Cathay Financial Holding | \$176,649 | \$728,634 | \$719,821 |
| Subsidiaries | | | |
| Cathay Life | 16,664,494 | 19,438,526 | 23,471,336 |
| Cathay Century | 1,424,048 | 1,391,722 | 1,146,461 |
| Cathay Securities | 2,333,422 | 2,603,833 | 1,576,112 |
| Cathay Futures Co., Ltd. | 1,591,031 | 2,514,909 | 2,459,749 |
| Cathay Venture | 67,465 | 63,471 | 30,075 |
| Cathay Securities Investment Trust | 173,943 | 142,854 | 200,356 |
| Cathay Life (Vietnam) | 24,986 | 9,241 | 30,380 |
| Cathay Century (Vietnam) | 223,265 | 176,432 | 128,965 |
| Conning Asia Pacific Limited | 100,905 | 91,757 | - |
| Associate | | | |
| Symphox Information Co., Ltd. | 85,837 | 170,947 | 186,962 |
| Other related party | | | |
| Cathay Real Estate Development Co., Ltd. | 260,475 | 80,649 | 83,297 |
| Cathay Dragon Fund etc. | 198,427 | 24,098 | 175,872 |
| Others | 13,816,683 | 13,039,785 | 13,233,545 |
| Total | <u>\$37,141,630</u> | <u>\$40,476,858</u> | <u>\$43,442,931</u> |

| Name | Interest income | | | |
|-----------------------|------------------------|------------------------|------------------------|------------------------|
| | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
| Loans | | | | |
| Associate | | | | |
| Tien-Tai Energy Corp. | \$806 | \$951 | \$2,501 | \$2,875 |
| Other related party | | | | |
| Others | 5,861 | 6,172 | 18,070 | 19,488 |
| Total | <u>\$6,667</u> | <u>\$7,123</u> | <u>\$20,571</u> | <u>\$22,363</u> |

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| Name | Interest expense | | | |
|------------------------------|------------------------|------------------------|------------------------|------------------------|
| | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
| Deposits | | | | |
| The Company | | | | |
| Cathay Financial Holding | \$73 | \$69 | \$370 | \$88 |
| Subsidiaries | | | | |
| Cathay Life | 4,077 | 5,379 | 14,076 | 18,283 |
| Cathay Century | 1,715 | 2,231 | 5,515 | 6,573 |
| Cathay Securities | 850 | 1,439 | 2,969 | 4,166 |
| Cathay Futures Co., Ltd. | 2,980 | 5,991 | 12,707 | 17,482 |
| Cathay Securities | | | | |
| Investment Trust | 9 | 44 | 42 | 125 |
| Cathay Venture | 104 | 198 | 391 | 1,384 |
| Cathay Life (Vietnam) | 63 | 98 | 230 | 180 |
| Cathay Century (Vietnam) | 1,085 | 2,147 | 6,000 | 3,335 |
| Conning Asia Pacific | | | | |
| Limited | 177 | - | 370 | - |
| Associate | | | | |
| Syphon Information Co., Ltd. | 148 | 379 | 686 | 1,036 |
| Other related party | | | | |
| Cathay Real Estate | | | | |
| Development Co., Ltd. | 13 | 16 | 48 | 77 |
| Cathay Dragon Fund etc. | - | - | 1 | 2 |
| Others | 24,528 | 29,480 | 82,254 | 85,724 |
| Total | \$35,822 | \$47,471 | \$125,659 | \$138,455 |

| Account/Name | Ending balance | | |
|---------------------------------------|----------------|-------------|-------------|
| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| <u>Call loans to banks</u> | | | |
| Other related party | | | |
| Vietinbank | \$5,728,824 | \$4,404,972 | \$5,909,998 |
| <u>Due to commercial banks</u> | | | |
| Other related party | | | |
| Vietinbank | 5,719,543 | - | 1,513,385 |

| Account/Name | Interest income | | | |
|-----------------------------------|------------------------|------------------------|------------------------|------------------------|
| | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
| <u>Call loans to banks</u> | | | | |
| Other related party | | | | |
| Vietinbank | \$18,201 | \$43,403 | \$32,612 | \$84,109 |

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| Account/Name | Interest expense | | | |
|--------------------------------|------------------------|------------------------|------------------------|------------------------|
| | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
| <u>Due to commercial banks</u> | | | | |
| Other related party | | | | |
| Vietinbank | \$4,585 | \$28,506 | \$5,115 | \$41,966 |

Cathay United Bank and its subsidiaries' transaction terms with related parties are similar to those with third parties except that employees are given favorable interest rates within specified limit for savings and loans.

b. Receivables due to commission of insurance agency

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|-------------|-----------|------------|-----------|
| Subsidiary | | | |
| Cathay Life | \$384,193 | \$362,393 | \$518,638 |

c. Combined tax receivable

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--------------------------|-----------|------------|-----------|
| The Company | | | |
| Cathay Financial Holding | \$316,075 | \$- | \$- |

d. Combined tax payable

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--------------------------|-----------|------------|-----------|
| The Company | | | |
| Cathay Financial Holding | \$- | \$419,607 | \$601,795 |

e. Rental expense

| Name | 2016.7.1~ | 2015.7.1~ | 2016.1.1~ | 2015.1.1~ |
|-------------|-----------|-----------|-----------|-----------|
| | 2016.9.30 | 2015.9.30 | 2016.9.30 | 2015.9.30 |
| Subsidiary | | | | |
| Cathay Life | \$129,564 | \$108,228 | \$350,831 | \$319,597 |

f. Guarantee deposits paid

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|-------------|-----------|------------|-----------|
| Subsidiary | | | |
| Cathay Life | \$157,440 | \$101,838 | \$101,764 |

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g. Handling fees income

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|-------------|------------------------|------------------------|------------------------|------------------------|
| Subsidiary | | | | |
| Cathay Life | \$1,948,643 | \$1,918,511 | \$6,815,976 | \$5,256,578 |

h. Operating expenses

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|-------------------------------|------------------------|------------------------|------------------------|------------------------|
| Subsidiary | | | | |
| Seaward Card Co., Ltd. | \$43,074 | \$42,515 | \$148,786 | \$143,865 |
| Cathay Life | 37,772 | 29,471 | 113,193 | 102,162 |
| Associate | | | | |
| Symphox Information Co., Ltd. | 95,657 | 110,819 | 314,993 | 336,988 |
| Total | \$176,503 | \$182,805 | \$576,972 | \$583,015 |

C. Cathay Century and its subsidiaries

a. Cash in banks

| Name | Item | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--------------------|---------------|-------------|-------------|-------------|
| Subsidiaries | | | | |
| Cathay United Bank | Time deposit | \$623,200 | \$623,200 | \$628,200 |
| | Cash in bank | 672,148 | 652,474 | 396,833 |
| | Check deposit | 128,700 | 116,048 | 121,428 |
| Indovina Bank | Time deposit | 212,474 | 159,199 | 125,479 |
| | Cash in bank | 10,791 | 17,233 | 3,486 |
| | Total | \$1,647,313 | \$1,568,154 | \$1,275,426 |

Interest income from Cathay United Bank for three-month and nine-month periods ended 30 September 2016 and 2015 were \$1,715 thousand, \$2,231 thousand, \$5,515 thousand and \$6,573 thousand, respectively.

Interest income from Indovina Bank for three-month and nine-month periods ended 30 September 2016 and 2015 were \$1,085 thousand, \$2,147 thousand, \$6,000 thousand, and \$3,335 thousand, respectively.

As of 30 September 2016, 31 December 2015 and 30 September 2015, time deposit pledged were \$28,604 thousand, \$28,598 thousand and \$28,598 thousand, respectively.

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b. Financial assets at fair value through profit or loss

| Name | Item | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|-------------------------|--------------------------|-----------|------------|-----------|
| Other related party | | | | |
| Cathay Dragon Fund etc. | Beneficiary certificates | \$49,363 | \$100,620 | \$100,523 |

c. Available-for-sale financial assets

| Name | Item | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|-------------------------|--------------------------|-----------|------------|-----------|
| Other related party | | | | |
| Cathay Dragon Fund etc. | Beneficiary certificates | \$254,698 | \$139,118 | \$291,607 |

d. Investment balance of related parties' discretionary investment

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|------------------------------------|-------------|------------|-----------|
| Subsidiary | | | |
| Cathay Securities Investment Trust | \$1,095,329 | \$433,188 | \$420,792 |

e. Other payables

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--------------------------|-----------|------------|-----------|
| The Company | | | |
| Cathay Financial Holding | \$248,153 | \$274,450 | \$225,442 |
| Subsidiary | | | |
| Cathay Life | 273,761 | 240,495 | 165,135 |
| Total | \$521,914 | \$514,945 | \$390,577 |

f. Preferred stock liability

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--------------------------|-------------|-------------|-------------|
| The Company | | | |
| Cathay Financial Holding | \$1,000,000 | \$1,000,000 | \$1,000,000 |

g. Insurance income

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|-------------|------------------------|------------------------|------------------------|------------------------|
| Subsidiary | | | | |
| Cathay Life | \$7,102 | \$13,238 | \$108,997 | \$134,444 |

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h. Operating expenses

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|-------------|------------------------|------------------------|------------------------|------------------------|
| Subsidiary | | | | |
| Cathay Life | \$315,248 | \$343,686 | \$961,140 | \$1,064,104 |

i. Other disclosure

As of 30 September 2016, 31 December 2015 and 30 September 2015, the nominal amounts (in thousand) of the derivative financial instruments transactions with Cathay United Bank are summarized as below:

| Item | 2016.9.30 | | 2015.12.31 | | 2015.9.30 | |
|--------------|-----------|--------|------------|--------|-----------|--------|
| CS contracts | USD | 68,700 | USD | 74,200 | USD | 69,200 |
| | EUR | 5,850 | EUR | 4,350 | EUR | 3,350 |

D. Cathay Securities and its subsidiaries

a. Cash in bank

| Name | Item | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--------------------|----------------|-------------|-------------|-------------|
| Subsidiary | | | | |
| Cathay United Bank | Time deposits | \$1,962,196 | \$1,541,900 | \$1,511,900 |
| | Cash in bank | 677,266 | 1,433,449 | 453,895 |
| | Check deposits | 1 | 1 | 2 |
| | Total | \$2,639,463 | \$2,975,350 | \$1,965,797 |

Interest income from Cathay United Bank for three-month and nine-month periods ended 30 September 2016 and 2015 were \$3,830 thousand, \$7,430 thousand, \$15,676 thousand, and \$21,648 thousand, respectively.

As of 30 September 2016, 31 December 2015 and 30 September 2015, time deposit pledged were all \$900,000 thousand, \$900,000 thousand and \$900,000 thousand respectively.

Note: In accordance with the article 14 of the “Regulations Governing Futures Commission Merchants”, the article 10 of the “Regulations Governing Futures Advisory Enterprises”, the article 7 of the “Regulations Governing Securities Investment Consulting Enterprises” and the article 17 of the “Regulations Governing Managed Futures Enterprises”, Cathay Futures lodges the time deposits in Cathay United Bank as the operating bonds. As of 30 September 2016, 31 December 2015 and 30 September 2015, the operating bonds were \$355,000 thousand, \$325,000 thousand and \$350,000 thousand, respectively.

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b. Customer's margin accounts

| Name | Ending balance | | |
|--------------------|----------------|-------------|-------------|
| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Subsidiary | | | |
| Cathay United Bank | \$1,284,990 | \$2,143,392 | \$2,070,064 |

c. Financial assets at fair value through profit or loss

| Name | 2016.9.30 | 104.12.31 | 2015.9.30 |
|-------------------------|-----------|-----------|-----------|
| Other related party | | | |
| Cathay Dragon Fund etc. | \$165,671 | \$21,780 | \$25,921 |

d. Futures trader's equity

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|-------------------------|-------------|-------------|-------------|
| Subsidiary | | | |
| Cathay Life | \$2,046,686 | \$1,180,845 | \$1,389,044 |
| Other related party | | | |
| Cathay Dragon Fund etc. | 96,480 | 153,252 | 147,092 |
| Total | \$2,143,166 | \$1,334,097 | \$1,536,136 |

e. Other payables

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--------------------------|-----------|------------|-----------|
| The Company | | | |
| Cathay Financial Holding | \$1,053 | \$101,275 | \$52,969 |

E. Cathay Securities Investment Trust

a. Cash in bank, Operating deposit and Guarantee deposit

| Name | Item | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--------------------|---------------------|-----------|------------|-----------|
| Subsidiary | | | | |
| Cathay United Bank | Time deposit (Note) | \$119,108 | \$136,100 | \$148,600 |
| | Cash in bank | 21,836 | 267 | 26,278 |
| | Check deposits | 32,999 | 6,487 | 25,478 |
| | Total | \$173,943 | \$142,854 | \$200,356 |

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Note: In accordance with “Standards Governing the Establishment of Futures Trust Enterprises” and “Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises”, Cathay Securities Investment Trust lodges the time deposits in Cathay United Bank as operating bonds. As of 30 September 2016, 31 December 2015 and 30 September 2015, the operating bonds were \$50,000 thousand, \$50,000 thousand and \$50,000 thousand respectively.

And in accordance with “Discretionary Investment Services Contract”, as of 30 September 2016, 31 December 2015 and 30 September 2015, Cathay Securities Investment Trust reserved the performance bonds amounted to \$64,800 thousand, \$86,100 thousand and \$98,600 thousand, respectively.

Interest income from Cathay United Bank for three-month and nine-month periods ended 30 September 2016 and 2015 were \$104 thousand, \$198 thousand, \$391 thousand and \$1,384 thousand respectively.

b. Available-for-sale financial assets

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|-------------------------|-----------|------------|-----------|
| Other related party | | | |
| Cathay Dragon Fund etc. | \$90,757 | \$60,746 | \$109,364 |

c. Management fee income

| Name | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|-------------------------|------------------------|------------------------|------------------------|------------------------|
| Other related party | | | | |
| Cathay Dragon Fund etc. | \$335,466 | \$303,908 | \$937,653 | \$838,804 |

d. Receivables

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|-------------------------|-----------|------------|-----------|
| Other related party | | | |
| Cathay Dragon Fund etc. | \$113,267 | \$97,496 | \$87,810 |

e. Investment balance of related parties' discretionary investment

| Name | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|----------------|---------------|---------------|---------------|
| Subsidiaries | | | |
| Cathay Life | \$192,982,915 | \$174,054,401 | \$195,763,910 |
| Cathay Century | 1,095,329 | 433,188 | 420,792 |
| Total | \$194,078,244 | \$174,487,589 | \$196,184,702 |

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34. Pledged assets

As of 30 September 2016, 31 December 2015 and 30 September 2015 the Group's pledged assets are summarized below:

| Item | Guarantee purpose | Carrying amount | | |
|--|--|---------------------|---------------------|---------------------|
| | | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Time deposits | Correspondent deposit, collateral for the over-loaning of settlement accounts, loans, business reserves and guarantees | \$14,130,249 | \$17,149,515 | \$17,531,614 |
| Available-for-sale financial assets | Business reserves and guarantees | 85,360 | 953,126 | 1,218,515 |
| Held-to-maturity financial assets | Business reserves and guarantees | 2,340,117 | 1,592,966 | 5,205,180 |
| Investments in debt securities with no active market | Business reserves and guarantees | 63,800,000 | 63,800,000 | 63,800,000 |
| Total | | \$80,355,726 | \$83,495,607 | \$87,755,309 |

35. Commitment and contingent liabilities

(1) Cathay United Bank

Lee and Li Attorneys-at-Law and SanDisk Corporation filed lawsuits in the Taiwan Taipei District Court and alleged that Cathay United Bank breached its contractual and fiduciary duties in connection with the embezzlement conducted by Eddie Liu, a former employee of Lee and Li Attorneys-at-Law on October 2003. Both plaintiffs claimed indemnities amounted to \$991,002 thousand and \$3,090,000 thousand. The lawsuit was in litigation procedures in July 2007. Cathay United Bank won the lawsuit on 13 August, 2014. However, Lee and Li, Attorneys-at-Law lodged an appeal. Thus, the case is still pending. Cathay United Bank is in mediation procedure with SanDisk Corporation. Cathay United Bank has been advised by its legal advisor that it is possible, but not probable, that the action will be resolved in Cathay United Bank's favor and accordingly no provision for such claims has been made in these financial statements.

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- (2) As of 30 September 2016, 31 December 2015 and 30 September 2015 Cathay United Bank and its subsidiaries had the following commitments and contingent liabilities, which were not reflected in the financial statements:

| Item | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--|---------------|---------------|---------------|
| Trust and security held for safekeeping | \$601,587,590 | \$606,837,259 | \$616,723,941 |
| Travelers checks for sale | 412,087 | 553,863 | 596,649 |
| Bills for collection | 43,410,157 | 49,774,146 | 47,247,723 |
| Book-entry for government bonds and depository for short-term marketable securities under management | 373,389,808 | 459,375,951 | 416,148,000 |
| Entrusted financial management business | 6,113,566 | 8,325,261 | 7,461,021 |
| Guarantees on duties and contracts | 6,852,694 | 10,285,103 | 10,263,154 |
| Unused commercial letters of credit | 4,734,174 | 5,671,428 | 5,052,063 |
| Irrevocable loan commitments | 138,495,670 | 187,772,192 | 130,087,076 |
| Credit card lines commitments | 511,957,350 | 458,482,468 | 448,818,072 |
| Underwriting securities | 6,800,000 | 8,230,000 | 630,000 |
| Financial guarantee contracts | 2,119,546 | 1,814,095 | 2,028,272 |

- (3) According to the effective operating leases agreement (the longest lease term is 5 years), rentals for the next five years are as follows:

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|---------------|--------------------|--------------------|--------------------|
| Within 1 year | \$1,758,382 | \$1,273,832 | \$1,175,913 |
| 1 to 5 years | 3,038,538 | 2,094,004 | 2,008,043 |
| Over 5 year | 220,831 | 133,940 | 161,569 |
| Total | <u>\$5,017,751</u> | <u>\$3,501,776</u> | <u>\$3,345,525</u> |

- (4) Investment commitment for private equity fund

As of 30 September 2016, the maximum remaining capital commitment for the contracted private equity fund of Cathay Life was US\$1,403,066 thousand and EUR\$204,282 thousand.

36. Significant disaster losses:

None

37. Subsequent events:

On 31 March 2015 and 22 May 2015, the FSC and the Investment Commission of the Ministry of Economic Affairs (MOEAIC), respectively, authorized Cathay Life to remit IDR 3,717 billion and acquired 24.9% and 15.1 % of PT Bank Mayapada Internasional, Tbk in June 2015 and October 2016, respectively.

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On 25 July 2016, a resolution was passed at Cathay Life's board of directors' meeting to redeem \$10 billion of Class B preferred stocks. With the approval from the FSC on 4 October 2016, the Cathay Life redeemed all the Class B preferred stocks on 8 October 2016

The cash capital increase in the amount of CNY¥ 53,280 thousand or its US dollar equivalent based on initial capital contribution in CDBS Cathay Asset Management Co., Ltd. accounted for using the equity method has been approved by Cathay Securities Investment Trust's board of directors on 9 November 2016 and will not be executed until authorized by the government of the Republic of China and the government of the People's Republic of China.

On 25 October 2016, FSC approved the Company's issuance of 833,300 thousand shares of preferred stock with par value of \$10 at \$60 per share on 15 November 2016. The issuance of preferred stock was not completed at the date of issuance of the Group's financial statements.

The Company issued a seven-year unsecured subordinated financial debenture totaling \$20,000,000 thousand with a stated interest rate of 2.65% on September 16, 2009. The subordinated financial debenture will be paid at maturity and the interest is payable annually. The Company had bought back the debentures on 8 October 2016.

38. Other significant matters

(1) Categories of financial instruments

| The Group | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|--|-----------------|-----------------|-----------------|
| Financial assets | | | |
| Financial assets at fair value through profit or loss: | \$304,989,787 | \$296,117,926 | \$301,418,560 |
| Available-for-sale financial assets - net | 1,549,141,336 | 1,486,393,125 | 1,391,995,900 |
| Derivative financial assets for hedging | 456,538 | 447,326 | 618,196 |
| Held-to-maturity financial assets - net | 76,052,232 | 81,708,446 | 81,056,988 |
| Other financial assets - investments with no active market | 2,330,030,322 | 2,289,311,099 | 2,185,785,088 |
| Loans and receivables: | | | |
| Cash and cash equivalents (petty cash and cash on hand excluded) | 276,258,438 | 175,553,200 | 294,450,254 |
| Due from the Central Bank and call loans to banks | 100,272,971 | 100,169,436 | 106,591,988 |
| Securities purchased under agreements to resell | 60,337,058 | 55,880,471 | 44,986,518 |
| Receivables - net | 153,432,930 | 141,665,344 | 153,707,207 |
| Loans - net | 1,915,892,998 | 1,766,476,353 | 1,791,823,698 |
| Other financial assets | 510,712,525 | 501,089,793 | 496,095,318 |
| Guarantee deposits paid | 38,286,706 | 58,069,777 | 54,820,490 |
| Subtotal | 3,055,193,626 | 2,798,904,374 | 2,942,475,473 |
| Total | \$7,315,863,841 | \$6,952,882,296 | \$6,903,350,205 |

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| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|---|------------------------|------------------------|------------------------|
| Financial liabilities | | | |
| Financial liabilities at fair value through profit or loss: | \$85,122,266 | \$137,471,418 | \$156,158,848 |
| Financial liabilities at amortized cost: | | | |
| Due to the Central Bank and call loans from banks | 62,672,251 | 41,226,909 | 37,149,666 |
| Securities sold under agreements to repurchase | 47,948,785 | 55,523,982 | 81,932,624 |
| Commercial paper payable - net | 36,119,130 | 35,677,634 | 26,778,973 |
| Payables | 52,904,991 | 43,680,334 | 55,153,124 |
| Deposits | 1,986,917,547 | 1,854,495,831 | 1,814,400,235 |
| Bonds payable | 71,800,000 | 71,800,000 | 105,550,787 |
| Other financial liabilities | 558,240,384 | 549,564,053 | 544,772,545 |
| Guarantee deposits received | 8,974,497 | 5,800,365 | 6,288,650 |
| Subtotal | <u>2,825,577,585</u> | <u>2,657,769,108</u> | <u>2,672,026,604</u> |
| Total | <u>\$2,910,699,851</u> | <u>\$2,795,240,526</u> | <u>\$2,828,185,452</u> |

(2) Fair value of financial instruments

A. The methods and assumptions applied in determining the fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Group to measure or disclose the fair values of financial assets and financial liabilities:

- a. The carrying amount of cash and cash equivalents, accounts receivables, short-term debts and accounts payable approximate their fair value due to their short maturities.
- b. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.
- c. Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).

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- d. Fair value of debt instruments without market quotations is determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the GreTai Securities Market, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk information.)
- e. The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).
- f. The Group evaluates the credit risk of the derivative contract traded over-the-counter through the following calculation. Under the assumption that the Group will not default, the Group determines its credit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Group calculates its debit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the Group. The Group decides the estimated probability of default by referring to the probability of default announced by external credit rating agencies. The Group sets estimated loss given default at 60% by considering the experience of Jon Gregory, a scholar, and foreign financial institutions. The estimated exposure at default for current period is evaluated by considering the fair value of the derivative instruments traded at Taipei Exchange.

B. Financial instruments not measured at fair value:

Except as detailed in the following table, the management considers the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values or that the fair values cannot be reasonably measured:

| | Book value | | |
|---|------------------------|------------------------|------------------------|
| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Financial assets | | | |
| Held-to-maturity financial assets –net (Note) | \$84,561,405 | \$91,792,178 | \$90,010,424 |
| Investments with no active market | 2,330,030,322 | 2,289,311,099 | 2,185,785,088 |
| Other financial assets | 7,500,000 | 18,000,000 | 25,000,000 |
| Total | <u>\$2,422,091,727</u> | <u>\$2,399,103,277</u> | <u>\$2,300,795,512</u> |

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| | Fair value | | |
|--|------------------------|------------------------|------------------------|
| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Financial assets | | | |
| Held-to-maturity financial assets - net (Note) | \$93,335,528 | \$97,214,828 | \$93,287,476 |
| Investments with no active market | 2,415,040,645 | 2,252,415,754 | 2,165,135,382 |
| Other financial assets | 7,522,718 | 17,857,932 | 24,821,712 |
| Total | <u>\$2,515,898,891</u> | <u>\$2,367,488,514</u> | <u>\$2,283,244,570</u> |

Note: Guarantee deposits paid in bonds are included.

(3) Hedge accounting disclosures

A. Cash flow hedges

The following table summarizes the terms of Cathay Life and its subsidiaries' interest rate swaps for bonds used as hedging instruments as of 30 September 2016, 31 December 2015 and 30 September 2015:

| 2016.9.30 | | | | |
|---------------------|--------------------|------------|------------------------------|--|
| Hedged item | Hedging instrument | Fair Value | Expected period of cash flow | Expected period of profit and loss recognized in the statement of comprehensive income |
| Floating rate bonds | IRS | \$456,539 | 2016.10.24~2024.5.26 | 2016.10.24~2024.5.26 |
| 2015.12.31 | | | | |
| Hedged item | Hedging instrument | Fair Value | Expected period of cash flow | Expected period of profit and loss recognized in the statement of comprehensive income |
| Floating rate bonds | IRS | \$447,326 | 2016.1.25~2024.5.26 | 2016.1.25~2024.5.26 |
| 2015.9.30 | | | | |
| Hedged item | Hedging instrument | Fair Value | Expected period of cash flow | Expected period of profit and loss recognized in the statement of comprehensive income |
| Floating rate bonds | IRS | \$387,698 | 2015.10.23~2024.5.26 | 2015.10.23~2024.5.26 |

The terms of interest rate swap agreements are established based on the terms of the bonds hedged.

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Interest rate swap agreements are considered to be highly effective cash flow hedges. Amount of effective hedging instrument in cash flow hedges is as follows:

| | 2016.7.1~ 2016.9.30 | 2015.7.1~ 2015.9.30 | 2016.1.1~ 2016.9.30 | 2015.1.1~ 2015.9.30 |
|---|------------------------|------------------------|------------------------|------------------------|
| Amount recognized in other comprehensive income | \$ (63,749) | \$ 169,188 | \$ 7,582 | \$ 175,803 |
| Amount reclassified from equity to profit or loss | 225 | 778 | 1,630 | (1,003) |

(4) Offsetting of financial assets and financial liabilities

The Group own financial instruments that do not offset in accordance with IAS 32 but it executed enforceable master netting arrangement or other similar agreements with counterparties. Financial instruments subject to enforceable master netting arrangement or other similar agreements could be settled at net amount as chosen by the counterparties, or the financial instruments could be settled at gross amount if not. However, if one of the counterparty defaults, the other party could choose to settle the transaction at net amount.

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

| 2016.9.30 | | | | | | |
|---|--|--|---|--|-----------------------------|--------------|
| Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
| Item | Gross amount of recognized financial assets | Gross amount of offset | | Relevant amount that has not been offset on balance sheet | | |
| | | financial liabilities recognized on balance sheet | Net financial assets recognized on balance sheet | Financial instruments (Note) | Cash collateral received | Net amount |
| Derivative financial instrument | \$20,996,838 | \$- | \$20,996,838 | \$(1,344,514) | \$- | \$19,652,324 |

| 2016.9.30 | | | | | | |
|--|---|---|--|--|----------------------------|------------|
| Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
| Item | Gross amount of recognized financial liabilities | Gross amount of offset | | Relevant amount that has not been offset on balance sheet | | |
| | | financial assets recognized on balance sheet | Net financial liabilities recognized on balance sheet | Financial instruments (Note) | Cash collateral pledged | Net amount |
| Derivative financial instrument | \$1,344,514 | \$- | \$1,344,514 | \$(1,344,514) | \$- | \$- |

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2015.12.31

| Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
|---|---|--|--|---|--------------------------|------------|
| Item | Gross amount of recognized financial assets | Gross amount of offset financial liabilities recognized on balance sheet | Net financial assets recognized on balance sheet | Relevant amount that has not been offset on balance sheet | | Net amount |
| | | | | Financial instruments (Note) | Cash collateral received | |
| Derivative financial instrument | \$13,206,554 | \$- | \$13,206,554 | \$(13,206,554) | \$- | \$- |

2015.12.31

| Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
|--|--|---|---|---|-------------------------|--------------|
| Item | Gross amount of recognized financial liabilities | Gross amount of offset financial assets recognized on balance sheet | Net financial liabilities recognized on balance sheet | Relevant amount that has not been offset on balance sheet | | Net amount |
| | | | | Financial instruments (Note) | Cash collateral pledged | |
| Derivative financial instrument | \$38,829,479 | \$- | \$38,829,479 | \$(13,206,554) | \$- | \$25,622,925 |

2015.9.30

| Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
|---|---|--|--|---|--------------------------|------------|
| Item | Gross amount of recognized financial assets | Gross amount of offset financial liabilities recognized on balance sheet | Net financial assets recognized on balance sheet | Relevant amount that has not been offset on balance sheet | | Net amount |
| | | | | Financial instruments (Note) | Cash collateral received | |
| Derivative financial instrument | \$24,989,393 | \$- | \$24,989,393 | \$(24,989,393) | \$- | \$- |

2015.9.30

| Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
|--|--|---|---|---|-------------------------|--------------|
| Item | Gross amount of recognized financial liabilities | Gross amount of offset financial assets recognized on balance sheet | Net financial liabilities recognized on balance sheet | Relevant amount that has not been offset on balance sheet | | Net amount |
| | | | | Financial instruments (Note) | Cash collateral pledged | |
| Derivative financial instrument | \$65,398,194 | \$- | \$65,398,194 | \$(24,989,393) | \$- | \$40,408,801 |

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

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

2016.9.30

| Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
|---|--|--|-------------------------|--|------------------------------------|------------|
| Item | Gross amount of offset financial | | Net financial assets | Relevant amount that has not been offset on balance sheet | | Net amount |
| | Gross amount of recognized financial assets | financial liabilities recognized on balance sheet | | recognized on balance sheet | Financial instruments (Note) | |
| Derivative financial instrument | \$43,988,500 | \$- | \$43,988,500 | \$(40,568,441) | \$(3,420,059) | \$- |

2016.9.30

| Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
|--|---|---|------------------------------|--|------------------------------------|------------|
| Item | Gross amount of offset financial | | Net financial liabilities | Relevant amount that has not been offset on balance sheet | | Net amount |
| | Gross amount of recognized financial liabilities | financial assets recognized on balance sheet | | recognized on balance sheet | Financial instruments (Note) | |
| Derivative financial instrument | \$40,568,441 | \$- | \$40,568,441 | \$(40,568,441) | \$- | \$- |

2015.12.31

| Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
|---|--|--|-------------------------|--|------------------------------------|-------------|
| Item | Gross amount of offset financial | | Net financial assets | Relevant amount that has not been offset on balance sheet | | Net amount |
| | Gross amount of recognized financial assets | financial liabilities recognized on balance sheet | | recognized on balance sheet | Financial instruments (Note) | |
| Derivative financial instrument | \$64,845,136 | \$- | \$64,845,136 | \$(59,799,330) | \$(1,752,225) | \$3,293,581 |

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2015.12.31

| Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
|--|--|---|---|---|-------------------------|------------|
| Item | Gross amount of recognized financial liabilities | Gross amount of offset financial assets recognized on balance sheet | Net financial liabilities recognized on balance sheet | Relevant amount that has not been offset on balance sheet | | Net amount |
| | | | | Financial instruments (Note) | Cash collateral pledged | |
| Derivative financial instrument | \$59,799,330 | \$- | \$59,799,330 | \$(59,799,330) | \$- | \$- |

2015.9.30

| Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
|---|---|--|--|---|--------------------------|-------------|
| Item | Gross amount of recognized financial assets | Gross amount of offset financial liabilities recognized on balance sheet | Net financial assets recognized on balance sheet | Relevant amount that has not been offset on balance sheet | | Net amount |
| | | | | Financial instruments (Note) | Cash collateral received | |
| Derivative financial instrument | \$58,084,177 | \$- | \$58,084,177 | \$(52,031,628) | \$(2,334,962) | \$3,717,587 |

2015.9.30

| Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
|--|--|---|---|---|-------------------------|------------|
| Item | Gross amount of recognized financial liabilities | Gross amount of offset financial assets recognized on balance sheet | Net financial liabilities recognized on balance sheet | Relevant amount that has not been offset on balance sheet | | Net amount |
| | | | | Financial instruments (Note) | Cash collateral pledged | |
| Derivative financial instrument | \$52,031,628 | \$- | \$52,031,628 | \$(52,031,628) | \$- | \$- |

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

Cathay Securities enter with opponent into collateralized bonds sold under repurchase agreements, in which Cathay Securities provide securities as collaterals. Only in the event of default and insolvency or bankruptcy are these transactions allowed to set off. They do not meet the offsetting criterion in international accounting standards. Hence, the related bonds sold under repurchase agreements and bonds purchased under resell agreements are reported separately in the statement of financial position.

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

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| Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
|--|--|---|---|---|-------------------------|------------|
| Item | Gross amount of recognized financial liabilities | Gross amount of offset financial assets recognized on balance sheet | Net financial liabilities recognized on balance sheet | Relevant amount that has not been offset on balance sheet | | Net amount |
| | | | | Financial instruments (Note) | Cash collateral pledged | |
| Repurchase bonds | \$1,525,695 | \$- | \$1,525,695 | \$(1,525,695) | \$- | \$- |

2015.12.31

| Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
|--|--|---|---|---|-------------------------|------------|
| Item | Gross amount of recognized financial liabilities | Gross amount of offset financial assets recognized on balance sheet | Net financial liabilities recognized on balance sheet | Relevant amount that has not been offset on balance sheet | | Net amount |
| | | | | Financial instruments (Note) | Cash collateral pledged | |
| Repurchase bonds | \$1,425,000 | \$- | \$1,425,000 | \$(1,425,000) | \$- | \$- |

2015.9.30

| Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
|--|--|---|---|---|-------------------------|------------|
| Item | Gross amount of recognized financial liabilities | Gross amount of offset financial assets recognized on balance sheet | Net financial liabilities recognized on balance sheet | Relevant amount that has not been offset on balance sheet | | Net amount |
| | | | | Financial instruments (Note) | Cash collateral pledged | |
| Repurchase bonds | \$1,900,000 | \$- | \$1,900,000 | \$(1,900,000) | \$- | \$- |

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

(5) Financial instruments related information

A. The definition of the hierarchy of the financial instruments is measured at fair value:

- 1st Level: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- 2nd Level: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- 3rd Level: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For assets and liabilities that are recognized in the financial statement on a recurring basis, the bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

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B. Fair value measurement hierarchy of the Group's assets and liabilities

The Group does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Group's assets and liabilities measured at fair value on a recurring basis is as follows:

| Financial instruments measured at fair value item | 2016.9.30 | | | | 2015.12.31 | | | |
|--|-------------|-----------------------|-----------------------|-----------------------|-------------|-----------------------|-----------------------|-----------------------|
| | Total | 1 st Level | 2 nd Level | 3 rd Level | Total | 1 st Level | 2 nd Level | 3 rd Level |
| Non-derivative financial instruments | | | | | | | | |
| Assets | | | | | | | | |
| Financial assets at fair value through profit or loss | | | | | | | | |
| Held for trading | | | | | | | | |
| Stocks | \$9,729,295 | \$9,729,295 | \$- | \$- | \$8,515,996 | \$8,515,996 | \$- | \$- |
| Bonds | 49,109,447 | 7,898,583 | 41,210,864 | - | 20,486,224 | 7,060,621 | 13,425,603 | - |
| Others | 181,985,617 | 16,942,437 | 165,043,180 | - | 192,508,872 | 16,745,000 | 175,763,872 | - |
| Available-for-sale financial assets | | | | | | | | |
| Stocks | 589,000,481 | 571,513,842 | 4,565,864 | 12,920,775 | 546,952,259 | 531,236,110 | 4,232,205 | 11,483,944 |
| Bonds (Note 1) | 651,275,815 | 110,623,349 | 540,652,466 | - | 652,723,156 | 77,164,661 | 575,558,495 | - |
| Others | 310,861,387 | 258,855,057 | 14,860,426 | 37,145,904 | 289,212,526 | 238,699,465 | 17,562,421 | 32,950,640 |
| Investment properties (Note 2) | 364,803,496 | - | - | 364,803,496 | 370,583,060 | - | - | 370,583,060 |
| Liabilities | | | | | | | | |
| Financial liabilities at fair value through profit or loss | | | | | | | | |
| Designated financial liabilities at fair value through profit or loss at initial recognition | | | | | | | | |
| | 41,371,943 | - | 41,371,943 | - | 40,598,667 | - | 40,598,667 | - |
| Held for trading | | | | | | | | |
| Others | 2,513,619 | 2,513,619 | - | - | 1,139,749 | 1,139,749 | - | - |
| Derivative financial instruments | | | | | | | | |
| Assets | | | | | | | | |
| Financial assets at fair value through profit or loss | | | | | | | | |
| Derivatives financial assets for hedging | 64,165,428 | 582,492 | 48,332,716 | 15,250,220 | 74,606,834 | 405,549 | 51,683,355 | 22,517,930 |
| | 456,538 | - | 456,538 | - | 447,326 | - | 447,326 | - |
| Liabilities | | | | | | | | |
| Financial liabilities at fair value through profit or loss | | | | | | | | |
| | 41,236,704 | 453,515 | 25,532,969 | 15,250,220 | 95,733,002 | 347,180 | 72,867,892 | 22,517,930 |
| 2015.9.30 | | | | | | | | |
| Financial instruments measured at fair value item | Total | 1 st Level | 2 nd Level | 3 rd Level | | | | |
| Non-derivative financial instruments | | | | | | | | |
| Assets | | | | | | | | |
| Financial assets at fair value through profit or loss | | | | | | | | |
| Held for trading | | | | | | | | |
| Stocks | \$9,237,099 | \$9,237,099 | \$- | \$- | | | | |
| Bonds | 18,241,000 | 5,841,625 | 12,399,375 | - | | | | |
| Others | 194,220,956 | 33,099,546 | 161,121,410 | - | | | | |
| Available-for-sale financial assets | | | | | | | | |
| Stocks | 496,857,262 | 480,601,700 | 3,895,467 | 12,360,095 | | | | |
| Bonds (Note 1) | 670,019,570 | 74,423,046 | 595,596,524 | - | | | | |
| Others | 228,732,779 | 183,016,525 | 16,939,932 | 28,776,322 | | | | |
| Investment properties (Note 2) | 376,330,141 | - | - | 376,330,141 | | | | |
| Liabilities | | | | | | | | |
| Financial liabilities at fair value through profit or loss | | | | | | | | |
| Designated financial liabilities at fair value through profit or loss at initial recognition | | | | | | | | |
| | 40,451,501 | - | 40,451,501 | - | | | | |
| Held for trading | | | | | | | | |
| Others | 1,136,166 | 1,136,166 | - | - | | | | |
| Derivative financial instruments | | | | | | | | |
| Assets | | | | | | | | |
| Financial assets at fair value through profit or loss | | | | | | | | |
| Derivatives financial assets for hedging | 79,719,505 | 625,692 | 71,442,430 | 7,651,383 | | | | |
| | 618,196 | - | 618,196 | - | | | | |
| Liabilities | | | | | | | | |
| Financial liabilities at fair value through profit or loss | | | | | | | | |
| | 114,571,181 | 505,125 | 106,423,907 | 7,642,149 | | | | |

Note 1: Guarantee deposits paid in bonds are included.

Note 2: Amount of investment property excludes the parts which were measured at cost.

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Transfers between 1st Level and 2nd Level during the period

For the nine-month period ended 30 September 2016, Cathay Life transferred stocks which were measured at fair value on a recurring basis, from 2nd Level to 1st Level. A total of \$143,013 thousand was transferred as its market price was obtainable. For the nine-month period ended 30 September 2015, Cathay Life transferred stocks which were measured at fair value on a recurring basis, from 2nd level to 1st level. A total of \$60,383 thousand was transferred as its market price was obtainable.

For the nine-month period ended 30 September 2016, Cathay United Bank transferred government bonds designated as at fair value through profit or loss, an asset measured at fair value on a recurring basis, from 1st level to 2nd level. A total of \$5,627,229 thousand was transferred as its market price was no longer available.

For the nine-month period ended 30 September 2015, Cathay United Bank transferred government bonds which measured at fair value on a recurring basis, from 2nd Level to 1st Level. A total of \$1,561,496 thousand was transferred as its market price was obtainable.

Reconciliation for fair value measurements in 3rd level for movements

Reconciliation for fair value measurements in 3rd level of the fair value hierarchy for movements during the period is as follows:

| | Assets | | | Liabilities |
|---|---|-------------------------------------|---------------------|--|
| | Financial assets at fair value through profit or loss | Available-for-sale financial assets | Investment property | Financial liabilities at fair value through profit or loss |
| 2016.1.1 | \$22,517,930 | \$44,434,584 | \$370,583,060 | \$22,517,930 |
| Total gains (losses) recognized | | | | |
| Amount recognized in profit or loss | | | | |
| Valuation profit or loss from financial assets and liabilities at fair value through profit or loss | (5,449,314) | - | - | (5,449,314) |
| Realized gains from available-for-sale financial assets | - | 1,269,020 | - | - |
| Valuation gains from investment property | - | - | 2,038,274 | - |
| Amount recognized in other comprehensive income | | | | |
| Unrealized valuation losses from available-for-sale financial assets | - | (1,653,588) | - | - |
| Exchange differences resulting from translating the financial statements of foreign operations | - | - | (7,889,993) | - |
| Acquisition or issues | 461,889 | 11,088,655 | - | 461,889 |
| Transfers to property and equipment | - | - | (21,695) | - |
| Transfers from investment property under construction and prepayment for properties | - | - | 93,850 | - |
| Disposal or settlements | (2,280,285) | (4,934,263) | - | (2,280,285) |
| Transfers to 3 rd level | - | 29,792 | - | - |
| Transfers from 3 rd level | - | (167,521) | - | - |
| 2016.9.30 | \$15,250,220 | \$50,066,679 | \$364,803,496 | \$15,250,220 |

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| | Assets | | | Liabilities |
|---|--|--|------------------------|---|
| | Financial assets at fair value through profit or loss | Available-for-sale financial assets | Investment property | Financial liabilities at fair value through profit or loss |
| 2015.1.1 | \$7,911,860 | \$36,085,455 | \$321,261,078 | \$7,854,582 |
| Total gains (losses) recognized | | | | |
| Amount recognized in profit or loss | | | | |
| Valuation profit or loss from financial assets and liabilities at fair value through profit or loss | (1,444,372) | - | - | (1,396,328) |
| Realized gains from available-for-sale financial assets | - | 2,212,501 | - | - |
| Valuation gains from investment property | - | - | 11,268,688 | - |
| Amount recognized in other comprehensive income | | | | |
| Unrealized valuation gains from available-for-sale financial assets | - | 3,057,122 | - | - |
| Exchange differences resulting from translating the financial statements of foreign operations | - | - | 1,327,975 | - |
| Acquisition or issues | 3,257,740 | 6,082,670 | 27,384,340 | 3,257,740 |
| Transfers to property and equipment | - | - | (798,027) | - |
| Transfers from investment property under construction and prepayment for properties | - | - | 16,042,444 | - |
| Disposal or settlements | (2,073,845) | (5,430,115) | (156,357) | (2,073,845) |
| Transfers to 3 rd level | - | 19,440 | - | - |
| Transfers from 3 rd level | - | (890,656) | - | - |
| 2015.9.30 | \$7,651,383 | \$41,136,417 | \$376,330,141 | \$7,642,149 |

Total gains (losses) recognized in profit or loss in the table above contain unrealized gains and losses related to assets on hand as of 30 September 2016 and 2015 in the amount of \$(3,411,040) thousand and \$9,824,316 thousand, respectively.

Total gains (losses) recognized in profit or loss in the table above contain unrealized gains and losses related to liabilities on hand as of 30 September 2016 and 2015 in the amount of \$5,449,314 thousand and \$1,396,328 thousand, respectively.

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Information on 3rd level significant unobservable inputs to valuation

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

Cathay Life and its subsidiaries

| | | 2016.9.30 | | |
|---------------------|----------------------|--|-----------------------------|--|
| | Valuation techniques | Significant unobservable inputs | Interval (weighted average) | Relationship between inputs and fair value |
| Financial assets | | | | |
| Available- for-sale | Market approach | discount for lack of marketability | 10%~30% | The higher the discount for lack of marketability, the lower the fair value of the stocks |
| | Income approach | discount for lack of marketability | 15%~17% | The higher the discount for lack of marketability, the lower the fair value of the stocks |
| | | growth rate of adjusted net profit after tax | -74%~131% | The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks |
| | | dividend payout ratio | 80%~90% | The higher the dividend payout ratio, the higher the fair value of the stocks |
| Investment property | Refer to Note 14 | | | |
| | | 2015.12.31 | | |
| | Valuation techniques | Significant unobservable inputs | Interval (weighted average) | Relationship between inputs and fair value |
| Financial assets | | | | |
| Available- for-sale | Market approach | discount for lack of marketability | 11%~30% | The higher the discount for lack of marketability, the lower the fair value of the stocks |
| | Income approach | discount for lack of marketability | 15%~20% | The higher the discount for lack of marketability, the lower the fair value of the stocks |
| | | growth rate of adjusted net profit after tax | -65%~163% | The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks |
| | | dividend payout ratio | 0%~90% | The higher the dividend payout ratio, the higher the fair value of the stocks |
| Investment property | Refer to Note 14 | | | |

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| | | 2015.9.30 | | | | |
|---------------------|------------------|------------------------------------|--|-----------------------------|---|--|
| | | Valuation techniques | Significant unobservable inputs | Interval (weighted average) | Relationship between inputs and fair value | |
| Financial assets | | | | | | |
| Available- for-sale | Market approach | discount for lack of marketability | | 3%~28% | The higher the discount for lack of marketability, the lower the fair value of the stocks | |
| | Income approach | discount for lack of marketability | | 15%~20% | The higher the discount for lack of marketability, the lower the fair value of the stocks | |
| | | | growth rate of adjusted net profit after tax | | -65%~85% | The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks |
| | | | dividend payout ratio | | 0%~90% | The higher the dividend payout ratio, the higher the fair value of the stocks |
| Investment property | | | | | | |
| | Refer to Note 14 | | | | | |

Cathay United Bank and its subsidiaries

| | | 2016.9.30 | | | |
|---------------------|---|--|---------------------------------|-----------------------------|---|
| | | Valuation techniques | Significant unobservable inputs | Interval (weighted average) | Relationship between inputs and fair value |
| Financial assets | | | | | |
| Available-for-sale | | | | | |
| Stocks | Market approach | discount for lack of marketability | | 15% ~ 20% | The higher the discount for lack of marketability, the lower the fair value of the stocks |
| | Residual income approach | Cost of equity rate | | 6% ~ 7% | The higher the cost of equity rate, the lower the fair value of the stocks |
| | Value of net assets approach | Value of net assets | | Not applicable | The higher the value of net assets, the higher the fair value of the stocks |
| Investment property | Income approach and sales comparison approach | Capitalization rate | | 1.31% ~ 3.09% | The higher the capitalization rate, the lower the fair value |
| | Land development approach | Composite interest rate for capital interest | | 1.65% ~ 18.08% | The higher the composite interest rate for capital interest, the lower the fair value |

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| | | 2015.12.31 | | | |
|---------------------|---|------------------------------------|---------------------------------|-----------------------------|---|
| | | Valuation techniques | Significant unobservable inputs | Interval (weighted average) | Relationship between inputs and fair value |
| Financial assets | | | | | |
| Available-for-sale | | | | | |
| Stocks | Market approach | discount for lack of marketability | | 20% ~ 25% | The higher the discount for lack of marketability, the lower the fair value of the stocks |
| | Residual income approach | Cost of equity rate | | 6% ~ 7% | The higher the cost of equity rate, the lower the fair value of the stocks |
| | Value of net assets approach | Value of net assets | | Not applicable | The higher the value of net assets, the higher the fair value of the stocks |
| Investment property | Income approach and sales comparison approach | Capitalization rate | | 1.60%~2.85% | The higher the capitalization rate, the lower the fair value |

| | | 2015.9.30 | | | |
|---------------------|---|------------------------------------|---------------------------------|-----------------------------|---|
| | | Valuation techniques | Significant unobservable inputs | Interval (weighted average) | Relationship between inputs and fair value |
| Financial assets | | | | | |
| Available-for-sale | | | | | |
| Stocks | Market approach | discount for lack of marketability | | 20% ~ 25% | The higher the discount for lack of marketability, the lower the fair value of the stocks |
| | Residual income approach | Cost of equity rate | | 6% ~ 7% | The higher the cost of equity rate, the lower the fair value of the stocks |
| | Value of net assets approach | Value of net assets | | Not applicable | The higher the value of net assets, the higher the fair value of the stocks |
| Investment property | Discounted income approach Discounted Cash Flow Analysis | Discount rate | | 4.625% | The higher the discount rate, the lower the fair value |

Cathay Century and its subsidiaries

| | | 2016.9.30 | | | | |
|--------------------|----------------------------|------------------------------------|---------------------------------|--------------------------|---|--|
| | | Valuation techniques | Significant unobservable inputs | Quantitative information | Relationship between inputs and fair value | Sensitivity of the input to fair value |
| Financial assets | | | | | | |
| Available-for-sale | | | | | | |
| Stocks | Market comparison approach | discount for lack of marketability | | 30% | The higher the discount for lack of marketability, the lower the fair value of the stocks | 5% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in Cathay Century's profit or loss by \$39,000 thousand |

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| | | 2015.12.31 | | | | |
|--------------------|----------------------------|------------------------------------|---------------------------------|---|--|--|
| | | Valuation techniques | Significant unobservable inputs | Quantitative information | Relationship between inputs and fair value | Sensitivity of the input to fair value |
| Financial assets | | | | | | |
| Available-for-sale | | | | | | |
| Stocks | Market comparison approach | discount for lack of marketability | 0% | The fair value was recognized by the price of latest transaction | None | |
| | | 2015.9.30 | | | | |
| | | Valuation techniques | Significant unobservable inputs | Quantitative information | Relationship between inputs and fair value | Sensitivity of the input to fair value |
| Financial assets | | | | | | |
| Available-for-sale | | | | | | |
| Stocks | Market comparison approach | discount for lack of marketability | 35% | The higher the discount for lack of marketability, the lower the fair value of the stocks | None | |

Cathay Securities and its subsidiaries

| | | 2016.9.30 | | | | |
|---------------------|-------------------------------|----------------------|--|---|---|--|
| | | Valuation techniques | Significant unobservable inputs | Quantitative information | Relationship between inputs and fair value | Sensitivity analysis of relationship between inputs and fair value |
| Investment property | Discounted Cash Flow Analysis | Discount rate | According to the investment property assessment rules issued by FSC, the discount rate is measured by risk premium method, using Chunghwa Post Co. two-year small time deposits floating rate 1.375% plus 0.75%, taking the risk and risk premium into considerations. | The higher the discount rate, the lower the fair value. The lower the discount rate, the higher the fair value. | Discount rate 1.725%~2.725% ↓ Floating rate of fair value 5.36%~3.89% | |
| | | 2015.12.31 | | | | |
| | | Valuation techniques | Significant unobservable inputs | Quantitative information | Relationship between inputs and fair value | Sensitivity analysis of relationship between inputs and fair value |
| Investment property | Discounted Cash Flow Analysis | Discount rate | According to the investment property assessment rules issued by FSC, the discount rate is measured by risk premium method, using Chunghwa Post Co. two-year small time deposits floating rate 1.375% plus 0.75%, taking the risk and risk premium into considerations. | The higher the discount rate, the lower the fair value. The lower the discount rate, the higher the fair value. | Discount rate 1.725%~2.725% ↓ Floating rate of fair value 5.36%~3.89% | |

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| | Valuation techniques | Significant unobservable inputs | Quantitative information | Relationship between inputs and fair value | Sensitivity analysis of relationship between inputs and fair value |
|---------------------|-------------------------------|---------------------------------|---|---|---|
| Investment property | Discounted Cash Flow Analysis | Discount rate | According to the investment property assessment rules issued by FSC, the discount rate 2.225% is measured by risk premium method, using Chunghwa Post Co. two-year small time deposits floating rate 1.375% plus 0.75%, taking the risk and risk premium into considerations. | The higher the discount rate, the lower the fair value. The lower the discount rate, the higher the fair value. | Discount rate 1.725%~2.725% ↓ Floating rate of fair value 5.36%~3.89% |

Valuation process used for fair value measurements categorized within 3rd level of the fair value hierarchy

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

C. Fair value measurement hierarchy of the Group's assets and liabilities not measured at fair value but for which the fair value is disclosed

| | 2016.9.30 | | | |
|--|-----------------|-----------------------|-----------------------|-----------------------|
| | Total | 1 st level | 2 nd level | 3 rd level |
| Financial assets not measured at fair value for which only the fair value is disclosed | | | | |
| Debt instrument investments for which no active market exists | \$2,415,040,645 | \$45,415,319 | \$2,366,760,039 | \$2,865,287 |
| Held-to-maturity financial assets (Note) | 93,335,528 | 40,749,236 | 52,178,538 | 407,754 |
| Other financial assets | 7,522,718 | - | 7,522,718 | - |

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| | 2015.12.31 | | | |
|--|-----------------|-----------------------|-----------------------|-----------------------|
| | Total | 1 st level | 2 nd level | 3 rd level |
| Financial assets not measured at fair value for which only the fair value is disclosed | | | | |
| Debt instrument investments for which no active market exists | \$2,252,415,754 | \$15,116,580 | \$2,235,586,834 | \$1,712,340 |
| Held-to-maturity financial assets (Note) | 97,214,828 | 51,394,455 | 45,820,373 | - |
| Other financial assets | 17,857,932 | - | 17,857,932 | - |

| | 2015.9.30 | | | |
|--|-----------------|-----------------------|-----------------------|-----------------------|
| | Total | 1 st level | 2 nd level | 3 rd level |
| Financial assets not measured at fair value for which only the fair value is disclosed | | | | |
| Debt instrument investments for which no active market exists | \$2,165,135,382 | \$10,556,690 | \$2,152,814,239 | \$1,764,453 |
| Held-to-maturity financial assets (Note) | 93,287,476 | 51,503,642 | 41,783,834 | - |
| Other financial assets | 24,821,712 | - | 24,821,712 | - |

Note: Guarantee deposits paid in bonds are included.

(6) Transfers of Financial Assets

A. Financial Assets transferred that have not been fully removed

Transferred financial assets that are part of Cathay United Bank's daily operations that do not meet the criteria for full removal are mostly made up of debt securities used as counterparty collateral for repurchase agreements or equity securities lent out as part of securities lending agreement. The nature of these transactions are secured loans, and reflects the liability where Cathay United Bank is obligated to buy back the transferred financial assets according to fixed prices in future periods. With respect to such transactions, Cathay United Bank will not be able to use, sell or pledge said transferred financial assets during the effective period however Cathay United Bank is still exposed to interest rate risk and credit risk, hence the assets are not removed.

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

| Categories of financial assets | 2016.9.30 | | | | |
|---|------------------------------|-------------------------------|------------------------------|-------------------------------|----------------|
| | Transferred Financial Assets | Related Financial Liabilities | Transferred Financial Assets | Related Financial Liabilities | Net fair value |
| | Carrying Value | Carrying value | Fair Value | Fair value | |
| Financial assets at fair value through profit or loss | | | | | |
| repurchase agreements | \$661,322 | \$716,142 | \$592,416 | \$716,142 | \$(123,726) |
| Available for sale financial assets | | | | | |
| repurchase agreements | 7,667,225 | 14,421,701 | 13,704,086 | 14,421,701 | (717,615) |
| Held to maturity financial assets | | | | | |
| repurchase agreements | 30,684,955 | 31,167,690 | 30,684,955 | 31,167,690 | (482,735) |
| Categories of financial assets | 2015.12.31 | | | | |
| | Transferred Financial Assets | Related Financial Liabilities | Transferred Financial Assets | Related Financial Liabilities | Net fair value |
| | Carrying Value | Carrying value | Fair Value | Fair value | |
| Available for sale financial assets | | | | | |
| repurchase agreements | \$34,522,584 | \$43,591,852 | \$33,452,121 | \$43,591,852 | \$(10,139,731) |
| Held to maturity financial assets | | | | | |
| repurchase agreements | 10,571,555 | 10,446,025 | 10,571,555 | 10,446,025 | 125,530 |
| Categories of financial assets | 2015.9.30 | | | | |
| | Transferred Financial Assets | Related Financial Liabilities | Transferred Financial Assets | Related Financial Liabilities | Net fair value |
| | Carrying Value | Carrying value | Fair Value | Fair value | |
| Financial assets at fair value through profit or loss | | | | | |
| repurchase agreements | \$746,398 | \$732,902 | \$757,721 | \$732,902 | \$24,819 |
| Available for sale financial assets | | | | | |
| repurchase agreements | 35,879,817 | 39,674,498 | 36,218,144 | 39,674,498 | (3,456,354) |
| Held to maturity financial assets | | | | | |
| repurchase agreements | 39,454,283 | 39,270,868 | 39,454,283 | 39,270,868 | 183,415 |

Transferred financial assets that are part of Cathay Securities' daily operations that do not meet the criteria for full removal are mostly made up of corporate bonds with repurchase agreements or equity securities lent out as part of securities lending agreement. The cash flows of these transactions have been transferred, and reflects the liability where Cathay Securities are obligated to buy back the transferred financial assets according to fixed prices in future periods. With respect to such transactions, Cathay Securities will not be able to use, sell or pledge said transferred financial assets during the effective period however Cathay Securities are still exposed to interest rate risk and credit risk, hence the assets are not removed.

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

| Categories of financial assets | 2016.9.30 | | | | |
|---|------------------------------|-------------------------------|------------------------------|-------------------------------|----------------|
| | Transferred Financial Assets | Related Financial Liabilities | Transferred Financial Assets | Related Financial Liabilities | Net fair value |
| | Carrying Value | Carrying value | Fair Value | value | |
| Financial assets at fair value through profit or loss | | | | | |
| Repurchase bonds | \$1,544,542 | \$1,525,695 | \$1,544,542 | \$1,525,695 | \$18,847 |

| Categories of financial assets | 2015.12.31 | | | | |
|---|------------------------------|-------------------------------|------------------------------|-------------------------------|----------------|
| | Transferred Financial Assets | Related Financial Liabilities | Transferred Financial Assets | Related Financial Liabilities | Net fair value |
| | Carrying Value | Carrying value | Fair Value | value | |
| Financial assets at fair value through profit or loss | | | | | |
| Repurchase bonds | \$1,437,139 | \$1,425,000 | \$1,437,139 | \$1,425,000 | \$12,139 |

| Categories of financial assets | 2015.9.30 | | | | |
|---|------------------------------|-------------------------------|------------------------------|-------------------------------|----------------|
| | Transferred Financial Assets | Related Financial Liabilities | Transferred Financial Assets | Related Financial Liabilities | Net fair value |
| | Carrying Value | Carrying value | Fair Value | value | |
| Financial assets at fair value through profit or loss | | | | | |
| Repurchase bonds | \$1,913,050 | \$1,900,000 | \$1,913,050 | \$1,900,000 | \$13,050 |

(7) Management on financial risks

Cathay Life and its subsidiaries

A. Credit risk analysis

a. Sources of credit risk

Credit risks from financial transactions include issuer credit risk, counterparty risk and underlying assets credit risk:

- (A) Issuer credit risk represents a risk that Cathay Life may suffer financial losses for holding debt instruments or bank savings because the issuers (guarantors) or banks are not able to repay due to default, bankruptcy, liquidation or any other similar circumstances.

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(B) Counterparty credit risk refers to the risk that the counterparty will not meet its obligations to perform or pay as and when due and, as a result, Cathay Life will bear financial losses.

(C) Underlying asset credit risk means the risk that Cathay Life may suffer losses arising from deterioration of the credit quality and/or credit rating, increase of credit risk premium or breach of any contract terms of any underlying assets to certain financial instruments.

b. Concentration risk

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

2016.9.30

| Financial assets | Taiwan | Asia | Europe | North America | Emerging markets and others | Total |
|---|---------------|---------------|---------------|-----------------|-----------------------------|-----------------|
| Cash and cash equivalents | \$136,011,283 | \$75,187 | \$110,015 | \$73,014,064 | \$28,330,374 | \$237,540,923 |
| Financial assets at fair value through profit or loss | 13,012,313 | 488,951 | 10,345,483 | 5,583,624 | 611,980 | 30,042,351 |
| Available-for-sale financial assets | 221,645,520 | 20,381,390 | 54,192,124 | 120,495,659 | 134,021,907 | 550,736,600 |
| Derivative financial assets for hedging | 163,970 | - | 9,417 | 283,152 | - | 456,539 |
| Debt instrument investments for which no active market exists | 91,718,704 | 118,138,309 | 385,863,687 | 826,230,438 | 482,870,389 | 1,904,821,527 |
| Held-to-maturity financial assets | 25,058,878 | - | - | - | - | 25,058,878 |
| Other financial assets | 4,000,000 | - | 3,500,000 | - | - | 7,500,000 |
| Total | \$491,610,668 | \$139,083,837 | \$454,020,726 | \$1,025,606,937 | \$645,834,650 | \$2,756,156,818 |
| Proportion | 17.9% | 5.0% | 16.5% | 37.2% | 23.4% | 100.0% |

2015.12.31

| Financial assets | Taiwan | Asia | Europe | North America | Emerging markets and others | Total |
|---|---------------|---------------|---------------|-----------------|-----------------------------|-----------------|
| Cash and cash equivalents | \$64,853,928 | \$2,147,370 | \$56,256 | \$64,773,482 | \$5,106,030 | \$136,937,066 |
| Financial assets at fair value through profit or loss | 9,495,723 | 414,072 | 4,397,284 | 3,449,765 | - | 17,756,844 |
| Available-for-sale financial assets | 257,587,956 | 25,905,623 | 53,211,062 | 136,016,000 | 96,878,144 | 569,598,785 |
| Derivative financial assets for hedging | 163,545 | - | 21,009 | 262,772 | - | 447,326 |
| Debt instrument investments for which no active market exists | 96,324,443 | 121,222,038 | 351,900,002 | 824,204,673 | 442,381,303 | 1,836,032,459 |
| Held-to-maturity financial assets | 23,478,810 | - | - | - | - | 23,478,810 |
| Other financial assets | 14,500,000 | - | 3,500,000 | - | - | 18,000,000 |
| Total | \$466,404,405 | \$149,689,103 | \$413,085,613 | \$1,028,706,692 | \$544,365,477 | \$2,602,251,290 |
| Proportion | 17.9% | 5.8% | 15.9% | 39.5% | 20.9% | 100.0% |

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2015.9.30

| Financial assets | Taiwan | Asia | Europe | North America | Emerging markets and others | Total |
|---|---------------|---------------|---------------|-----------------|-----------------------------|-----------------|
| Cash and cash equivalents | \$105,574,379 | \$2,038,653 | \$10,482,184 | \$96,716,745 | \$16,785,028 | \$231,596,989 |
| Financial assets at fair value through profit or loss | 14,569,603 | 557,047 | 7,115,779 | 7,841,983 | 169,794 | 30,254,206 |
| Available-for-sale financial assets | 267,946,184 | 25,782,260 | 61,495,666 | 139,020,417 | 92,741,272 | 586,985,799 |
| Derivative financial assets for hedging | 146,337 | - | 23,880 | 217,481 | - | 387,698 |
| Debt instrument investments for which no active market exists | 99,350,457 | 116,752,199 | 308,154,677 | 768,855,405 | 433,467,454 | 1,726,580,192 |
| Held-to-maturity financial assets | 24,607,280 | - | - | - | - | 24,607,280 |
| Other financial assets | 21,500,000 | - | 3,500,000 | - | - | 25,000,000 |
| Total | \$533,694,240 | \$145,130,159 | \$390,772,186 | \$1,012,652,031 | \$543,163,548 | \$2,625,412,164 |
| Proportion | 20.3% | 5.5% | 14.9% | 38.6% | 20.7% | 100.0% |

c. Credit Quality

Classification of credit quality for financial assets of Cathay Life:

2016.9.30

| Financial assets | Normal assets | | Past due but not impaired | Impaired | Provision for impairment | Total |
|---|------------------|---------------------------------|---------------------------|-----------|--------------------------|-----------------|
| | Investment grade | Non-investment grade or unrated | | | | |
| Cash and cash equivalents | \$237,540,923 | \$- | \$- | \$- | \$- | \$237,540,923 |
| Financial assets at fair value through profit or loss | 28,433,405 | 1,608,946 | - | - | - | 30,042,351 |
| Available-for-sale financial assets | 484,371,070 | 66,365,530 | - | - | - | 550,736,600 |
| Derivative financial assets for hedging | 456,539 | - | - | - | - | 456,539 |
| Debt instrument investments for which no active market exists | 1,851,153,259 | 53,668,268 | - | 407,758 | (407,758) | 1,904,821,527 |
| Held-to-maturity financial assets | 25,058,878 | - | - | - | - | 25,058,878 |
| Other financial assets | 7,500,000 | - | - | - | - | 7,500,000 |
| Total | \$2,634,514,074 | \$121,642,744 | \$- | \$407,758 | \$(407,758) | \$2,756,156,818 |
| Proportion | 95.6% | 4.4% | - | - | - | 100.0% |

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2015.12.31

| Financial assets | Normal assets | | Past due but not impaired | Impaired | Provision for impairment | Total |
|---|------------------|---------------------------------|---------------------------|-----------|--------------------------|-----------------|
| | Investment grade | Non-investment grade or unrated | | | | |
| Cash and cash equivalents | \$136,937,066 | \$- | \$- | \$- | \$- | \$136,937,066 |
| Financial assets at fair value through profit or loss | 16,288,641 | 1,468,203 | - | - | - | 17,756,844 |
| Available-for-sale financial assets | 514,899,344 | 54,699,441 | - | - | - | 569,598,785 |
| Derivative financial assets for hedging | 447,326 | - | - | - | - | 447,326 |
| Debt instrument investments for which no active market exists | 1,790,495,682 | 45,536,777 | - | 429,858 | (429,858) | 1,836,032,459 |
| Held-to-maturity financial assets | 23,478,810 | - | - | - | - | 23,478,810 |
| Other financial assets | 18,000,000 | - | - | - | - | 18,000,000 |
| Total | \$2,500,546,869 | \$101,704,421 | \$- | \$429,858 | \$(429,858) | \$2,602,251,290 |
| Proportion | 96.1% | 3.9% | - | - | - | 100.0% |

2015.9.30

| Financial assets | Normal assets | | Past due but not impaired | Impaired | Provision for impairment | Total |
|---|------------------|---------------------------------|---------------------------|-----------|--------------------------|-----------------|
| | Investment grade | Non-investment grade or unrated | | | | |
| Cash and cash equivalents | \$231,596,989 | \$- | \$- | \$- | \$- | \$231,596,989 |
| Financial assets at fair value through profit or loss | 28,375,356 | 1,878,850 | - | - | - | 30,254,206 |
| Available-for-sale financial assets | 584,325,368 | 2,660,431 | - | - | - | 586,985,799 |
| Derivative financial assets for hedging | 387,698 | - | - | - | - | 387,698 |
| Debt instrument investments for which no active market exists | 1,705,782,779 | 20,797,413 | - | 430,664 | (430,664) | 1,726,580,192 |
| Held-to-maturity financial assets | 24,607,280 | - | - | - | - | 24,607,280 |
| Other financial assets | 25,000,000 | - | - | - | - | 25,000,000 |
| Total | \$2,600,075,470 | \$25,336,694 | \$- | \$430,664 | \$(430,664) | \$2,625,412,164 |
| Proportion | 99.0% | 1.0% | - | - | - | 100.0% |

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

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d. Regional distribution of credit risk exposure for secured loans and overdue receivables:

2016.9.30

| Location | Northern and eastern areas | Central area | Southern area | Overseas | Total |
|---------------------|----------------------------|--------------|---------------|--------------|---------------|
| Secured loans | \$315,965,834 | \$50,288,981 | \$82,009,454 | \$14,012,462 | \$462,276,731 |
| Overdue receivables | 272,019 | 112,320 | 96,959 | - | 481,298 |
| Total | \$316,237,853 | \$50,401,301 | \$82,106,413 | \$14,012,462 | \$462,758,029 |
| Proportion | 68% | 11% | 18% | 3% | 100% |

2015.12.31

| Location | Northern and eastern areas | Central area | Southern area | Overseas | Total |
|---------------------|----------------------------|--------------|---------------|--------------|---------------|
| Secured loans | \$335,318,324 | \$53,377,019 | \$82,410,898 | \$16,920,004 | \$488,026,245 |
| Overdue receivables | 222,445 | 104,417 | 81,846 | - | 408,708 |
| Total | \$335,540,769 | \$53,481,436 | \$82,492,744 | \$16,920,004 | \$488,434,953 |
| Proportion | 69% | 11% | 17% | 3% | 100% |

2015.9.30

| Location | Northern and eastern areas | Central area | Southern area | Overseas | Total |
|---------------------|----------------------------|--------------|---------------|--------------|---------------|
| Secured loans | \$347,928,029 | \$55,058,130 | \$85,056,113 | \$17,310,606 | \$505,352,878 |
| Overdue receivables | 263,770 | 104,636 | 43,335 | - | 411,741 |
| Total | \$348,191,799 | \$55,162,766 | \$85,099,448 | \$17,310,606 | \$505,764,619 |
| Proportion | 69% | 11% | 17% | 3% | 100% |

e. Secured loans and overdue receivables

2016.9.30

| Secured loans and Overdue receivables | Neither past due nor impaired | | | Past due but not impaired | Impaired | Total (EIR Principal) | Provision for impairment | Net |
|---------------------------------------|-------------------------------|---------------|--------------|---------------------------|-------------|-----------------------|--------------------------|---------------|
| | Excellent | Good | Normal | | | | | |
| Consumer finance | \$245,168,108 | \$118,213,485 | \$52,863,073 | \$291,691 | \$3,468,978 | \$420,005,335 | \$5,567,190 | \$414,438,145 |
| Corporate finance | 37,512,633 | 4,296,742 | 616,001 | 97,266 | 230,052 | 42,752,694 | 321,804 | 42,430,890 |
| Total | \$282,680,741 | \$122,510,227 | \$53,479,074 | \$388,957 | \$3,699,030 | \$462,758,029 | \$5,888,994 | \$456,869,035 |

2015.12.31

| Secured loans and Overdue receivables | Neither past due nor impaired | | | Past due but not impaired | Impaired | Total (EIR Principal) | Provision for impairment | Net |
|---------------------------------------|-------------------------------|---------------|--------------|---------------------------|-------------|-----------------------|--------------------------|---------------|
| | Excellent | Good | Normal | | | | | |
| Consumer finance | \$230,933,600 | \$160,649,461 | \$44,964,387 | \$153,819 | \$4,685,286 | \$441,386,553 | \$4,717,185 | \$436,669,368 |
| Corporate finance | 41,645,215 | 4,176,027 | 997,061 | - | 230,097 | 47,048,400 | 327,286 | 46,721,114 |
| Total | \$272,578,815 | \$164,825,488 | \$45,961,448 | \$153,819 | \$4,915,383 | \$488,434,953 | \$5,044,471 | \$483,390,482 |

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2015.9.30

| Secured loans and Overdue receivables | Neither past due nor impaired | | | Past due but not impaired | Impaired | Total (EIR Principal) | Provision for impairment | Net |
|--|-------------------------------|---------------|--------------|------------------------------|-------------|--------------------------|-----------------------------|---------------|
| | Excellent | Good | Normal | | | | | |
| Consumer finance | \$238,174,301 | \$165,686,470 | \$46,374,202 | \$77,624 | \$3,727,582 | \$454,040,179 | \$4,424,927 | \$449,615,252 |
| Corporate finance | 46,186,572 | 4,249,341 | 997,047 | - | 291,480 | 51,724,440 | 437,312 | \$51,287,128 |
| Total | \$284,360,873 | \$169,935,811 | \$47,371,249 | \$77,624 | \$4,019,062 | \$505,764,619 | \$4,862,239 | \$500,902,380 |

f. Ageing analysis of past due but not impaired secured loans and overdue receivables:

Based on the historical default rate, Cathay Life believes that provision for loans past due within a month is not necessary unless indicator of impairment exists.

| | Past due but not impaired | | |
|------------|---------------------------|-------------------|-----------|
| | Due in 1~2 months | Due in 2~3 months | Total |
| 2016.9.30 | \$314,285 | \$74,672 | \$388,957 |
| 2015.12.31 | 114,996 | 38,823 | 153,819 |
| 2015.9.30 | 64,575 | 13,049 | 77,624 |

B. Liquidity risk analysis

a. Sources of liquidity risk

Liquidity risks of the financial instruments are classified as “funding liquidity risk” and “market liquidity risk”. “Funding liquidity risk” represents the default risk that Cathay Life is unable to turn assets into cash or obtain sufficient funds. “Market liquidity risk” represents the risk of significant changes in fair value that Cathay Life faces when it sells or offsets its assets during market disorder.

b. Liquidity risk management

Cathay Life assesses the characteristics of business, monitors short-term cash flows, and constructs the completed mechanism of liquidity risk management. Furthermore, Cathay Life manages market liquidity risk cautiously by considering market trading volumes and adequacy of holding positions with symmetric.

Cathay Life uses cash flow model and stress testing to assess cash flow risk based on actual management needs or special situation. Also, for abnormal and urgent financing needs, Cathay Life makes an emergency management operating procedure to deal with significant liquidity risks.

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c. Maturity analysis of non-derivative financial liabilities:

The analysis of cash outflows to Cathay Life and its subsidiaries is listed below and based on the residual term to maturity on balance sheet date. The disclosed amounts are in conformity of contract cash flows and the results of the differences from the disclosed amounts on balance sheet.

| 2016.9.30 | Less than six months | Due in 6~12 months | Due in 1~2 years | Due in 2~5 years | Over 5 years | Total |
|---------------------------|----------------------|--------------------|------------------|------------------|--------------|------------|
| Short-term debts | \$117,558 | \$- | \$- | \$- | \$- | \$117,558 |
| Payables | 22,516,232 | 1,101,373 | 78,966 | 53,108 | - | 23,749,679 |
| Preferred stock liability | 10,008,716 | 23,377 | 93,000 | 5,080,005 | - | 15,205,098 |

| 2015.12.31 | Less than six months | Due in 6~12 months | Due in 1~2 years | Due in 2~5 years | Over 5 years | Total |
|---------------------------|----------------------|--------------------|------------------|------------------|--------------|------------|
| Short-term debts | \$61,104 | \$- | \$- | \$- | \$- | \$61,104 |
| Payables | 19,720,148 | 383,000 | 40,191 | - | - | 20,143,339 |
| Preferred stock liability | - | 10,277,322 | - | 5,266,005 | - | 15,543,327 |

| 2015.9.30 | Less than six months | Due in 6~12 months | Due in 1~2 years | Due in 2~5 years | Over 5 years | Total |
|---------------------------|----------------------|--------------------|------------------|------------------|--------------|------------|
| Short-term debts | \$354,356 | \$- | \$- | \$- | \$- | \$354,356 |
| Payables | 20,928,204 | 286,463 | 2,757 | - | - | 21,217,424 |
| Preferred stock liability | 15,122,260 | - | 10,466,859 | 5,173,005 | - | 30,762,124 |

d. Maturity analysis of derivative financial liability:

| 2016.9.30 | Less than six months | Due in 6~12 months | Due in 1~2 years | Due in 2~5 years | Over 5 years | Total |
|-----------|----------------------|--------------------|------------------|------------------|--------------|-----------|
| IRS | \$30,437 | \$29,582 | \$73,176 | \$21,386 | \$- | \$154,581 |
| Forward | 600,497 | - | - | - | - | 600,497 |
| CS | 1,261,975 | - | - | - | - | 1,261,975 |
| Option | 22,506 | - | - | - | - | 22,506 |

| 2015.12.31 | Less than six months | Due in 6~12 months | Due in 1~2 years | Due in 2~5 years | Over 5 years | Total |
|------------|----------------------|--------------------|------------------|------------------|--------------|------------|
| IRS | \$25,644 | \$27,691 | \$53,552 | \$45,216 | \$- | \$152,103 |
| Forward | 2,591,911 | 511,500 | - | - | - | 3,103,411 |
| CS | 36,097,075 | - | - | - | - | 36,097,075 |
| Option | 29,649 | - | - | - | - | 29,649 |

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| 2015.9.30 | Less than six months | Due in 6~12 months | Due in 1~2 years | Due in 2~5 years | Over 5 years | Total |
|-----------|----------------------|--------------------|------------------|------------------|--------------|------------|
| IRS | \$20,932 | \$23,849 | \$42,845 | \$29,123 | \$- | \$116,749 |
| Forward | 7,031,925 | 435,600 | - | - | - | 7,467,525 |
| CS | 52,684,588 | 6,355,704 | - | - | - | 59,040,292 |
| Option | 3,568 | - | - | - | - | 3,568 |

C. Market risk analysis

a. Sources of market risk

Market risk is the risk of losses or decrease in value of portfolio in positions arising from movements in exchange rate, product price, interest rate, credit spread, and stock price.

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

(A) Value at Risk

Value-at-Risk (“VaR”) is the maximum loss on the portfolio with a given probability defined as the confidence level, over a given period of time. Cathay Life and its subsidiaries uses one-week 95% and 99% VaR to measures market risk.

(B) Stress testing

Cathay Life and its subsidiaries measures and evaluates potential risks of the occurrence of extreme and abnormal events regularly in addition to Value at Risk models.

Cathay Life and its subsidiaries performs position stress testing regularly by using “Simple Sensitivity” and “Scenario Analysis” methods. The test is capable of representing the position loss resulted from the movement of a specific risk factor under different kinds of historical scenarios:

i. Simple Sensitivity

Simple Sensitivity is to measure the dollar amount change for the portfolio value from the movement of specific risk factors.

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ii. Scenario Analysis

Scenario Analysis is to measure the dollar amount changes for the total value of investment positions if possible future events occur. The types of scenario include:

j Historical scenario

In consideration of the fluctuation of risk factors when a specific historical event happened, Cathay Life simulates what the dollar amount of losses for the current investment portfolio would be in the same period of time.

k Hypothetical scenario

Cathay Life makes hypothesis with rational expectations from the extreme market movements to assess the dollar amount of losses for the investment position by taking into consideration the movement of relevant risk factors.

Risk management department performs the stress testing with historical and hypothetical scenarios regularly. Cathay Life's risk analysis, early warning, and business management are in accordance with the stress testing report.

Table of Stress Testing
2016.1.1~2016.9.30

| Risk Factors | Changes (+/-) | Gain (loss) |
|--|--|----------------|
| Equity risk (Price) | -10% | \$(55,625,780) |
| Interest rate risk (Yield curve) | +100bps | (41,011,181) |
| Exchange risk (Foreign exchange rate) | NTD appreciates against all foreign currencies by 1% | (6,713,274) |

Table of Stress Testing
2015.1.1~2015.9.30

| Risk Factors | Changes (+/-) | Gain (loss) |
|--|--|----------------|
| Equity risk (Price) | -10% | \$(45,785,741) |
| Interest rate risk (Yield curve) | +100bps | (38,700,478) |
| Exchange risk (Foreign exchange rate) | NTD appreciates against all foreign currencies by 1% | (6,974,460) |

Note1: Impacts of credit spread changes are not included

Note2: Effects of hedging are included

Note3: Information of subsidiaries is excluded considering the insignificant impact from subsidiaries.

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(C) Sensitivity Analysis

Summarization of Sensitivity Analysis
2016.1.1~2016.9.30

| Risk Factors | Variables (+/-) | Change in Income | Change in Equity |
|-----------------------|--------------------------------------|------------------|------------------|
| Foreign currency risk | USD appreciates 1% | \$1,557,014 | \$4,533,771 |
| | CNY/CNH appreciates 1% | 1,059,595 | 243,030 |
| | HKD appreciates 1% | 14,952 | 566,460 |
| | EUR appreciates 1% | (95) | 138,485 |
| | GBP appreciates 1% | (87) | 17,589 |
| Interest rate risk | Yield curve (USD) parallel shift+1bp | (824) | (157,634) |
| | Yield curve (AUD) parallel shift+1bp | - | (56) |
| | Yield curve (EUR) parallel shift+1bp | - | (15,744) |
| | Yield curve (NTD) parallel shift+1bp | 294 | (205,959) |
| Equity price risk | Equity price increases 1% | 9,854 | 5,559,466 |

Summarization of Sensitivity Analysis
2015.1.1~2015.9.30

| Risk Factors | Variables (+/-) | Change in Income | Change in Equity |
|-----------------------|--------------------------------------|------------------|------------------|
| Foreign currency risk | USD appreciates 1% | \$2,053,618 | \$3,751,144 |
| | CNY/CNH appreciates 1% | 1,477,249 | 255,635 |
| | HKD appreciates 1% | (36,459) | 662,646 |
| | EUR appreciates 1% | (20,950) | 121,848 |
| | GBP appreciates 1% | 1,504 | 32,245 |
| Interest rate risk | Yield curve (USD) parallel shift+1bp | 4,222 | (133,061) |
| | Yield curve (AUD) parallel shift+1bp | (59) | (3,354) |
| | Yield curve (EUR) parallel shift+1bp | - | (1,592) |
| | Yield curve (NTD) parallel shift+1bp | 3,633 | (235,930) |
| Equity price risk | Equity price increases 1% | 66,788 | 4,534,981 |

Note 1: Impacts of credit charges are not included.

Note 2: Effects of hedging are included

Note 3: Impacts of change in income are not included in the calculation of change in equity.

Note 4: The foreign exchange volatility reserve adjustments are not included in the change in income of the foreign currency risk.

Note 5: Information of subsidiaries is excluded considering the insignificant impact from subsidiaries.

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Cathay United Bank and its subsidiaries

A. Risk control and hedging strategy

Cathay United Bank's risk control and hedging strategy followed the requirement of customer service-oriented banking industry and regulatory environment. In order to comply with the above requirements, Cathay United Bank adopted different risk management methods to identify its risks and Cathay United Bank followed the spirit and regulation of the "Basel Accord" to keep strengthening its assets and the practices of capital management to maintain the best capital adequacy ratio.

Cathay United Bank organized the risk management committee and its responsibilities are as illustrated below:

- a. To amend the risk management policies, risk appetite or risk tolerance and report the above issues to board of directors for approval.
- b. To manage and decide the strategy about Cathay United Bank's credit risk, market risk and operating risk management.
- c. To report the significant risk management issues, such as credit ratings, market assessment and risk indicators.
- d. To analyze the issues that Cathay United Bank's business unit brought up for discussion.
- e. Other issues.

Cathay United Bank organized a risk management group to monitor, lead, develop, and establish the integral risk management framework.

B. Market risk

Market risk is the potential loss arising from adverse movements of market price, such as interest rates, foreign exchange rates and equity securities.

Cathay United Bank organized market risk management department and the committee of assets and liabilities management is responsible for monitoring the market risk management. The department and committee periodically examine Cathay United Bank's structure of assets and liabilities; plan the pricing principle of deposit and loan and financing and using scheme of medium and long term funding while executing the market risk management, the market risk management department periodically provides the related information of management and reports to the authorized managers of Cathay United Bank for the management system, such as valuating position, risk limit management, calculating of profit and loss, pricing model and risk analysis, in order to control the overall market risk.

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Market risk management process

a. Identification and measurement

The operating department and risk management department of Cathay United Bank identified the market risk factors of risk exposure position, and measured the market risk further. Market risk factors are the components that could have an impact on value of financial instrument, such as interest rates, foreign exchange rates, equity securities...etc., including position, gain and loss, the loss of stress test, sensitivity (DVO1, Delta, Vega, Gamma) and Value at Risk (VaR)...etc., to measure the extent of investment portfolio that is influenced by interest risk, foreign exchange risk and equity securities.

b. Monitoring and reporting

The risk management department periodically reports the execution of market risk management target, position and gain/loss control, sensitivity analysis, stress test, and VaR of equity securities to the board of directors, and helps the board of directors to fully understand the status of market risk management. Cathay United Bank also establishes a clear reporting process. Each transaction has the requirements about limitation and stop-loss points. If the transaction reaches its stop-loss limitation, stop-loss process will be implemented immediately. If the stop-loss process is not implemented, the transaction department should document the reason of non-implementing stop loss process and responding plan. Furthermore, the department shall be report to the executive management for approval by executive management and report to the board of directors regularly.

Risk management policy of the trading book

The trading book is the portfolio of financial instruments and physical investment for the purpose of trading or the hedge on the trading book. Portfolio held for trading is which intended to earn the profit from bid-ask spread. Except positions from the above trading book, they will be called banking book.

a. Strategy

In order to control market risk effectively and ensure the operating departments operate the transaction strategy with flexibility, Cathay United Bank evaluates various assessment and control. The portfolio of trading book has the risk limitation of each investment portfolio which is set according to the transaction strategy, category of investment and the annual profit target.

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b. Policy and procedure

Cathay United Bank sets the “Regulation Governing of Market Risk Management” as the important regulation that should be complied with when holding trading portfolio.

c. Valuation policy

If the financial instruments of trading book have market values, they should be evaluated at least once each day by the information that is from an independent source and easily accessible. If it's evaluated by a model, a mathematical model should be used prudently, and the assumptions and parameters of the valuation model should be regularly reviewed and examined.

d. Method of measurement

- (A) The assumption and calculation of VaR: see VaR section.
- (B) Cathay United Bank executes the stress test monthly with the following scenarios: the fluctuation of interest rate at 100bp, equity securities at 15% and foreign exchange rate at 3%, and reports to the risk management committee regularly.

Interest risk management of trading book

a. Definition of interest risk

Interest risk is the risk that the trading portfolios suffer losses or the change of its fair value which is caused by the fluctuation of interest rate. The main instruments include the securities and derivatives that relate to interest rates.

b. Interest risk management procedure of trading book

Cathay United Bank prudently chooses its investment target by studying the credibility and financial position of the securities issuers, their sovereign risk and the trend of interest rates. According to the operating strategy and the circumstances of the market, Cathay United Bank sets the transaction limit and stop-loss limit (including the limits of dealing room, traders, and investment...etc.) of the trading book that are reported to the executive management or the board of directors for approval.

c. Method of measurement

- (A) The assumption and calculation of VaR: see VaR section.
- (B) Cathay United Bank measures the investment portfolio's interest risk exposure base on DV01, monthly.

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Interest risk management of banking book

The main objective of interest risk management of Cathay United Banking book is to enhance the interest risk management, increase the operating efficiency of the fund and strengthen the business operation.

a. Strategy

Interest risk management enhances Cathay United Bank's ability take responsive actions to measure, to manage and avoid the risk that the fluctuation of interest rate may cause on the profit and the economic value of assets/liabilities.

b. Management procedure

When undertaking the operations relating to interest rate instruments, Cathay United Bank identifies the repricing risk of interest rate, yield curve risk, basis risk and options risk characteristics. In addition, Cathay United Bank also measures the potential impact of interest rate changes on the profit and economic value of Cathay United Bank. Cathay United Bank analyzes and monitors the interest risk limits and each target of interest risk management monthly. The results of analysis and monitoring are regularly reported to not only the risk management committee but also the board of directors.

If any risk management targets is found to exceed the limit during the monitoring process, it will be reported to the risk management committee and a solution should be proposed.

c. Method of measurement

The interest rate risk of Cathay United Bank mainly measures the repricing risk that is caused by the difference between maturity date and repricing date of the assets, liabilities, and off balance sheet items in banking book. To stabilize long-term profitability and ensure business growth, Cathay United Bank sets the monitoring indicators of interest sensitivity in major terms and implements stress test. Each interest risk indicator and the result of stress test are reported to the executive management regularly for review.

Foreign exchange risk management

a. Definition of foreign exchange risk

Foreign exchange risk is the gain/loss caused by two currencies exchange in different times. Cathay United Bank's foreign exchange risk arises from the derivative instruments, such as spot exchange, forward exchange and foreign exchange option...etc. Cathay United Bank's foreign exchange transactions are implemented daily to offset clients' position. Thus, Cathay United Bank suffers little foreign exchange risk.

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b. Policy, procedure and measurement methodology of foreign exchange risk management

In order to control foreign exchange risk, Cathay United Bank sets the limits of transaction and stop-loss limits for the dealing room and traders. Meanwhile, Cathay United Bank also sets the maximum annual loss limit to control the loss within the tolerable extent. Foreign exchange risk is controlled based on VaR. The assumption and calculation of VaR is described in VaR section.

For foreign exchange risk, Cathay United Bank sets the scenario at 3% fluctuation of interest rate of major currencies to execute the stress test quarterly, and reports to the risk management committee.

Risk management of equity price

a. Definition of risk of equity price

The market risk of equity securities held by Cathay United Bank includes the individual risk from the fluctuation of individual equity securities' market price and general market risk from the fluctuation of the overall price trend.

b. Purpose of risk management in equity prices

To avoid the massive fluctuation of equity price to worsen Cathay United Bank's financial situation or earnings. Also, to raise the operating efficiency of capital and strengthen the business operation.

c. Procedure of risk management of equity prices

Cathay United Bank sets investment limit on industries, using the β value to measure the investment portfolio affected by the systemic risk monthly. The stop-loss point must be authorized by the board of directors, and the equity investment should be authorized by the executives if the stop-loss point is reached but the investment is not going to be disposed of.

d. Measured methodology

The risk of equity prices in trading book is mainly controlled by VaR.

Cathay United Bank's risk of equity prices from its non-trading portfolio should be control by each bank according to its own business scale to develop a stress test under appropriate scenarios and report to the risk management committee.

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Cathay United Bank adopts many methodologies to manage its market risk. Value-at-risk (VaR) is one of the methodologies. VaR is a statistical measure that assesses potential losses that might be caused by changes in risk factors over a specified period of time and at a specific level of statistical confidence. Cathay United Bank applies historical simulation with a statistic confidence of 99% to extrapolate the VaR of one-year fluctuations. The following form indicates the VaR which is the estimation of potential amount of loss within one day. While the statistic confidence of 99% represents the possible fluctuations that would be included in assumed adverse market changes. Base on the assumption, the VaR may exceed the amounts listed in 1 of 100 days due to the price changes in the market. The overall VaR in the market may be less than the aggregate VaR of individual market risk factors.

| 2016.9.30 | | | |
|-------------------------|-----------------|-----------------|-----------------|
| Factors of market risk | Average balance | Maximum balance | Minimum balance |
| Interest rate | \$1,105,975 | \$2,000,760 | \$707,624 |
| Foreign exchange | 468,025 | 619,473 | 309,051 |
| Equity Securities price | 278,202 | 534,899 | 145,468 |

| 2015.12.31 | | | |
|-------------------------|-----------------|-----------------|-----------------|
| Factors of market risk | Average balance | Maximum balance | Minimum balance |
| Interest rate | \$825,482 | \$1,058,200 | \$596,450 |
| Foreign exchange | 374,638 | 528,143 | 224,569 |
| Equity Securities price | 298,800 | 534,899 | 131,033 |

| 2015.9.30 | | | |
|-------------------------|-----------------|-----------------|-----------------|
| Factors of market risk | Average balance | Maximum balance | Minimum balance |
| Interest rate | \$736,709 | \$975,900 | \$515,259 |
| Foreign exchange | 363,460 | 576,443 | 166,095 |
| Equity Securities price | 232,234 | 314,534 | 131,033 |

Cathay United Bank enters into a variety of derivatives transactions for both trading and non-trading purposes. The objectives in using derivative instruments are to meet customers' needs, to manage Cathay United Bank's exposure to risks and to generate revenues through trading activities. Cathay United Bank trades derivative instruments on behalf of customers and for its own positions. Cathay United Bank provides derivative contracts to address customers' demands for customized derivatives and also takes proprietary positions for its own accounts.

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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 to the executive management.

| Stress Test | | | | |
|-------------------------------|-----------------------------|-------------|-------------|-------------|
| Market/ Product | Scenarios | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Stock Market | Major Stock Exchanges +15% | \$1,618,960 | \$2,572,190 | \$870,270 |
| | Major Stock Exchanges -15% | (1,479,300) | (2,496,740) | (870,270) |
| Interest Rate/ Bond Market | Major Interest Rate + 100bp | (8,621,780) | (9,315,360) | (9,641,870) |
| | Major Interest Rate - 100bp | 8,984,660 | 9,622,370 | 10,027,810 |
| Foreign Exchange Market | Major Currencies + 3% | 5,748,475 | 4,053,156 | 3,956,568 |
| | Major Currencies - 3% | (5,748,385) | (4,053,156) | (3,956,567) |
| Composite | Major Stock Exchanges -15% | (4,352,605) | (7,758,944) | (6,555,572) |
| | Major Interest Rate + 100bp | | | |
| | Major Currencies +3% | | | |

Sensitivity analysis

a. Interest rate risk

Interest rate factor sensitivities (the present value of one basis point, or "PVBP") represent the change in the net present value of the interest rate derivatives portfolios caused by a parallel unit shift of 0.01% (1 basis point) in the interest rates in various yield curves affecting the portfolio. Cathay United Bank's interest rate-sensitive portfolios include bonds, interest rate swaps and structured products composed of such products.

b. Foreign exchange risk

Foreign exchange rate factor sensitivities ("FX delta") represent the change of the foreign exchange portfolios caused by the underlying currency exchange rate fluctuation.

c. Equity securities price risk

Equity securities price factor sensitivities ("Equity delta") represent the change of the equity securities price portfolio caused by a parallel unit shift of 1% (100 basis points) in the underlying stocks prices fluctuation. Cathay United Bank's equity portfolios include stocks and equity index options.

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Market risk factor sensitivity of Cathay United Bank

| | | <u>2016.9.30</u> | |
|--|---|-----------------------|--------------------|
| | | <u>Sensitivity of</u> | <u>Sensitivity</u> |
| | | <u>profit or loss</u> | <u>of equity</u> |
| Foreign exchange rate factor sensitivity | | | |
| (FX Delta) | USD+1% | \$1,224,155 | \$258 |
| | HKD+1% | 3,466 | 655 |
| | JPY+1% | 5,679 | - |
| | AUD+1% | 116,431 | - |
| | CNY+1% | 343,802 | 25,349 |
| Interest rate factor sensitivity (PVBP) | Yield curves (USD) parallel shift+1bp | (3,842) | (32,159) |
| | Yield curves (HKD) parallel shift+1bp | (1) | (31) |
| | Yield curves (JPY) parallel shift+1bp | (1) | (311) |
| | Yield curves (AUD) parallel shift+1bp | - | (733) |
| | Yield curves (CNY) parallel shift+1bp | (859) | (17,614) |
| Equity securities price factor sensitivity | | | |
| (Equity Delta) | Equity securities price parallel shift+1% | - | 105,777 |
| | | <u>2015.12.31</u> | |
| | | <u>Sensitivity of</u> | <u>Sensitivity</u> |
| | | <u>profit or loss</u> | <u>of equity</u> |
| Foreign exchange rate factor sensitivity | | | |
| (FX Delta) | USD+1% | \$791,614 | \$820 |
| | HKD+1% | 3,279 | 2,193 |
| | JPY+1% | 1,159 | - |
| | AUD+1% | 50,243 | - |
| | CNY+1% | 366,353 | 46,370 |
| Interest rate factor sensitivity (PVBP) | Yield curves (USD) parallel shift+1bp | 2,400 | (40,000) |
| | Yield curves (HKD) parallel shift+1bp | - | (58) |
| | Yield curves (JPY) parallel shift+1bp | (1) | - |
| | Yield curves (AUD) parallel shift+1bp | - | (3,470) |
| | Yield curves (CNY) parallel shift+1bp | (979) | (19,893) |
| Equity securities price factor sensitivity | | | |
| (Equity Delta) | Equity securities price parallel shift+1% | - | 177,200 |
| | | <u>2015.9.30</u> | |
| | | <u>Sensitivity of</u> | <u>Sensitivity</u> |
| | | <u>profit or loss</u> | <u>of equity</u> |
| Foreign exchange rate factor sensitivity | | | |
| (FX Delta) | USD+1% | \$714,982 | \$- |
| | HKD+1% | 3,383 | 1,149 |
| | JPY+1% | 251 | - |
| | AUD+1% | 54,732 | - |
| | CNY+1% | 409,411 | 23,633 |
| Interest rate factor sensitivity (PVBP) | Yield curves (USD) parallel shift+1bp | 504 | (30,940) |
| | Yield curves (HKD) parallel shift+1bp | - | (67) |
| | Yield curves (JPY) parallel shift+1bp | (2) | - |
| | Yield curves (AUD) parallel shift+1bp | - | (4,000) |
| | Yield curves (CNY) parallel shift+1bp | (498) | (24,335) |
| Equity securities price factor sensitivity | | | |
| (Equity Delta) | Equity securities price parallel shift+1% | - | 58,000 |

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C. Credit risk

Credit risk represents the risk of loss that Cathay United Bank and its subsidiaries would incur if counterparty fails to perform its contractual obligations.

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

Cathay United Bank and its subsidiaries maintain a strict policy to evaluate customers' credit ratings when providing loan commitments and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loans, and Cathay United Bank and its subsidiaries retain the legal right to foreclose on or liquidate the collateral. The disclosure of the maximum credit exposure shall not take account of any collateral held or other enhancements.

The management procedure and measurement methodology of credit risk in Cathay United Bank's main business are as follows:

Credit business (including the loan commitments and guarantees)

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

a. Category of credit risk

The credit risk of Cathay United Bank was classified into five categories. Normal credit assets shall be classified as "Category One." The remaining unsound credit assets shall be evaluated based on the status of the loan collaterals and the length of time overdue. Assets that require special mention shall be classified as "Category Two," assets that are substandard shall be classified as "Category Three," assets that are doubtful shall be classified as "Category Four," and assets for which there is loss shall be classified as "Category Five". For managing the default credits, Cathay United Bank established the regulations governing the procedure to deal with non-performing loans, non-accrual loans and bad debts.

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b. Grade of credit quality

Cathay United Bank sets the level of credit quality based on the characteristics and scale of business (such as establishing the internal rating model of credit risk, setting the credit rating table or relevant rules to classify) to proceed the risk management.

In order to measure the credit risk of the clients, Cathay United Bank employs the statistic methods and the professional judgment from the experts. Cathay United Bank develops the rating model of business credit after considering the clients' relevant information. The model shall be reviewed periodically to verify if the calculated results conformed to the reality and revised every parameter to optimize the results.

With respect to consumer credit assets such as mortgages, credit cards, and small-amount credit loans, Cathay United Bank also evaluates default risk of clients by using the credit rating scores developed by Cathay United Bank and the external due diligence services.

The credit quality of Cathay United Bank's corporate borrowers is classified as excellent, good, and average.

To ensure the reasonable estimated values of credit rating system's design, process, and relevant risk factors, Cathay United Bank executes the relevant verification and test in the model according to the actual default every year so that the calculated results will be close to actual default.

Due from and call loans to other banks

Cathay United Bank evaluates the counterparties' credit quality before transactions and refers to the domestic and foreign credit rating agencies, when rendering different lines of credit based on the credit quality.

c. Hedge of credit risk and easing policy

(A) Collateral

Cathay United Bank adopts a series of policies to lower the credit risk, and one of the frequently-used methods is requesting borrowers to provide collaterals. For ensure the creditor's rights, Cathay United Bank sets the scope available as collaterals and the procedures of appraising, managing, and disposing the collaterals. In addition, a credit contract is in place to provide the credit claim preservation, collaterals, and offset provisions to stipulate when a credit trigger event occurs, Cathay United Bank may reduce the limit, cut down the payback period, or deem all debts mature. Also, Cathay United Bank will use the deposits that the borrowers saved in Cathay United Bank to offset the liabilities to lower the credit risk.

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Other non-credit business collaterals shall depend on the characteristics of the financial instruments. Only the asset-backed securities and other similar financial instruments are secured by an asset pool of financial instruments.

(B) Limit of credit risk and control of credit risk concentration

To avoid the excessive risk concentration, Cathay United Bank limits the credit amounts of single counterparties and groups; Cathay United Bank also sets the investment guide and regulation of risk control of equity investment to restrict the investment limits of single person (company) or related company (group). Furthermore, Cathay United Bank establishes relevant regulations to control the concentration risk of assets, and sets the credit limits by industry, group, country, and stock types to monitor the credit concentration risk.

(C) Net settlement agreement

Cathay United Bank usually settles by the gross balance, but signs contract with some counterparties to settle by net balance. If a default happens, Cathay United Bank will terminate all transactions with the counterparty and settle by net balance in order to lower the credit risk.

d. Cathay United Bank's maximum exposures to credit risk

Without taking into account the collateral or other credit enhancement instrument, the maximum credit risk exposure of on-balance-sheet financial assets equals their carrying values. The maximum credit risk exposure of off-balance-sheet items (without considering the collaterals or other credit enhancement is irrevocable) are as follows:

(A) Cathay United Bank

| Off balance sheet items | Maximum exposure to credit risk | | |
|-------------------------------------|---------------------------------|---------------|---------------|
| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Irrevocable loan commitments | \$137,828,232 | \$187,213,293 | \$129,635,837 |
| Irrevocable credit card commitments | 568,249,907 | 512,030,862 | 501,270,622 |
| Unused commercial letters of credit | 3,906,843 | 4,465,001 | 3,714,076 |
| Guarantees on duties and contracts | 6,852,694 | 10,285,103 | 10,263,154 |
| Total | \$716,837,676 | \$713,994,259 | \$644,883,689 |

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(B) Indovina Bank

| Off balance sheet items | Maximum exposure to credit risk | | |
|-------------------------------------|---------------------------------|--------------------|--------------------|
| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Finance guarantee contracts | \$2,062,410 | \$1,790,458 | \$1,934,938 |
| Unused commercial letters of credit | 826,539 | 1,206,427 | 1,336,157 |
| Total | \$2,888,949 | \$2,996,885 | \$3,271,095 |

(C) CUBC Bank

| Off balance sheet items | Maximum exposure to credit risk | | |
|-------------------------------------|---------------------------------|------------------|------------------|
| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
| Finance guarantee contracts | \$57,136 | \$23,637 | \$93,334 |
| Irrevocable loan commitments | 667,438 | 558,899 | 451,239 |
| Irrevocable credit card commitments | 347,527 | 353,016 | 346,309 |
| Unused commercial letters of credit | 792 | - | 1,830 |
| Total | \$1,072,893 | \$935,552 | \$892,712 |

To reduce the risk from any businesses, Cathay United Bank conducts an overall assessment and takes appropriate risk reduction measures, such as obtaining collaterals and guarantors. For obtaining of collaterals, Cathay United Bank has *Collateral Management Guidelines*, to ensure that collaterals meet the specific criteria and has the effect of reducing the business risk.

The management deems Cathay United Bank and its subsidiaries 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.

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

While the counterparties are obviously the same party, or there are several counterparties but all engage in similar business activities and share similar economic characteristics, so they are vulnerable to the same economic impacts or other changes, the credit risk concentration is apparent.

Credit risk concentration of Cathay United Bank and its subsidiaries derives 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 and its subsidiaries do not significantly concentrate on a single client or counterparty, and the transaction amount with a single client or counterparty accounted for Cathay United Bank's total bills discounts and loans and overdue receivables is not significant. Discounts and loans, guarantees, bills purchased, and acceptances receivable of Cathay United Bank and its subsidiaries according to industry, country are listed below:

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| Item | 2016.9.30 | | 2015.12.31 | | 2015.9.30 | |
|--------------------------------------|------------------------|---------------|------------------------|---------------|------------------------|---------------|
| | amount | % | amount | % | amount | % |
| Industry type | | | | | | |
| Manufacturing | \$83,666,973 | 6.27 | \$73,003,215 | 6.30 | \$76,891,008 | 6.59 |
| Financial institutions and insurance | 46,010,258 | 3.45 | 31,617,868 | 2.73 | 41,109,061 | 3.52 |
| Leasing and real estate | 107,049,135 | 8.02 | 88,419,187 | 7.63 | 90,893,388 | 7.79 |
| Individuals | 671,660,909 | 50.32 | 605,118,646 | 52.21 | 575,249,184 | 49.30 |
| Others | 426,270,613 | 31.94 | 360,808,227 | 31.13 | 382,668,893 | 32.80 |
| Total | <u>\$1,334,657,888</u> | <u>100.00</u> | <u>\$1,158,967,143</u> | <u>100.00</u> | <u>\$1,166,811,534</u> | <u>100.00</u> |

| Item | 2016.9.30 | | 2015.12.31 | | 2015.9.30 | |
|-------------------|------------------------|---------------|------------------------|---------------|------------------------|---------------|
| | amount | % | amount | % | amount | % |
| Geographic Region | | | | | | |
| Domestic | \$1,193,186,033 | 89.40 | \$1,011,651,589 | 87.29 | \$1,016,580,810 | 87.12 |
| Asia | 70,097,889 | 5.25 | 79,624,712 | 6.87 | 78,982,621 | 6.77 |
| America | 20,521,217 | 1.54 | 21,253,210 | 1.83 | 23,057,077 | 1.98 |
| Others | 50,852,749 | 3.81 | 46,437,632 | 4.01 | 48,191,026 | 4.13 |
| Total | <u>\$1,334,657,888</u> | <u>100.00</u> | <u>\$1,158,967,143</u> | <u>100.00</u> | <u>\$1,166,811,534</u> | <u>100.00</u> |

f. Credit quality analysis of the financial assets

Some of the financial assets held by Cathay United Bank and its subsidiaries, such as cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at fair value through profit and loss, securities purchased under agreements to resell, refundable deposits, operating deposits and settlement fund, are excluded from this analysis since the counterparty is normally with good credit quality and is considered as low credit risk.

In addition to all of the above, the credit quality analysis of the financial assets was shown as follows:

(A) Credit quality analysis to loans and receivables of Cathay United Bank

| | Neither past due nor impaired | | | | Past due but not impaired (B) | Impaired (C) | Total (A)+(B)+(C) | Impairment allowances (D) | | Net balance (A)+(B)+(C)-(D) |
|----------------------|-------------------------------|-------------|-------------|---------------|-------------------------------|--------------|-------------------|--|---|-----------------------------|
| | Excellent | Good | Average | Subtotal(A) | | | | With objective evidence of impairment individual | Without objective evidence of impairment individual | |
| | | | | | | | | | | |
| 2016.9.30 | | | | | | | | | | |
| Receivables | | | | | | | | | | |
| Credit card business | \$42,124,218 | \$9,377,826 | \$3,299,575 | \$54,801,619 | \$159,272 | \$159,137 | \$55,120,028 | \$128,704 | \$1,022,219 | \$53,969,105 |
| Others | 12,118,695 | 6,573,131 | 160,575 | 18,852,401 | 20,852 | 73,893 | 18,947,146 | 41,467 | 2,909,602 | 15,996,077 |
| Loans | 850,606,240 | 393,021,359 | 33,783,111 | 1,277,410,710 | 848,441 | 14,516,685 | 1,292,775,836 | 3,089,633 | 15,859,992 | 1,273,826,211 |

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| | Neither past due nor impaired | | | | Past due but not impaired (B) | Impaired (C) | Total (A)+(B)+(C) | Impairment allowances (D) | | Net balance (A)+(B)+(C)-(D) |
|----------------------|-------------------------------|-------------|-------------|---------------|----------------------------------|-----------------|----------------------|--|---|--------------------------------|
| | Excellent | Good | Average | Subtotal(A) | | | | With objective evidence of impairment individual | Without objective evidence of impairment individual | |
| 2015.12.31 | | | | | | | | | | |
| Receivables | | | | | | | | | | |
| Credit card business | \$38,577,214 | \$8,630,623 | \$3,289,491 | \$50,497,328 | \$165,012 | \$168,628 | \$50,830,968 | \$136,844 | \$1,306,411 | \$49,387,713 |
| Others | 28,917,139 | 3,474,241 | 49,961 | 32,441,341 | 5,756 | 535,472 | 32,982,569 | 513,752 | 822,681 | 31,646,136 |
| Loans | 665,556,901 | 411,800,443 | 26,279,299 | 1,103,636,643 | 810,525 | 13,570,559 | 1,118,017,727 | 3,111,620 | 14,211,023 | 1,100,695,084 |

| | Neither past due nor impaired | | | | Past due but not impaired (B) | Impaired (C) | Total (A)+(B)+(C) | Impairment allowances (D) | | Net balance (A)+(B)+(C)-(D) |
|----------------------|-------------------------------|-------------|-------------|---------------|----------------------------------|-----------------|----------------------|--|---|--------------------------------|
| | Excellent | Good | Average | Subtotal(A) | | | | With objective evidence of impairment individual | Without objective evidence of impairment individual | |
| 2015.9.30 | | | | | | | | | | |
| Receivables | | | | | | | | | | |
| Credit card business | \$38,728,212 | \$8,367,207 | \$3,127,694 | \$50,223,113 | \$130,048 | \$153,522 | \$50,506,683 | \$124,562 | \$1,328,980 | \$49,053,141 |
| Others | 12,900,544 | 25,522,998 | 92,313 | 38,515,855 | 4,314 | 35,677 | 38,555,846 | 13,641 | 286,028 | 38,256,177 |
| Loans | 760,056,741 | 314,793,469 | 38,125,458 | 1,112,975,668 | 1,031,281 | 13,847,626 | 1,127,854,575 | 3,042,552 | 13,763,060 | 1,111,048,963 |

(B) The credit quality analysis on neither past due nor impaired discounts and loans

| 2016.9.30 | Excellent | Good | Average | Total |
|----------------------------|----------------------|----------------------|---------------------|------------------------|
| Consumer banking | | | | |
| Residential mortgage loans | \$243,200,015 | \$62,426,029 | \$10,575,570 | \$316,201,614 |
| Unsecured personal loans | 24,001,827 | 15,466,013 | 4,587,078 | 44,054,918 |
| Other | 277,518,926 | 58,114,030 | 8,561,017 | 344,193,973 |
| Corporate banking | | | | |
| Secured | 42,149,208 | 144,815,109 | 5,919,637 | 192,883,954 |
| Unsecured | 263,736,264 | 112,200,178 | 4,139,809 | 380,076,251 |
| Total | \$850,606,240 | \$393,021,359 | \$33,783,111 | \$1,277,410,710 |

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| 2015.12.31 | Excellent | Good | Average | Total |
|----------------------------|----------------------|----------------------|---------------------|------------------------|
| Consumer banking | | | | |
| Residential mortgage loans | \$231,852,442 | \$51,262,021 | \$9,253,262 | \$292,367,725 |
| Unsecured personal loans | 21,694,792 | 12,696,768 | 3,634,766 | 38,026,326 |
| Other | 205,744,426 | 93,884,652 | 6,697,306 | 306,326,384 |
| Corporate banking | | | | |
| Secured | 21,990,638 | 145,217,277 | 3,373,012 | 170,580,927 |
| Unsecured | 184,274,603 | 108,739,725 | 3,320,953 | 296,335,281 |
| Total | \$665,556,901 | \$411,800,443 | \$26,279,299 | \$1,103,636,643 |

| 2015.9.30 | Excellent | Good | Average | Total |
|----------------------------|----------------------|----------------------|---------------------|------------------------|
| Consumer banking | | | | |
| Residential mortgage loans | \$221,787,987 | \$48,641,062 | \$8,718,884 | \$279,147,933 |
| Unsecured personal loans | 19,672,085 | 12,026,601 | 3,471,943 | 35,170,629 |
| Other | 241,799,545 | 42,395,468 | 7,129,804 | 291,324,817 |
| Corporate banking | | | | |
| Secured | 49,880,799 | 118,534,680 | 12,104,280 | 180,519,759 |
| Unsecured | 226,916,325 | 93,195,658 | 6,700,547 | 326,812,530 |
| Total | \$760,056,741 | \$314,793,469 | \$38,125,458 | \$1,112,975,668 |

(C) Credit quality analysis on securities investment

| 2016.9.30 | Neither past due nor impaired | | | Past due but not impaired (B) | Impaired (C) | Total (A)+(B)+(C) | Accumulated impairment (D) | Net balance (A)+(B)+(C)-(D) |
|--|-------------------------------|---|-----------------|----------------------------------|-----------------|----------------------|-------------------------------|--------------------------------|
| | Investment grade | Non-investment grade or non-credit rating | Subtotal (A) | | | | | |
| Available-for-sale financial assets | | | | | | | | |
| Bonds | \$131,037,438 | \$70,297 | \$131,107,735 | \$- | \$- | \$131,107,735 | \$- | \$131,107,735 |
| Stocks | 3,807,012 | 8,346,963 | 12,153,975 | - | 140,985 | 12,294,960 | 140,985 | 12,153,975 |
| Others | 695,952 | 1,767,563 | 2,463,515 | - | - | 2,463,515 | - | 2,463,515 |
| Held-to-maturity financial assets | | | | | | | | |
| Bonds | 36,733,651 | 1,268,678 | 38,002,329 | - | - | 38,002,329 | - | 38,002,329 |
| Others | 3,388,104 | - | 3,388,104 | - | - | 3,388,104 | - | 3,388,104 |
| Investments in debt securities with no active market | | | | | | | | |
| Bonds | 64,761,778 | 128,288 | 64,890,066 | - | 1,439,440 | 66,329,506 | 1,439,440 | 64,890,066 |
| Others | 349,855,000 | - | 349,855,000 | - | - | 349,855,000 | - | 349,855,000 |

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| 2015.12.31 | Neither past due nor impaired | | | Past due but not impaired (B) | Impaired (C) | Total (A)+(B)+(C) | Accumulated impairment (D) | Net balance (A)+(B)+(C)-(D) |
|--|-------------------------------|---|-----------------|----------------------------------|-----------------|----------------------|-------------------------------|--------------------------------|
| | Investment grade | Non-investment grade or non-credit rating | Subtotal (A) | | | | | |
| Available-for-sale financial assets | | | | | | | | |
| Bonds | \$108,611,424 | \$- | \$108,611,424 | \$- | \$- | \$108,611,424 | \$- | \$108,611,424 |
| Stocks | 8,578,743 | 9,661,916 | 18,240,659 | - | 140,985 | 18,381,644 | 140,985 | 18,240,659 |
| Others | 1,360,701 | 2,344,845 | 3,705,546 | - | - | 3,705,546 | - | 3,705,546 |
| Held-to-maturity financial assets | | | | | | | | |
| Bonds | 49,571,588 | 40,519 | 49,612,107 | - | - | 49,612,107 | - | 49,612,107 |
| Investments in debt securities with no active market | | | | | | | | |
| Bonds | 13,298,479 | 659 | 13,299,138 | - | 1,512,275 | 14,811,413 | 1,512,275 | 13,299,138 |
| Others | 429,465,000 | - | 429,465,000 | - | - | 429,465,000 | - | 429,465,000 |

| 2015.9.30 | Neither past due nor impaired | | | Past due but not impaired (B) | Impaired (C) | Total (A)+(B)+(C) | Accumulated impairment (D) | Net balance (A)+(B)+(C)-(D) |
|--|-------------------------------|---|-----------------|----------------------------------|-----------------|----------------------|-------------------------------|--------------------------------|
| | Investment grade | Non-investment grade or non-credit rating | Subtotal (A) | | | | | |
| Available-for-sale financial assets | | | | | | | | |
| Bonds | \$107,451,600 | \$500,000 | \$107,951,600 | \$- | \$- | \$107,951,600 | \$- | \$107,951,600 |
| Stocks | 1,347,834 | 5,850,969 | 7,198,803 | - | 140,985 | 7,339,788 | 140,985 | 7,198,803 |
| Others | 314,346 | 946,552 | 1,260,898 | - | - | 1,260,898 | - | 1,260,898 |
| Held-to-maturity financial assets | | | | | | | | |
| Bonds | 47,741,127 | 1,343,133 | 49,084,260 | - | - | 49,084,260 | - | 49,084,260 |
| Others | 41,409 | - | 41,409 | - | - | 41,409 | - | 41,409 |
| Investments in debt securities with no active market | | | | | | | | |
| Bonds | 8,174,698 | 156,270 | 8,330,968 | - | 1,514,931 | 9,845,899 | 1,514,931 | 8,330,968 |
| Others | 440,890,000 | - | 440,890,000 | - | - | 440,890,000 | - | 440,890,000 |

(D) Aging analysis on past due but not impaired financial assets of Cathay United Bank

Past due but not impaired loans might result from some temporary administration reasons so the customers is in the early stages of delinquency but no actual impairment has occurred yet. Unless there is other objective evidence shown otherwise, according to internal credit risk assets impairment evaluation guideline, a loan that is past due for no more than 30 days is typically not to be treated as impairment.

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| 2016.9.30 | Less than 30 days | 31 - 60 days | Total |
|----------------------------|-------------------|--------------|-----------|
| Receivables | | | |
| Credit card business | \$96,886 | \$62,386 | \$159,272 |
| Others | 19,039 | 1,813 | 20,852 |
| Loans | | | |
| Consumer banking | | | |
| Residential mortgage loans | 345,647 | 59,736 | 405,383 |
| Unsecured personal loans | 80,124 | 54,414 | 134,538 |
| Others | 229,533 | 59,367 | 288,900 |
| Corporate banking | | | |
| Secured | 19,620 | - | 19,620 |
| | | | |
| 2015.12.31 | Less than 30 days | 31 - 60 days | Total |
| Receivables | | | |
| Credit card business | \$105,952 | \$59,060 | \$165,012 |
| Others | 4,002 | 1,754 | 5,756 |
| Loans | | | |
| Consumer banking | | | |
| Residential mortgage loans | 347,742 | 53,921 | 401,663 |
| Unsecured personal loans | 56,856 | 40,630 | 97,486 |
| Others | 211,634 | 49,070 | 260,704 |
| Corporate banking | | | |
| Secured | - | 1,918 | 1,918 |
| Unsecured | 40,293 | 8,461 | 48,754 |
| | | | |
| 2015.9.30 | Less than 30 days | 31 - 60 days | Total |
| Receivables | | | |
| Credit card business | \$79,835 | \$50,213 | \$130,048 |
| Others | 2,396 | 1,918 | 4,314 |
| Loans | | | |
| Consumer banking | | | |
| Residential mortgage loans | 202,389 | 109,437 | 311,826 |
| Unsecured personal loans | 42,734 | 29,808 | 72,542 |
| Others | 102,924 | 69,497 | 172,421 |
| Corporate banking | | | |
| Secured | 469,067 | - | 469,067 |
| Unsecured | 5,425 | - | 5,425 |

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f. Impairment analysis of financial assets of Cathay United Bank

(A) Cathay United Bank has recognized accumulated impairment loss for available-for-sale financial assets in the amount of \$140,985 thousand, \$140,985 thousand and \$140,985 thousand as of 30 September 2016, 31 December 2015 and 30 September 2015, respectively, due to the existence of objective impairment evidence.

(B) Cathay United Bank has recognized accumulated impairment loss for investments in debt securities with no active market in the amount of \$1,343,854 thousand, \$1,416,689 thousand and \$1,419,345 thousand as of 30 September 2016, 31 December 2015 and 30 September 2015, respectively, due to credit deterioration of securitization products and financial debentures.

Cathay United Bank has recognized accumulated impairment loss for investment in debt securities with no active market in the amount of \$95,586 thousand, 95,586 thousand and \$95,586 thousand as of 30 September 2016, 31 December 2015 and 30 September 2015, respectively, due to the default on the convertible bonds.

(C) For Cathay United Bank's impairment assessment of discounts, loans and receivables, please refer to Note 9 and Note 10.

(D) Foreclosed properties management policy

The carrying amount of foreclosed properties in CUBC Bank were \$54,358 thousand, \$59,519 thousand and \$59,630 thousand as of 30 September 2016, 31 December 2015 and 30 September 2015.

Foreclosed properties will be sold when are available for sell. The proceeds are used to reduce or repay the outstanding claim. Foreclosed properties are classified under other assets in the consolidated balance sheets.

D. Liquidity risk

The purpose of liquidity risk management is to ensure the availability of funds to meet present and future financial obligations. The Management Committee of Assets and Liabilities is responsible for planning liquidity risk management strategy. The Financial Trading Division is responsible for daily operation and execution, including measuring liquidity risk, performing sensitivity analysis of interest rates, scenario analysis and planning emergency responses. Liquidity is also managed by quantitatively managing and adjusting liquidity gap according to variation of cash flows and economy. Expectation of or exposure to significant changes in liquidity risk are immediately reported to the board of directors.

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a. Analysis of financial assets and non-derivative financial liabilities by remaining contractual maturities

(A) Financial assets were held to manage liquidity risk

Cathay United Bank and its subsidiaries hold highly marketable and diverse financial assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The financial assets were held to manage liquidity risk including cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at fair value through profit and loss, discounts and loans, available-for-sale financial assets, held-to-maturity financial assets and investments in debt securities with no active market.

(B) Maturity analysis of non-derivative financial liabilities

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.

| 2016.9.30 | 0-30 days | 31-180 days | 181 days - 1 year | Over 1 year | Total |
|---|--------------|--------------|-------------------|-------------|---------------|
| Due to the Central Bank and call loans from banks | \$32,613,530 | \$11,470,050 | \$6,249,378 | \$88,986 | \$50,421,944 |
| Securities sold under agreements to repurchase | 40,999,329 | 2,007,857 | - | 3,311,434 | 46,318,620 |
| Payables | 12,767,765 | 5,272,928 | 892,392 | 463,341 | 19,396,426 |
| Deposits and remittances | 267,756,782 | 828,545,414 | 757,237,248 | 122,230,331 | 1,975,769,775 |
| Financial debentures payable | 7,800 | 7,732 | 3,862,513 | 48,250,000 | 52,128,045 |
| Other capital outflow at maturity | 14,740,156 | 38,371,359 | 5,119,467 | 2,201,610 | 60,432,592 |

| 2015.12.31 | 0-30 days | 31-180 days | 181 days - 1 year | Over 1 year | Total |
|---|--------------|--------------|-------------------|-------------|---------------|
| Due to the Central Bank and call loans from banks | \$18,302,306 | \$10,012,450 | \$10,387,327 | \$76,893 | \$38,778,976 |
| Securities sold under agreements to repurchase | 37,882,342 | 5,166,967 | - | 11,005,959 | 54,055,268 |
| Payables | 10,963,288 | 8,487,879 | 111,856 | 799,521 | 20,362,544 |
| Deposits and remittances | 261,487,276 | 717,033,377 | 757,807,236 | 113,396,994 | 1,849,724,883 |
| Financial debentures payable | 7,779 | 336,018 | 37,111 | 51,900,000 | 52,280,908 |
| Other capital outflow at maturity | 22,467,662 | 32,764,319 | 6,434,595 | 5,732,362 | 67,398,938 |

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| 2015.9.30 | 0-30 days | 31-180 days | 181 days - 1 year | Over 1 year | Total |
|---|--------------|-------------|-------------------|-------------|---------------|
| Due to the Central Bank and call loans from banks | \$18,397,030 | \$9,496,159 | \$5,840,665 | \$69,561 | \$33,803,415 |
| Securities sold under agreements to repurchase | 64,077,704 | 11,316,979 | - | 4,309,986 | 79,704,669 |
| Payables | 15,239,242 | 6,943,936 | 52,634 | 468,837 | 22,704,649 |
| Deposits and remittances | 287,772,509 | 757,894,807 | 664,991,641 | 104,378,655 | 1,815,037,612 |
| Financial debentures payable | 13,963,095 | 7,711 | 211,933 | 51,900,000 | 66,082,739 |
| Other capital outflow at maturity | 14,274,823 | 38,106,856 | 15,716,096 | 7,242,427 | 75,340,202 |

b. Maturity analysis of derivative financial liabilities

(A) Net settled derivative financial instruments

Net settled derivatives engaged by Cathay United Bank include:

- i Foreign exchange derivative instruments: foreign exchange options, non-delivery forwards;
- ii Interest rate derivative instruments: swap options, net settled interest rate swaps and other interest rate agreements.

The table below shows the net settled derivation 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:

| 2016.9.30 | 0-30 days | 31-180 days | 181 days - 1 year | Over 1 year | Total |
|---|-----------|-------------|-------------------|--------------|--------------|
| Derivative financial liabilities at fair value through profit or loss | | | | | |
| - Foreign exchange derivative instruments | \$119,448 | \$547,521 | \$1,963,060 | \$444 | \$2,630,473 |
| - Interest rate derivative instruments | 413,066 | 203,174 | 349,238 | 20,842,351 | 21,807,829 |
| Total | \$532,514 | \$750,695 | \$2,312,298 | \$20,842,795 | \$24,438,302 |

| 2015.12.31 | 0-30 days | 31-180 days | 181 days - 1 year | Over 1 year | Total |
|---|-----------|-------------|-------------------|--------------|--------------|
| Derivative financial liabilities at fair value through profit or loss | | | | | |
| - Foreign exchange derivative instruments | \$89,376 | \$112,235 | \$1,436,061 | \$4,267,106 | \$5,904,778 |
| - Interest rate derivative instruments | 12,016 | 51,356 | 156,012 | 26,549,494 | 26,768,878 |
| Total | \$101,392 | \$163,591 | \$1,592,073 | \$30,816,600 | \$32,673,656 |

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| 2015.9.30 | 0-30 days | 31-180 days | 181 days - 1 year | Over 1 year | Total |
|---|-----------|---------------|-------------------|---------------|---------------|
| Derivative financial liabilities at fair value through profit or loss | | | | | |
| - Foreign exchange derivative instruments | \$40,413 | \$(1,023,561) | \$(296,731) | \$(3,476,545) | \$(4,756,424) |
| - Interest rate derivative instruments | 5,366 | 32,603 | 193,744 | 23,391,598 | 23,623,311 |
| Total | \$45,779 | \$(990,958) | \$(102,987) | \$19,915,053 | \$18,866,887 |

(B) Maturity analysis of gross settled derivative financial instruments

Gross settled derivatives 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 amount disclosed is based on the contractual cash flows and may be different from that included in the consolidated balance sheets. Maturity analysis of gross settled derivative financial liabilities was as follows:

| 2016.9.30 | 0-30 days | 31-180 days | 181 days - 1 year | Over 1 year | Total |
|---|---------------|---------------|-------------------|-------------|----------------|
| Derivative financial liabilities at fair value through profit or loss | | | | | |
| - Foreign exchange derivative instruments | | | | | |
| - Cash outflow | \$(2,783,983) | \$(8,201,165) | \$(991,932) | \$(65,662) | \$(12,042,742) |
| - Cash inflow | 31,016 | 510,668 | 175,817 | 234,894 | 952,395 |
| - Interest rate derivative instruments | | | | | |
| - Cash outflow | - | (770,080) | (474,378) | (973,707) | (2,218,165) |
| - Cash inflow | - | - | - | - | - |
| Cash outflow subtotal | (2,783,983) | (8,971,245) | (1,466,310) | (1,039,369) | (14,260,907) |
| Cash inflow subtotal | 31,016 | 510,668 | 175,817 | 234,894 | 952,395 |
| Net cash flow | \$(2,752,967) | \$(8,460,577) | \$(1,290,493) | \$(804,475) | \$(13,308,512) |

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| 2015.12.31 | 0-30 days | 31-180 days | 181 days - 1 year | Over 1 year | Total |
|---|---------------|---------------|-------------------|---------------|----------------|
| Derivative financial liabilities at fair value through profit or loss | | | | | |
| - Foreign exchange derivative instruments | | | | | |
| - Cash outflow | \$(5,831,519) | \$(7,551,584) | \$(2,169,857) | \$(461,724) | \$(16,014,684) |
| - Cash inflow | 59,346 | 52,955 | 134,790 | 45,820 | 292,911 |
| - Interest rate derivative instruments | | | | | |
| - Cash outflow | (309,781) | (579,714) | (572,038) | (2,254,893) | (3,716,426) |
| - Cash inflow | - | - | - | - | - |
| Cash outflow subtotal | (6,141,300) | (8,131,298) | (2,741,895) | (2,716,617) | (19,731,110) |
| Cash inflow subtotal | 59,346 | 52,955 | 134,790 | 45,820 | 292,911 |
| Net cash flow | \$(6,081,954) | \$(8,078,343) | \$(2,607,105) | \$(2,670,797) | \$(19,438,199) |

| 2015.9.30 | 0-30 days | 31-180 days | 181 days - 1 year | Over 1 year | Total |
|---|---------------|---------------|-------------------|---------------|----------------|
| Derivative financial liabilities at fair value through profit or loss | | | | | |
| - Foreign exchange derivative instruments | | | | | |
| - Cash outflow | \$(3,151,129) | \$(9,355,351) | \$(1,900,029) | \$359,789 | \$(14,046,720) |
| - Cash inflow | 130,655 | 350,028 | 259,474 | 172,464 | 912,621 |
| - Interest rate derivative instruments | | | | | |
| - Cash outflow | (189,845) | (498,774) | (645,264) | (1,894,200) | (3,228,083) |
| - Cash inflow | - | - | - | - | - |
| Cash outflow subtotal | (3,340,974) | (9,854,125) | (2,545,293) | (1,534,411) | (17,274,803) |
| Cash inflow subtotal | 130,655 | 350,028 | 259,474 | 172,464 | 912,621 |
| Net cash flow | \$(3,210,319) | \$(9,504,097) | \$(2,285,819) | \$(1,361,947) | \$(16,362,182) |

c. Maturity analysis of off-balance sheet items

- (A) Irrevocable commitments: Irrevocable commitments include irrevocable loan commitments and credit card commitments.
- (B) Financial guarantee contracts: Cathay United Bank acts as a guarantor or an issuer of credit line in a financing guarantee agreement.
- (C) Leasing commitments: Cathay United Bank acts as a lessee in an irrevocable operating lease agreement and the minimum lease payments are shown as follows:

| 2016.9.30 | Not later than | | Later than | | Total |
|--|----------------|---------------|---------------|--|---------------|
| | 1 year | 1~5 year | 5 year | | |
| Irrevocable commitments | \$144,257,747 | \$277,354,343 | \$284,466,050 | | \$706,078,140 |
| Financial guarantee contracts | 9,650,607 | 1,097,269 | 11,661 | | 10,759,537 |
| Leasing commitments | | | | | |
| Non-cancellable operating lease payments | 1,371,271 | 2,607,447 | 189,044 | | 4,167,762 |
| Total | \$155,279,625 | \$281,059,059 | \$284,666,755 | | \$721,005,439 |

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| 2015.12.31 | Not later than | | Later than | Total |
|--|----------------------|----------------------|----------------------|----------------------|
| | 1 year | 1~5 year | 5 year | |
| Irrevocable commitments | \$201,118,028 | \$237,814,681 | \$260,311,446 | \$699,244,155 |
| Financial guarantee contracts | 12,520,417 | 2,209,659 | 20,028 | 14,750,104 |
| Leasing commitments | | | | |
| Non-cancellable operating lease payments | 851,937 | 1,439,316 | 90,579 | 2,381,832 |
| Total | \$214,490,382 | \$241,463,656 | \$260,422,053 | \$716,376,091 |

| 2015.9.30 | Not later than | | Later than | Total |
|--|----------------------|----------------------|----------------------|----------------------|
| | 1 year | 1~5 year | 5 year | |
| Irrevocable commitments | \$126,439,932 | \$238,443,932 | \$266,022,595 | \$630,906,459 |
| Financial guarantee contracts | 11,686,735 | 2,271,803 | 18,692 | 13,977,230 |
| Leasing commitments | | | | |
| Non-cancellable operating lease payments | 810,350 | 1,403,350 | 98,872 | 2,312,572 |
| Total | \$138,937,017 | \$242,119,085 | \$266,140,159 | \$647,196,261 |

Cathay Century and its subsidiaries

Cathay Century and its subsidiaries' principal financial risk management objective are to manage the market risk, credit risk and liquidity risk related to its operating activities. Cathay Century and its subsidiaries identify measures and manage the aforementioned risks based on the Company's policy and risk appetite.

Cathay Century and its subsidiaries have established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. Cathay Century and its subsidiaries comply with its financial risk management policies at all times.

A. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise foreign currency risk, interest rate risk and other price risk (such as equity risk).

In practice, it is rarely the case that a single risk variable will change independently from other risk variable; there is usually interdependency between risk variables. However the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

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a. Foreign currency risk

Cathay Century and its subsidiaries are exposed to foreign exchange risk from US and NT dollars exchanges for investing in foreign special purpose money trust. Since the amount of investment is significant, Cathay Century and its subsidiaries engage in forward foreign exchange contracts for hedging purposes.

Cathay Century and its subsidiaries is further exposed to exchange rate risk for engaging in reinsurance business involving transactions denominated in non-functional currency. Because this type of transaction usually has a relatively shorter collection period, the exchange rate fluctuations are not significant. Cathay Century and its subsidiaries do not engage in hedging in relation to this type of transaction.

Cathay Century and its subsidiaries' self-evaluation showed that the terms of the hedging instrument and the hedged items are the same, so as to maximize the effectiveness of the hedge.

b. Interest rate risk

Interest rate risk results from changes in the market interest rates which cause the fair value of financial instruments or the future cash flow to fluctuate. Cathay Century and its subsidiaries' interest rate risk primarily results from floating rate investments classified as available-for-sale financial assets and fixed rate preferred shares liabilities.

c. Equity price risk

Cathay Century and its subsidiaries hold equity securities of local and foreign listed companies. Their prices are affected by uncertainties about the future values of the investment securities. Equity securities of listed companies held by Cathay Century and its subsidiaries are classified under held for trading financial assets or available-for-sale financial assets. Cathay Century and its subsidiaries manage the equity price risk through diversification and placing limits on individual and total equity instruments.

B. Credit risk

a. Credit risk management policies

Cathay Century and its subsidiaries trade only with established and creditworthy third parties. Cathay Century and its subsidiaries' policy is that all customers who trade on credit terms are subject to credit verification procedures and that premium receivable and notes receivable collections are monitored on an ongoing basis. Therefore, Cathay Century and its subsidiaries' bad debt are insignificant. On the other hand, in the event counterparty's creditworthiness deteriorates, Cathay Century and its subsidiaries will suspend the related contracts and resume exercising relevant rights and obligations when transaction status is restored.

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Cathay Century and its subsidiaries' secured lending operations must be approved and verified by performing credit verification procedures, and obtain real property security provided by the counterparty. In the event the counterparty's creditworthiness deteriorates, Cathay Century and its subsidiaries may exercise under their own discretion the relevant security rights upon presentation, to protect the Cathay Century and its subsidiaries' interests.

Cathay Century and its subsidiaries' credit risk exposure of financial transaction include: issuer risk, counterparty risk and the credit risk of underlying assets.

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

b. Credit concentration risk analysis

- (A) The amounts of credit risk exposure of Cathay Century and its subsidiaries' financial assets are as follows:

| Financial assets | The amount of credit risk exposure - by area | | | | | |
|---|--|---------------------------|-------------|-------------|----------------------------|--------------|
| | 2016.9.30 | | | | | |
| | Taiwan | New Zealand and Australia | Europe | Americas | Emerging market and others | Total |
| Cash and cash equivalents | \$5,801,076 | \$100 | \$65,918 | \$370,478 | \$1,223,166 | \$7,460,738 |
| Financial assets at fair value through profit or loss | 1,611,784 | - | - | - | - | 1,611,784 |
| Available-for-sale financial assets | 6,657,764 | - | 394,344 | 269,689 | 693,108 | 8,014,905 |
| Debt instruments investments with no active market exists | 1,800,000 | - | 337,238 | 323,353 | 575,301 | 3,035,892 |
| Held-to-maturity investments | 202,662 | - | 808,907 | 2,726,420 | 1,154,538 | 4,892,527 |
| Total | \$16,073,286 | \$100 | \$1,606,407 | \$3,689,940 | \$3,646,113 | \$25,015,846 |
| Each area percentage | 64.25% | 0.00% | 6.42% | 14.75% | 14.58% | 100.00% |

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| Financial assets | The amount of credit risk exposure - by area | | | | | |
|---|--|---------------------------|--------------------|--------------------|----------------------------|---------------------|
| | 2015.12.31 | | | | | |
| | Taiwan | New Zealand and Australia | Europe | Americas | Emerging market and others | Total |
| Cash and cash equivalents | \$5,485,530 | \$- | \$58,273 | \$841,130 | \$6,119,560 | \$12,504,493 |
| Financial assets at fair value through profit or loss | 1,408,854 | - | - | - | 579,506 | 1,988,360 |
| Available-for-sale financial assets | 5,799,270 | - | 398,491 | 247,748 | 1,655,216 | 8,100,725 |
| Debt instruments investments with no active market exists | 1,600,000 | - | 355,325 | 672,062 | 1,059,296 | 3,686,683 |
| Held-to-maturity investments | 207,094 | - | 852,253 | 2,208,347 | 1,194,394 | 4,462,088 |
| Total | \$14,500,748 | \$- | \$1,664,342 | \$3,969,287 | \$10,607,972 | \$30,742,349 |
| Each area percentage | 47.17% | 0.00% | 5.41% | 12.91% | 34.51% | 100.00% |

| Financial assets | The amount of credit risk exposure - by area | | | | | |
|---|--|---------------------------|--------------------|--------------------|----------------------------|---------------------|
| | 2015.9.30 | | | | | |
| | Taiwan | New Zealand and Australia | Europe | Americas | Emerging market and others | Total |
| Cash and cash equivalents | \$5,565,474 | \$- | \$63,254 | \$551,515 | \$1,972,686 | \$8,152,929 |
| Financial assets at fair value through profit or loss | 1,394,197 | - | - | - | 534,053 | 1,928,250 |
| Available-for-sale financial assets | 5,863,653 | - | 324,223 | 270,497 | 1,630,202 | 8,088,575 |
| Debt instruments investments with no active market exists | 1,600,000 | - | 355,928 | 674,410 | 1,052,259 | 3,682,597 |
| Held-to-maturity investments | 205,340 | - | 1,074,771 | 1,473,692 | 1,196,071 | 3,949,874 |
| Total | \$14,628,664 | \$- | \$1,818,176 | \$2,970,114 | \$6,385,271 | \$25,802,225 |
| Each area percentage | 56.70% | 0.00% | 7.04% | 11.51% | 24.75% | 100.00% |

c. Credit risk quality analysis

(A) Credit quality classifications of Cathay Century and its subsidiaries' financial assets are as follows:

| Financial assets | Credit quality of financial assets | | | | |
|---|------------------------------------|------------|---------------------------|------------|---------------------|
| | 2016.9.30 | | | | |
| | Normal assets | | Past due but not impaired | Impaired | Total |
| Investment level | Non-investment level | | | | |
| Cash and cash equivalents | \$7,460,738 | \$- | \$- | \$- | \$7,460,738 |
| Financial assets at fair value through profit or loss | 1,611,784 | - | - | - | 1,611,784 |
| Available-for-sale financial assets | 8,014,905 | - | - | - | 8,014,905 |
| Debt instruments investments with no active market exists | 3,035,892 | - | - | - | 3,035,892 |
| Held-to-maturity investments | 4,892,527 | - | - | - | 4,892,527 |
| Total | \$25,015,846 | \$- | \$- | \$- | \$25,015,846 |

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| Financial assets | Credit quality of financial assets | | | | |
|---|------------------------------------|----------------------|---------------------------|------------|---------------------|
| | 2015.12.31 | | | | |
| | Normal assets | | Past due but not impaired | Impaired | Total |
| | Investment level | Non-investment level | | | |
| Cash and cash equivalents | \$12,504,493 | \$- | \$- | \$- | \$12,504,493 |
| Financial assets at fair value through profit or loss | 1,988,360 | - | - | - | 1,988,360 |
| Available-for-sale financial assets | 8,100,725 | - | - | - | 8,100,725 |
| Debt instruments investments with no active market exists | 3,686,683 | - | - | - | 3,686,683 |
| Held-to-maturity investments | 4,462,088 | - | - | - | 4,462,088 |
| Total | \$30,742,349 | \$- | \$- | \$- | \$30,742,349 |

| Financial assets | Credit quality of financial assets | | | | |
|---|------------------------------------|----------------------|---------------------------|------------|---------------------|
| | 2015.9.30 | | | | |
| | Normal assets | | Past due but not impaired | Impaired | Total |
| | Investment level | Non-investment level | | | |
| Cash and cash equivalents | \$8,152,929 | \$- | \$- | \$- | \$8,152,929 |
| Financial assets at fair value through profit or loss | 1,928,250 | - | - | - | 1,928,250 |
| Available-for-sale financial assets | 8,088,575 | - | - | - | 8,088,575 |
| Debt instruments investments with no active market exists | 3,682,597 | - | - | - | 3,682,597 |
| Held-to-maturity investments | 3,949,874 | - | - | - | 3,949,874 |
| Total | \$25,802,225 | \$- | \$- | \$- | \$25,802,225 |

Note: Investment level means the credit rating above BBB- and non-investment level means the credit rating less than BBB-.

(B) Secured loans

| Secured loans | 2016.9.30 | | | | | | | |
|-------------------|-------------------------------|------------|------------|---------------------------|------------------|-----------------------|----------------|------------------|
| | Neither past due nor impaired | | | Past due but not impaired | Impaired | Total (EIR principal) | Loss reserve | Net |
| | Excellent | Great | Normal | | | | | |
| Consumer Finance | \$154,994 | \$- | \$- | \$- | \$127,294 | \$282,288 | \$2,771 | \$279,517 |
| Corporate Finance | 62,390 | - | - | - | 16,200 | 78,590 | 1,412 | 77,178 |
| Total | \$217,384 | \$- | \$- | \$- | \$143,494 | \$360,878 | \$4,183 | \$356,695 |

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| Secured loans | 2015.12.31 | | | | | | | |
|-------------------|-------------------------------|-------|--------|---------------------------|-----------|-----------------------|--------------|-----------|
| | Neither past due nor impaired | | | Past due but not impaired | Impaired | Total (EIR principal) | Loss reserve | Net |
| | Excellent | Great | Normal | | | | | |
| Consumer Finance | \$170,367 | \$- | \$- | \$- | \$121,836 | \$292,203 | \$3,023 | \$289,180 |
| Corporate Finance | 62,280 | - | - | - | 16,200 | 78,480 | 1,405 | 77,075 |
| Total | \$232,647 | \$- | \$- | \$- | \$138,036 | \$370,683 | \$4,428 | \$366,255 |

| Secured loans | 2015.9.30 | | | | | | | |
|-------------------|-------------------------------|-------|--------|---------------------------|-----------|-----------------------|--------------|-----------|
| | Neither past due nor impaired | | | Past due but not impaired | Impaired | Total (EIR principal) | Loss reserve | Net |
| | Excellent | Great | Normal | | | | | |
| Consumer Finance | \$173,321 | \$- | \$- | \$- | \$113,624 | \$286,945 | \$3,012 | \$283,933 |
| Corporate Finance | 60,580 | - | - | - | 22,500 | 83,080 | 1,482 | 81,598 |
| Total | \$233,901 | \$- | \$- | \$- | \$136,124 | \$370,025 | \$4,494 | \$365,531 |

C. Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal controls, employee fraud or misconduct and management negligence. To mitigate the operational risk, Cathay Century adapts and implements the internal control regulations and sheets. Cathay Century and its subsidiaries establish the information systems to accommodate the aforementioned policies.

D. Liquidity risk

a. Source of liquidity risk

Liquidity risk includes ‘Funding liquidity risk’ and ‘Market liquidity risk’. The ‘funding liquidity risk’ is the risk of insufficient funding or inability to realize the assets to meet Cathay Century’s commitment when due. ‘Market liquidity risk’ occurs when drastic change of market price is triggered by market turmoil or lack of market depth to dispose of or offset the holding positions.

b. Liquidity risk management

Cathay Century and its subsidiaries established a capital liquidity management mechanism based on the business features and monitoring short-term cash flow. Considering the trading volume and holding position, Cathay Century and its subsidiaries carefully manage the market liquidity risk. Moreover, Cathay Century and its subsidiaries have drawn up a plan for capital requirements with respect to abnormal and emergency conditions to deal with significant liquidity risk.

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Depending on the actual management need or special situation, Cathay Century and its subsidiaries uses models to assess cash flow risk, such as cash flow model or stress testing model.

Stress testing analysis is used to test changes of capital liquidity in the event of extreme in order to ensure liquidity. Stress scenarios, including significant market volatility, a variety of credit events, non-anticipated events of the financial market liquidity crunch and any other scenario which may trigger liquidity pressures is used to assess Cathay Century and its subsidiaries' overall capital supply, demand and changes in cash flow gap.

In the event of cash flow gap, the risk management department will conduct an internal discussion and report the result to supervisors and the funding management department. The risk management department will take necessary measures to prevent further stressful events.

c. The table below summarizes the maturity profile of Cathay Century and its subsidiaries' financial liabilities based on contractual undiscounted payments.

| Liabilities | 2016.9.30 | | | | | | |
|--|-------------|-----------------------|--------------------|-------------|-----------|-----------|----------|
| | Book value | Contractual cash flow | Less than 6 months | 6-12 months | 1-2 years | 2-5 years | 5+ years |
| Payables | \$2,451,149 | \$1,259,282 | \$1,225,997 | \$22,956 | \$3,055 | \$7,274 | \$- |
| Financial liabilities at fair value through profit or loss | 4,741 | 16,951 | 10,951 | 5,420 | 580 | - | - |
| Preferred stock liability | 1,000,000 | 1,000,000 | - | - | - | 1,000,000 | - |

| Liabilities | 2015.12.31 | | | | | | |
|--|-------------|-----------------------|--------------------|-------------|-----------|-----------|----------|
| | Book value | Contractual cash flow | Less than 6 months | 6-12 months | 1-2 years | 2-5 years | 5+ years |
| Payables | \$3,084,816 | \$1,510,574 | \$1,483,552 | \$14,998 | \$6,207 | \$5,817 | \$- |
| Financial liabilities at fair value through profit or loss | 192,554 | 194,195 | 160,082 | 26,722 | 7,391 | - | - |
| Preferred stock liability | 1,000,000 | 1,000,000 | - | - | - | 1,000,000 | - |

| Liabilities | 2015.9.30 | | | | | | |
|--|-------------|-----------------------|--------------------|-------------|-----------|-----------|----------|
| | Book value | Contractual cash flow | Less than 6 months | 6-12 months | 1-2 years | 2-5 years | 5+ years |
| Payables | \$2,654,970 | \$1,335,037 | \$1,298,184 | \$28,292 | \$4,104 | \$4,457 | \$- |
| Financial liabilities at fair value through profit or loss | 277,467 | 277,467 | 155,723 | 114,205 | 7,539 | - | - |
| Preferred stock liability | 1,000,000 | 1,000,000 | - | - | - | 1,000,000 | - |

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E. Market risk analysis

Market risk is the risk of potential revenue and portfolio value reduction due to the fluctuations of market risk factors, such as exchange rates, commodity prices, interest rates, credit spreads, and stock prices.

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

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.

Value-at-risk model must reasonably completely and accurately measure the maximum potential risk that can be Cathay Century and its subsidiaries' risk management model. The use of risk management model must continue to conduct back testing daily to ensure the model can effectively measure financial instrument and what the maximum potential risk of a portfolio is.

b. Stress testing

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

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

(A) Simple Sensitivity

Simple sensitivity mainly evaluate changes in value of portfolio caused by specific risk factor

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(B) Scenario Analysis

Scenario Analysis is a measure utilized for the evaluation of the change in value of portfolio under stress events occurred. 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 incur.

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

| 2016.9.30 | Stress testing | |
|--|---|----------------------------|
| Risk factors | Variation (+/-) | Changes in profit and loss |
| Equity price risk (Index) | -10% | \$ (425,670) |
| Interest rate risk (Yield curve) | 20bp | (142,758) |
| Foreign currency risk (Exchange rate) | USD depreciates 1 dollar against NTD | (113,565) |
| Commodity risk (Price) | -10% | - |

| 2016.9.30 | | Profit and loss | Equity |
|-------------------------------------|----------------------------------|--------------------|---------|
| Foreign currency risk sensitivity | EUR appreciate 1 % | \$133 | \$793 |
| | CNY appreciate 1 % | 11,082 | 2,632 |
| | HKD appreciate 1 % | 767 | 3,008 |
| | NTD appreciate 1 % | (32,545) | (8,965) |
| Interest rate risk sensitivity | Yield curve (USD) flat rises 1bp | (4,911) | (100) |
| | Yield curve (CNY) flat rises 1bp | (11) | (64) |
| | Yield curve (NTD) flat rises 1bp | (833) | (1,220) |
| Equity securities price sensitivity | Increase 1% in equity price | 279 | 42,288 |

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| 2015.12.31 | Stress testing | |
|--|---|----------------------------|
| Risk factors | Variation (+/-) | Changes in profit and loss |
| Equity price risk (Index) | -10% | \$ (426,608) |
| Interest rate risk (Yield curve) | 20bp | (145,720) |
| Foreign currency risk (Exchange rate) | USD depreciates 1 dollar against NTD | (116,285) |
| Commodity risk (Price) | -10% | - |

| 2015.12.31 | | Profit and loss | Equity |
|-------------------------------------|----------------------------------|--------------------|---------|
| Foreign currency risk sensitivity | EUR appreciate 1 % | \$132 | \$831 |
| | CNY appreciate 1 % | 16,208 | 792 |
| | HKD appreciate 1 % | 737 | 2,923 |
| | NTD appreciate 1 % | (37,243) | (7,934) |
| Interest rate risk sensitivity | Yield curve (USD) flat rises 1bp | (4,691) | (118) |
| | Yield curve (CNY) flat rises 1bp | (49) | (71) |
| | Yield curve (NTD) flat rises 1bp | (1,087) | (1,271) |
| Equity securities price sensitivity | Increase 1% in equity price | - | 42,661 |

| 2015.9.30 | Stress testing | |
|--|---|----------------------------|
| Risk factors | Variation (+/-) | Changes in profit and loss |
| Equity price risk (Index) | -10% | \$ (356,547) |
| Interest rate risk (Yield curve) | 20bp | (128,119) |
| Foreign currency risk (Exchange rate) | USD depreciates 1 dollar against NTD | (103,046) |
| Commodity risk (Price) | -10% | - |

| 2015.9.30 | | Profit and loss | Equity |
|-------------------------------------|----------------------------------|--------------------|---------|
| Foreign currency risk sensitivity | EUR appreciate 1 % | \$183 | \$602 |
| | CNY appreciate 1 % | 16,413 | 821 |
| | HKD appreciate 1 % | 247 | 2,937 |
| | NTD appreciate 1 % | (34,351) | (6,692) |
| Interest rate risk sensitivity | Yield curve (USD) flat rises 1bp | (4,053) | (123) |
| | Yield curve (CNY) flat rises 1bp | (62) | (73) |
| | Yield curve (NTD) flat rises 1bp | (808) | (1,288) |
| Equity securities price sensitivity | Increase 1% in equity price | 73 | 35,582 |

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c. Cathay Securities and its subsidiaries

(A) Risk management policies

i. Risk management objectives

Adhere to the risk management policies of the Company, Cathay Financial Holding, Cathay Securities and its subsidiaries manage the risks efficiently and elastically on operating activities to maximize the profit in conformity with domestic and foreign regulations.

ii. Risk management policies

Cathay Securities uses “risk management policies” as a guiding principle to establish risk management objectives, coverage, organization duties and operating, management principles and reports etc.

The management policies of Cathay Securities and its subsidiaries cover different types of risk including market risk, credit risk, operation risk, liquidity risk, capital adequacy management, regulation risk and other risks related to operating activities. Cathay Securities and its subsidiaries identify relevant risks and have integrated planning of risk management in accordance with the management policies before operating business.

iii. Risk management organizational structure

- 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 the implementation of risk management policies is effective.

- , Risk Management Committee

The Risk Management Committee is responsible for reviewing risk management policies, principles, and directions of trading management, and for determining the appropriate degree of risk exposures and monitoring the implementation of the risk management policies. Risk Management Committee is established by the board of directors and the members include General Manager, finance executive, accounting executive, and risk management executive, as relevant trading executive. The committee meetings are typically held quarterly and provisional meetings are called by the chairman of the Board.

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f Risk Management Department

Risk management department is belonging to the board of directors. The supervisor and staff of the department are prohibited to hold the positions at trading or settlement department simultaneously. Their responsibilities are to plan and implement risk management policies, principles and directions, review policies periodically to ensure that those policies are suitable for the business development. Risk management department also establishes online monitor and prevention system and reaction mechanism.

„ Business unit

Each business unit participates in the planning of risk management mechanism and executing daily risk management and report to ensure that the risk model services division implements is with the same base of the consistency of credibility and is in accordance with the internal control procedures to conform to the regulations and risk management policies.

... Auditing office

Auditing office participates in the planning of risk management mechanism and executes risk management and internal control procedures periodically. All staff members should be also responsible for monitoring and documenting problems of internal control procedures periodically to ensure that the appropriate actions to improve have been taken in time.

† Finance Department

Finance department participates in the planning of risk management mechanism. The department is responsible of executing liquidity risk management and providing the liquidity risk report to risk management department periodically.

‡ Accounting Department

The accounting department participates in the planning of risk management mechanism and providing the form of capital adequacy to risk management department monthly.

^ Legal Affairs Office

Legal Affairs Office executes regulation risk management to ensure that business operations and risk management procedures are all in accordance with regulations.

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iv. Risk Management Workflows

Risk management workflows for Cathay Securities and its subsidiaries include risk identification, risk measurement, risk management mechanism, and risk reporting. Risk assessment and response strategies to each risk are addressed as follows:

- Market Risk

- (a) Definition

- Market risk is the risk of losses in positions that include stocks, bonds, and derivatives etc. arising from the movement in market prices.

- (b) Controls:

- Cathay Securities and its subsidiaries set up training directions including the limits of authorization, risk limitation, stop-loss rules, and responses to the exceeded limits by each product or service line and actual operations and implement those control procedures efficiently through the risk control staff in front desk and on-line monitor system. Furthermore, Cathay Securities and its subsidiaries provide market risk management report periodically that includes market price assessments, the dollar amounts of surplus/shortfall and arbitrage, Value at Risk, back-testing model and perform pressure test by each extreme scenario to control the risks that Cathay Securities and its subsidiaries face and manage all risks as a whole efficiently.

- Credit Risk

- (a) Definition

- Credit risk is the risk that counterparty will not meet its obligations under a contract due to the aggravation of financial conditions or other factors, leading to a financial loss.

- (b) Controls

- Cathay Securities and its subsidiaries check and review credit position to each counterparty before trading and manage risk exposure after trading. Risks arising from securities trading are monitored and controlled based on credit rating model. Investment concentration and risk are analyzed and documented periodically. Investment limit to each counterparty is established by its credit rating (TCRI, Taiwan Ratings, S&P, Moody's, and Fitch).

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f Operational Risk

(a) Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes the legal risk, but excludes strategy risk and credit risk.

(b) Controls

Cathay Securities and its subsidiaries establish authority levels and the segregation of duties for the processes of front, middle and back offices. Trading, confirmation, settlement, financial accounting, and trading document are archive for future reference. The strict processes are also established to prevent fraud and negligence. Cathay Securities and its subsidiaries request each department to establish and implement internal audit and control policies authentically. The reporting mechanism for loss events from operational risk and database are established to understand causes of the loss.

Besides, auditing office is established and belongs to the Board of Directors. The functions of the office are to implement daily process check to establish completed internal audit control and provide internal review report periodically to lower the loss arising from the operation failures.

„ Liquidity Risk

(a) Definition

Liquidity is defined as the capability of the company to acquire the sufficient capital and to support assets growth and payout the liabilities.

(b) Controls

Measurement index for liquidity risk is established and Cathay Securities compile the liquidity risk management report periodically to review capital conditions and cash flow gap as of balance dates. Capital allocation planning is based on the compiled structure analysis as of balance sheet dates. Meanwhile, acquiring the credit line of short-term financing from other financial institutions and managing receipts and payments properly to sustain appropriate liquidity and ensure the ability to make the payment.

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... Legal Risk

(a) Definition

Legal risk is a risk of loss that results from a counterparty being unable to legally enter into a contract due to the defective contract or the qualification.

(b) Controls

The procedures of making and reviewing legal documentation are established. All the document related to the contracts is required to be reviewed and approved by the legal office and may be advised by the external lawyer' opinions.

† Capital adequacy management

(a) Definition

Cathay Securities and its subsidiaries implement capital management to sustain appropriate capital adequacy ratio, accelerate the business growth and ensure the perfection of capital structure.

(b) Controls

Cathay Securities establishes capital adequacy index and compiles the report periodically to evaluate the appropriateness of capital adequacy ratio and the perfection of the capital structure.

‡ Reputation risk and strategy risk

(a) Definition

Reputation Risk is a risk of loss resulting from damages to Cathay Securities and its subsidiaries' reputation in lost customers or revenues and Cathay Securities and its subsidiaries might need to undertake a prodigious amount of legal fares 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.

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(b) Controls

Cathay Securities and its subsidiaries establish internal responses and reactions to the reputation risk and strategy risk for mitigation of damages.

Risk management policies and principles are established based on above mentioned risks and management mechanisms from each risk source are set out specifically. Cathay Securities and its subsidiaries also establish the constraint for each risk and review the appropriateness of each constraint periodically. Besides, the risk management implementation reports are reported to the risk management committee, board of directors, and risk management office of Cathay financial holdings to elaborate on Cathay Securities and its subsidiaries' risk tolerance and the appropriateness of current risk management scheme.

v. Hedge and Mitigation of Risk Strategy

The hedge and mitigation of risk strategy for Cathay Securities and its subsidiaries are implemented the dynamic hedge through investment products to duplicate the same cash flows when derivatives are matured. The hedge for outstanding stock warrants and structured products are used Delta Neutral as a principle. If the prices of those investment positions fluctuate wildly in the financial market, the violation of hedge operating due to the impact from the significant events, or the violation of the hedge operating rules from the operators, the business department is required to explain by written and report to the risk management department.

Cathay Securities establish the approval limit and stop-loss mechanism by each attributes of the product. When the position meets the prevention point, the risk management department will inform the supervisor or position administrator in time and monitor the change of the position. Besides, the business department should operate in accordance with approval limits. If the stop-loss point is met, the investment position should be sold or the business department is required to provide the exception report. The reason and specific responses are also need to be informed.

(B) Credit risk analysis

Anticipated credit risks due to conducted financial transactions are included the credit risks from issuers, counterparties, and underlying assets:

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- i. Issuer credit risk is a risk that Cathay Securities and its subsidiaries may encounter financial losses because the issuers (guarantors) or banks are not able to pay where it is obligated to do on financial liabilities instruments or bank savings which Cathay Securities and its subsidiaries invest.
- ii. Counterparty credit risk is a risk that the counterparty will not live up to its obligations to perform or pay on the designated dates and Cathay Securities and its subsidiaries are exposed to the risk of financial losses
- iii. Underlying asset credit risk is a risk that Cathay Securities and its subsidiaries may encounter the losses from the fact that the credit quality turns weak and credit charges increase, credit rating reduces, or the terms of contract are violated from underlying asset which is related to the certain financial instruments.

Financial assets which make Cathay Securities face the credit risk include bank accounts, debt securities, the trading from Over-the-Counter derivatives, repurchase and resell debts, trading from the securities lending, refundable deposits, futures deposit in bank, other refundable deposits and account receivables etc.

(C) Capital Liquidity Risk Analysis:

- i. Cash flow analysis

Capital liquidity risk is the risk that Cathay Securities and its subsidiaries are unable to acquire the sufficient capital at the reasonable cost within the reasonable time and results in cash flow gap, or the risk that Cathay Securities and its subsidiaries sell assets at a loss to meet the cash flow requirement.

| 2016.9.30 | | | | | |
|--|----------------------|-----------------|------------------|-----------------------|---------------------|
| Cash Flows Analysis of Financial Liabilities | | | | | |
| Payment Terms | | | | | |
| Financial Liabilities | Less than 1 month | 1 to 3 months | 3 to 6 months | More than 6 months | Total |
| Short-term loans | \$40,440 | \$- | \$- | \$- | \$40,440 |
| Bonds payables | 5,699,130 | - | - | - | 5,699,130 |
| Financial liabilities at fair value through profit or loss -current | 2,845,907 | - | - | - | 2,845,907 |
| Liabilities for bonds with repurchase agreements | 1,525,695 | - | - | - | 1,525,695 |
| Deposits for securities borrowed | 33,560 | 67,010 | 100,515 | 402,061 | 603,146 |
| Futures trader's equity | 3,540,495 | - | - | - | 3,540,495 |
| Account payables | 3,380,289 | - | - | 458,427 | 3,838,716 |
| Others | 443 | - | - | 30,990 | 31,433 |
| Total | \$17,065,959 | \$67,010 | \$100,515 | \$891,478 | \$18,124,962 |
| % to the total | 94.16% | 0.37% | 0.55% | 4.92% | 100% |

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

| Financial Assets | 2016.9.30 Cash Flow Gap | | | | Total |
|---|----------------------------|---------------|---------------|-----------------------|-------------|
| | Received Terms | | | | |
| | Less than 1 month | 1 to 3 months | 3 to 6 months | More than 6 months | |
| Cash and cash equivalents | \$2,110,351 | \$- | \$- | \$- | \$2,110,351 |
| Financial assets at fair value through profit or loss -current | | | | | |
| Operations Security | 4,651,161 | - | - | - | 4,651,161 |
| Open-end Funds | 114,372 | - | - | - | 114,372 |
| Call option-futures | 18,985 | - | - | - | 18,985 |
| Futures trading margin | 512,977 | - | - | - | 512,977 |
| Available for sale financial assets | 345,865 | - | - | 297,414 | 643,279 |
| Client margin accounts | 3,543,056 | - | - | - | 3,543,056 |
| Other current assets-time deposit | - | - | - | 900,000 | 900,000 |
| Account Receivables | 7,786,435 | 7,368 | 11,052 | 44,208 | 7,849,063 |
| Securities financing receivables | 193,014 | 382,486 | 573,729 | 2,294,920 | 3,444,149 |
| Others | - | - | - | 823,864 | 823,864 |
| Subtotal | 19,276,216 | 389,854 | 584,781 | 4,360,406 | 24,611,257 |
| Residual cash | \$2,210,257 | \$322,844 | \$484,266 | \$3,468,928 | \$6,486,295 |

ii. Capital liquidity risk stress testing

Cathay Securities and its subsidiaries perform stress testing periodically to measure and evaluate the changes of capital liquidity the occurrence of extreme and abnormal events for ensuring that Cathay Securities and its subsidiaries sustain the proper capital liquidity. Stress scenario including the significant fluctuation in the financial market, the occurrence of all kinds of credit event, and the assumption of unexpected tighten capital liquidity in financial market are used to measure the capability of acquiring sufficient capital to meet the demand on cash and the changes of cash flow gap.

If the cash flow gap arises under the specific stress scenario, the following procedures are used to prevent the occurrence of the stress events:

- Raising money and balance sheet adjustment are made in accordance with the Group “Crisis Management Principles” and “Regulations of Emergency Management”
- Money Raising: (i) short-term loan credit line (ii) collateralized time deposits (iii) issuance of commercial paper
- Balance sheet adjustment: (i) sales of securities (ii) retrieve short-term capital invested in currency market.

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(D) Market risk analysis

Cathay Securities and its subsidiaries assesses, monitors, and manages market risks completely and effectively by applying Value at Risk (“VaR”) and stress testing continuously

i. Sensitivity Analysis

Sensitivity analysis is to measure the degree of impacts on each products and portfolio from the movement of specific market simple. The monitoring and relevant controls to the businesses Cathay Securities and its subsidiaries operate are established. The degree of risk exposure are monitored and measured by the following sensitivity:

- Price value of basis point (PVBP): denoting the change in the value of a position given a basis point change in the yield curve.
- , Delta: measuring the change in the value of a position given 1% price change of a certain underlying asset.
- f* Gamma: measuring the dollar amount of change in Delta of a position given 1% price change of a certain underlying asset.
- „ Vega: denoting the change in the value of a position given 1%price change of a certain underlying asset.

ii. Value at Risk

Value at Risk (“VaR”) is the risk of the most probable loss on the portfolio in position arising from the movements in market risk simples by measuring portfolio over a specific time frame and at a certain confidence level. Cathay Securities measures VaR for the next day within an investment portfolio over a week and at 99% confidence level. Also, Back Test at VaR is performed each year to ensure the accuracy of this model.

VaR at one single trading day within 99% confidence level

| 2016.1.1~2016.9.30 | NT\$ (in thousands) |
|--------------------|---------------------|
| Period Ended | \$26,463 |
| Average | 37,356 |
| Lowest | 25,973 |
| Highest | 53,719 |

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iii. Stress Test

Cathay Securities and its subsidiaries perform monthly Stress Test to assess the degree of impact on the asset portfolio arising from foreign and domestic significant events and find the risk simples which have more significant influence on the asset portfolio. Follow-up and review report will be documented. Customized or extreme scenario which take rapid changes in foreign and domestic financial environment into consideration are also performed irregularly and measured the maximized losses arising from these scenarios for ensuring that Cathay Securities and its subsidiaries manage each potential scenario effectively.

- Historical Scenario

Cathay Securities and its subsidiaries assess the dollar amount of losses for the investment portfolio by choosing a specific time frame of historical event and taking the fluctuation of risk simples into the consideration such as the immediate, significant, and comprehensive impact on financial market from bankruptcy of Lehman Brothers in 2008 and Great East Japan earthquake in 2011.

- Hypothesis Scenario

Cathay Securities and its subsidiaries make hypothesis with rational expectations from the extreme market movements to assess the dollar amount of losses for the investment position by taking the movement of relevant risk simples into consideration including 10% drops on the total values of stock market arising from the global system breakdown.

2016.9.30

Table of Stress Test

| <u>Risk Factors</u> | <u>Price Risk</u> | <u>Changes (+/-)</u> | <u>Changes in profit and loss</u> |
|---------------------|-------------------|----------------------|-----------------------------------|
| Equity Risk | Stock index | <u>-10%</u> | \$(144,578) |
| Interest Risk | Yield Curve | <u>+100bps</u> | (38,833) |
| Exchange Risk | Exchange Rate | <u>+3%</u> | (20,486) |
| Product Risk | Price | <u>-10%</u> | - |

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(8) Structured entities

A. Consolidated structured entities

Cathay life and its subsidiaries own real estate investment and management organizations as consolidated structured entities. As of 30 September 2016, 31 December 2015 and 30 September 2015, Cathay life and its subsidiaries provide loans amounting to GBP £345,000 thousand, £345,000 thousand and £345,000 thousand, to the consolidated structured entities, respectively.

B. Unconsolidated structured entities

a. The Group do not provide financial support or other support to the unconsolidated structured entities. The Group's maximum exposure to loss from its interests in the unconsolidated structured entities are limited to the carrying amount of assets the Group recognized. The information of the recognized unconsolidated structured entities is disclosed as follows:

| <u>Types of structured entity</u> | <u>Nature and purpose</u> | <u>Interests owned</u> |
|-----------------------------------|--|--|
| Private equity fund | Investment in private equity funds to receive returns | Investment in shares or limited partnership interests issued by the fund |
| Securitization vehicle | Investment in asset-backed security to receive returns | Investment in securitization vehicles issued by the entity |

b. As of 30 September 2016, 31 December 2015 and 30 September 2015, the carrying amount of assets recognized by Cathay Life and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

| | <u>2016.9.30</u> | |
|---|-----------------------------|--------------------------------|
| | <u>Private equity funds</u> | <u>Asset-backed securities</u> |
| Available-for-sale financial assets | \$37,145,904 | \$103,255,177 |
| Held-to-maturity financial assets | - | 109,641,678 |
| Debt instrument investments with no active market | - | 431,566 |
| Total | <u>\$37,145,904</u> | <u>\$213,328,421</u> |

| | <u>2015.12.31</u> | |
|---|-----------------------------|--------------------------------|
| | <u>Private equity funds</u> | <u>Asset-backed securities</u> |
| Available-for-sale financial assets | \$32,950,640 | \$120,360,084 |
| Debt instrument investments with no active market | - | 185,055,820 |
| Total | <u>\$32,950,640</u> | <u>\$305,415,904</u> |

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| | 2015.9.30 | |
|---|----------------------|-------------------------|
| | Private equity funds | Asset-backed securities |
| Available-for-sale financial assets | \$25,550,247 | \$125,393,684 |
| Debt instrument investments with no active market | - | 194,467,673 |
| Total | \$25,550,247 | \$319,861,357 |

c. As of 30 September 2016, 31 December 2015 and 30 September 2015, the carrying amount of assets recognized by Cathay United Bank and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

| | 2016.9.30 | |
|---|--------------|--------------------------------|
| | Private Fund | Asset Securitization commodity |
| Available-for-sale financial assets | \$- | \$962,834 |
| Held-to-maturity financial assets | - | 12,732,207 |
| Debt instrument investments with no active market | - | 16,794,334 |
| Total | \$- | \$30,489,375 |

| | 2015.12.31 | |
|---|--------------|--------------------------------|
| | Private Fund | Asset Securitization commodity |
| Available-for-sale financial assets | \$- | \$1,208,713 |
| Held-to-maturity financial assets | - | 15,165,099 |
| Debt instrument investments with no active market | - | 12,307,158 |
| Total | \$- | \$28,680,970 |

| | 2015.9.30 | |
|---|--------------|--------------------------------|
| | Private Fund | Asset Securitization commodity |
| Available-for-sale financial assets | \$- | \$1,281,490 |
| Held-to-maturity financial assets | - | 7,668,408 |
| Debt instrument investments with no active market | - | 15,700,230 |
| Total | \$- | \$24,650,128 |

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d. As of 30 September 2016, 31 December 2015 and 30 September 2015, the carrying amount of assets recognized by Cathay Century and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

| | 2016.9.30 | |
|-------------------------------------|--------------|--------------------------------|
| | Private Fund | Asset Securitization commodity |
| Available-for-sale financial assets | \$- | \$30,424 |
| Held-to-maturity financial assets | - | 895,013 |
| Total | \$- | \$925,437 |

| | 2015.12.31 | |
|-------------------------------------|--------------|--------------------------------|
| | Private Fund | Asset Securitization commodity |
| Available-for-sale financial assets | \$- | \$112,549 |
| Held-to-maturity financial assets | - | 1,069,768 |
| Total | \$- | \$1,182,317 |

| | 2015.9.30 | |
|-------------------------------------|--------------|--------------------------------|
| | Private Fund | Asset Securitization commodity |
| Available-for-sale financial assets | \$- | \$19,901 |
| Held-to-maturity financial assets | - | 1,121,652 |
| Total | \$- | \$1,141,553 |

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

| | 2016.9.30 | | | 2015.12.31 | | |
|------------------------------|------------------|---------------|-----------------|------------------|---------------|-----------------|
| | Foreign Currency | Exchange Rate | NT\$ | Foreign Currency | Exchange Rate | NT\$ |
| <u>Financial Assets</u> | | | | | | |
| <u>Monetary Items</u> | | | | | | |
| USD | \$76,857,577 | 31.3660 | \$2,410,714,760 | \$65,214,274 | 33.0660 | \$2,156,375,184 |
| CNY | 19,572,557 | 4.6949 | 91,891,198 | 35,057,071 | 5.0326 | 176,428,216 |
| <u>Non-Monetary Items</u> | | | | | | |
| USD | 11,640,866 | 31.3660 | 365,127,403 | 9,827,120 | 33.0660 | 324,943,550 |
| <u>Financial Liabilities</u> | | | | | | |
| <u>Monetary Items</u> | | | | | | |
| USD | 11,300,407 | 31.3660 | 354,448,566 | 8,839,718 | 33.0660 | 292,294,115 |

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| | 2015.9.30 | | |
|------------------------------|---------------------|------------------|-----------------|
| | Foreign Currency | Exchange Rate | NT\$ |
| <u>Financial Assets</u> | | | |
| <u>Monetary Items</u> | | | |
| USD | \$62,296,120 | 33.1280 | \$2,063,745,863 |
| CNY | 48,635,586 | 5.2184 | 253,799,942 |
| <u>Non-Monetary Items</u> | | | |
| USD | 8,149,484 | 33.1280 | 269,976,106 |
| <u>Financial Liabilities</u> | | | |
| <u>Monetary Items</u> | | | |
| USD | 8,252,284 | 33.1280 | 273,381,664 |

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 losses for the three-month and nine-month periods ended 30 September 2016 and 2015 were \$(43,122,922) thousand, 80,716,094 thousand, (79,065,096) thousand and \$58,198,542 thousand, respectively.

(10) Discretionary account management

A. Discretionary account management for Cathay Life

| Item | 2016.9.30 | | 2015.12.31 | | 2015.9.30 | |
|--------------------------|--------------------|---------------|--------------------|---------------|--------------------|---------------|
| | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value |
| Listed stocks | \$118,061,151 | \$118,061,151 | \$108,750,029 | \$108,750,029 | \$105,205,500 | \$105,205,500 |
| Overseas stocks | 44,434,852 | 44,434,852 | 46,578,040 | 46,578,040 | 38,351,473 | 38,351,473 |
| Reverse repurchase bonds | 12,147,023 | 12,147,023 | 4,348,000 | 4,348,000 | 13,600,070 | 13,600,070 |
| Cash in banks | 18,657,593 | 18,657,593 | 12,738,482 | 12,738,482 | 36,289,076 | 36,289,076 |
| Beneficiary certificates | - | - | 2,233,839 | 2,233,839 | 2,455,105 | 2,455,105 |
| Futures and options | 991,506 | 991,506 | 1,157,650 | 1,157,650 | 1,585,444 | 1,585,444 |
| Total | \$194,292,125 | \$194,292,125 | \$175,806,040 | \$175,806,040 | \$197,486,668 | \$197,486,668 |

As of 30 September 2016, Cathay Life entered into discretionary account management contracts in the amounts of \$102,000,000 thousand, US\$1,185,000 thousand, and HK\$1,780,000 thousand. As of 31 December 2015, Cathay Life entered into discretionary account management contracts in the amounts of \$97,000,000 thousand, US\$1,237,000 thousand, and HK\$1,780,000 thousand. As of 30 September 2015, Cathay Life entered into discretionary account management contracts in the amounts of \$121,800,000 thousand, US\$1,277,000 thousand, and HK\$1,780,000 thousand.

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B. Discretionary account management for Cathay Century

| Item | 2016.9.30 | | 2015.12.31 | | 2015.9.30 | |
|--------------------------|-------------|-------------|------------|------------|-------------|-------------|
| | Carrying | | Carrying | | Carrying | |
| | amount | Fair value | amount | Fair value | amount | Fair value |
| Listed stocks | \$495,509 | \$495,509 | \$410,018 | \$410,018 | \$534,409 | \$534,409 |
| Overseas stocks | 112,947 | 112,947 | 77,752 | 77,752 | 64,182 | 64,182 |
| Reverse repurchase bonds | 630,051 | 630,051 | 215,147 | 215,147 | 350,320 | 350,320 |
| Cash in banks | 207,959 | 207,959 | 47,526 | 47,526 | 82,744 | 82,744 |
| Futures and options | 2,007 | 2,007 | 2005 | 2005 | 2,005 | 2,005 |
| Total | \$1,448,473 | \$1,448,473 | \$752,448 | \$752,448 | \$1,033,660 | \$1,033,660 |

As of 30 September 2016, 31 December 2015 and 30 September 2015, Cathay Century entered into discretionary account management contracts in the amounts of \$1,300,000 thousand, \$700,000 thousand, and \$1,000,000 thousand.

(11) Capital management:

Currently, the Company and its subsidiaries' capital adequacy ratios meet the statutory requirements. Under the pretext that the Company and its subsidiaries meet the statutory capital adequacy requirement, dynamic capital management mechanism is employed to increase the capital efficiency of the subsidiaries. After the redistribution of capital, the subsidiaries' ability to take risks will not be affected. Under such scenario, the Company will conduct overall planning based on the distribution of the subsidiaries' capital in order to strengthen the efficiency of capital operation within the Group.

(12) Business or trading activities within Subsidiaries:

A. Business or trading behaviors

Please refer Note 33 for further details.

B. Integrate business activities:

By integrating the insurance, securities, banking and other various financial institutions, the Company has become a full-functioning financial platform. Through 735 branches and nearly 30 thousand professional sales representatives across Taiwan, the Company is able to develop its cross-selling marketing strategy and provide a one-stop shopping service for its customers.

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C. Cross utilization of information:

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

D. Locations and business utilities:

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

All the business units of Cathay United Bank (162 branches) may engage in cross-selling activities for insurance business and securities business. According to the opening regulations, Cathay United Bank may engage in life insurance business and promote life insurance products.

Cathay Life may engage in cross-selling activities for banking, property and casualty insurance businesses in all its business and service units (179 locations).

Cathay Security may engage in cross-selling activities in Cathay United Bank’s Banxin branch (and other 22 branches) and Cathay Life’s Taitung branch (and other 2 branches). The shared business locations are available for account opening.

E. Allocation of revenues, costs, expenses, profits and losses:

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

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(13) Significant contracts:

None

(14) Information regarding investment in Mainland China:

A. On 25 December 2002 and 24 July 2003, 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 to US\$48,330 thousand approved by MOEAIC on 20 December 2010. Also, MOEAIC authorized Cathay Life to remit US\$59,000 thousand as the registered capital again on 16 May 2008. MOEAIC authorized Cathay Life to remit US\$3,400 thousand as the registered capital again on 2 April 2012. MOEAIC also authorized the revision of the amount of US\$32,520 thousand of unexecuted project to CNY¥200,000 thousand to avoid currency risk on 14 September 2013. The total registered capital was US\$110,730 thousand. On 25 September 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life's subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on 29 December 2004 and changed its name to Cathay Lujiazui Life Insurance Company Ltd. following approval by the China Insurance Regulatory Commission on 12 August 2014. Cathay Life has remitted US\$48,330 thousand to the subsidiary as of 31 December 2009. Cathay Life injected additional US\$29,880 thousand on 29 September 2010 and CNY¥200,000 thousand on 8 May 2014. As of 30 September 2016, Cathay Life's remittances to the subsidiary totaled approximately CNY¥200,000 thousand and US\$78,210 thousand.

B. On 17 October 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 8 October 2007. On 6 March 2008, MOEAIC authorized Cathay Life to increase the remittances from US\$26,390 thousand to US\$28,960 thousand. On 15 August 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 26 August 2008. On 28 May 2013, MOEAIC authorized Cathay Life to remit CNY¥200,000 thousand to increase the share capital. As of 30 September 2016, Cathay Life's remittances to this general insurance company totaled approximately CNY¥200,000 thousand and US\$28,140 thousand.

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- C. On 1 November 2011 and 11 April 2012, MOEAIC authorized Cathay Life to remit CNY¥300,000 (US\$47,000) thousand and CNY¥500,000 (US\$80,000) thousand, respectively, as the registered capital to establish a China-based company named Lin Yuan (Shanghai) Real Estate Co., Ltd. Cathay Life's subsidiary, Lin Yuan (Shanghai) Real Estate Co., Ltd. has acquired a business license of an enterprise as legal person on 15 August 2012. On 1 April 2013, MOEAIC authorized Cathay Life to remit CNY¥700,000 (US\$111,000) thousand to increase the share capital. As of 30 September 2016, Cathay Life's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately CNY¥1,500,000 thousand.
- D. On 31 December 2006, MOEAIC authorized Cathay Century to remit US\$28,960 thousand as the registered capital to establish a China-based general insurance subsidiary (in the form of joint venture with Cathay Life.) Cathay Century and Cathay Life have received approved from the China Insurance Regulatory Commission on 8 October 2007 to form a joint venture general insurance company in China. Cathay Century and Cathay Life's subsidiary, Cathay Insurance Company Ltd. (China) has acquired a business license of an enterprise legal person on 26 August 2008. MOEAIC authorized Cathay Century to remit CNY¥200,000 thousand as the equity capital on 28 May 2013. As of 30 September 2016, Cathay Century's remittances to this company totaled approximately US\$60,560 thousand.
- E. MOEAIC approved Cathay United Bank to remit to China CNY¥400,000 (US\$60,070) thousand. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank's Shanghai Branch was CNY¥400,000 (US\$59,770) thousand. The remaining amount of US\$300 thousand was repatriated by Shanghai Branch, Cathay United Bank on 5 November 2010. The investment amounts were revised by Cathay United Bank by reporting to MOEAIC in 18 January 2011 and were approved on 24 January 2011. In addition, MOEAIC further approved Cathay United Bank to remit CNY¥600,000 (US\$95,020) thousand to China. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank's Shanghai Branch was CNY¥600,000 (US\$94,930) thousand. The remaining amount of US\$90 thousand was repatriated by Cathay United Bank's Shanghai Branch on 1 February 2012. The investment amounts were revised by Cathay United Bank by reporting to MOEAIC on 20 March 2012 and were approved on 26 March 2012. MOEAIC approved Cathay United Bank's Shanghai Branch to increase the working capital of CNY¥1,000,000 (US\$164,000) thousand on 27 February 2014. According to MOEAIC, further approved working capital of Cathay United Bank's Qingdao Branch was CNY¥600,000 (US\$94,310) thousand on 21 January 2014. And the approved working capital of Cathay United Bank's Shamchun Branch was CNY¥400,000 thousand on 5 January 2015.

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- F. On 9 January 2012, MOEAIC authorized Cathay Securities Investments Trust to remit CNY¥66,600 thousand as the registered capital to establish a China-based company named CDBS Cathay Asset Management (in the form of a joint venture with China Development Bank Securities). Cathay Securities Investment Trust held 33.3% number of shares. CDBS Cathay Asset Management's capital is CNY¥200,000 thousand, and has acquired a business license of an enterprise legal person on 16 August 2013. As of 30 September 2016, Cathay Securities Investment Trust remittances to CDBS Cathay Asset Management totaled approximately CNY¥66,600 thousand.
- G. On 5 March 2014, MOEAIC authorized Cathay Securities to invest in Cathay Investment Consulting (Shanghai) Co. Ltd., which was granted business license with registration number 310115400293635 on 11 June 2014 by Shanghai Pudong New Area Market Supervisory Authority of the People's Republic of China. The registered paid-in capital amounted to CNY¥8,000 (NT\$38,970) thousand.

(15) Segment information

The Group separated operating segments based on the natures of business and they classified into five reportable segments for the purpose of management:

- A. Banking operating segments: Banking operating segments operate the permitted businesses of commercial banks provided by the Banking Act of the Republic of China, foreign exchange business, guarantee business, advisory service of foreign currency investments, trust business, offshore banking units and other financial business of investments from returning expatriates.
- B. Life insurance operating segments: Life insurance operating segments operate the sales of traditional insurance policies, investment-linked insurance policies and floating-rate annuity insurance products.
- C. Properties insurance operating segments: Properties insurance operating segments engage in fire insurance, marine insurance, land and air insurance, liability insurance, bonding insurance, reinsurance and other insurance.
- D. Securities operating segments: Securities operating segments are responsible for securities brokerage, discretionary and underwriting and dedicates to the innovation and development of financial products and services by providing a variety of new financial products.
- E. Other operating segments: Such segments include assets, liabilities, revenue and expenditure which are not able to be allocated to certain operating segments.

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

A. Income information of reporting segment

2016.7.1~2016.9.30

| Items | Bank division | Life insurance division | Property and casualty insurance division | Securities division | Other division | Total |
|--|---------------|-------------------------|--|---------------------|----------------|---------------|
| Interest income | \$6,651,859 | \$31,253,873 | \$147,348 | \$61,029 | \$(98,233) | \$38,015,876 |
| Net income other than interest | 3,835,448 | 101,392,418 | 3,160,031 | 545,790 | 3,073,710 | 112,007,397 |
| Total income | 10,487,307 | 132,646,291 | 3,307,379 | 606,819 | 2,975,477 | 150,023,273 |
| Bad debt expenses and Provision for premiums reserve | (1,227,161) | (256,767) | 10,575 | - | - | (1,473,353) |
| The net change of insurance liabilities | - | (104,745,089) | 283,528 | - | - | (104,461,561) |
| Operating expenses | (6,718,235) | (7,086,643) | (1,000,917) | (469,908) | (1,601,449) | (16,877,152) |
| Income (loss) from continuing operations before income taxes | 2,541,911 | 20,557,792 | 2,600,565 | 136,911 | 1,374,028 | 27,211,207 |
| Income taxes (expense) benefit | (539,307) | (975,623) | (325,736) | (16,329) | (347,977) | (2,204,972) |
| Consolidated net income | 2,002,604 | 19,582,169 | 2,274,829 | 120,582 | 1,026,051 | 25,006,235 |

2015.7.1~2015.9.30

| Items | Bank division | Life insurance division | Property and casualty insurance division | Securities division | Other division | Total |
|--|---------------|-------------------------|--|---------------------|----------------|--------------|
| Interest income | \$6,941,805 | \$29,554,910 | \$139,481 | \$35,273 | \$(274,058) | \$36,397,411 |
| Net income other than interest | 235,378 | 71,170,414 | 2,348,744 | 427,166 | 1,090,778 | 75,272,480 |
| Total income | 7,177,183 | 100,725,324 | 2,488,225 | 462,439 | 816,720 | 111,669,891 |
| Bad debt expenses and Provision for premiums reserve | (107,554) | (292,657) | 12,848 | - | - | (387,363) |
| The net change of insurance liabilities | - | (79,429,764) | (376,110) | - | - | (79,805,874) |
| Operating expenses | (6,347,148) | (8,563,115) | (1,192,771) | (430,588) | (736,661) | (17,270,283) |
| Income (loss) from continuing operations before income taxes | 722,481 | 12,439,788 | 932,192 | 31,851 | 80,059 | 14,206,371 |
| Income taxes (expense) benefit | (738,753) | 460,680 | (97,127) | 3,114 | (183,186) | (555,272) |
| Consolidated net income | (16,272) | 12,900,468 | 835,065 | 34,965 | (103,127) | 13,651,099 |

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2016.1.1~2016.9.30

| Items | Bank division | Life insurance division | Property and casualty insurance division | Securities division | Other division | Total |
|--|---------------|-------------------------|--|---------------------|----------------|---------------|
| Interest income | \$19,010,847 | \$94,842,515 | \$429,817 | \$123,052 | \$(317,003) | \$114,089,228 |
| Net income other than interest | 13,182,711 | 264,128,296 | 6,966,856 | 1,455,476 | 8,772,490 | 294,505,829 |
| Total income | 32,193,558 | 358,970,811 | 7,396,673 | 1,578,528 | 8,455,487 | 408,595,057 |
| Bad debt expenses and Provision for premiums reserve | (3,160,069) | (622,815) | 3 | - | - | (3,782,881) |
| The net change of insurance liabilities | - | (304,943,297) | (90,560) | - | - | (305,033,857) |
| Operating expenses | (18,964,517) | (24,380,723) | (3,459,542) | (1,198,526) | (4,811,808) | (52,815,116) |
| Income (loss) from continuing operations before income taxes | 10,068,972 | 29,023,976 | 3,846,574 | 380,002 | 3,643,679 | 46,963,203 |
| Income taxes (expense) benefit | (1,717,286) | (3,382,677) | (437,939) | (49,079) | (2,126,752) | (7,713,733) |
| Consolidated net income | 8,351,686 | 25,641,299 | 3,408,635 | 330,923 | 1,516,927 | 39,249,470 |

2015.1.1~2015.9.30

| Items | Bank division | Life insurance division | Property and casualty insurance division | Securities division | Other division | Total |
|--|---------------|-------------------------|--|---------------------|----------------|---------------|
| Interest income | \$20,345,163 | \$82,751,947 | \$403,504 | \$107,891 | \$(900,767) | \$102,707,738 |
| Net income other than interest | 7,397,291 | 228,524,432 | 6,087,184 | 1,504,816 | 2,357,585 | 245,871,308 |
| Total income | 27,742,454 | 311,276,379 | 6,490,688 | 1,612,707 | 1,456,818 | 348,579,046 |
| Bad debt expenses and Provision for premiums reserve | (173,450) | (390,939) | 10,218 | - | - | (554,171) |
| The net change of insurance liabilities | - | (238,245,177) | (813,671) | - | - | (239,058,848) |
| Operating expenses | (17,594,263) | (22,204,692) | (3,306,201) | (1,134,907) | (1,442,026) | (45,682,089) |
| Income (loss) from continuing operations before income taxes | 9,974,741 | 50,435,571 | 2,381,034 | 477,800 | 14,792 | 63,283,938 |
| Income taxes (expense) benefit | (2,220,803) | (4,524,123) | (229,234) | (43,148) | (1,381,877) | (8,399,185) |
| Consolidated net income | 7,753,938 | 45,911,448 | 2,151,800 | 434,652 | (1,367,085) | 54,884,753 |

Note:

- (1) Revenues from each external customer were all less than 10% of total revenue of the Group.
- (2) Income of operating segments is measured before taxes. Income of operating segments is the basis of resources distribution and performance evaluation.

39.Cathay Financial Holding Co., Ltd.'s financial statements

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Balance sheet

As of 30 September 2016, 31 December 2015 and 30 September 2015

(30 September 2016 and 2015 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in thousands of New Taiwan Dollars)

| | 2016.9.30 | 2015.12.31 | 2015.9.30 |
|---|----------------------|----------------------|----------------------|
| Assets | | | |
| Cash and cash equivalents | \$5,179,831 | \$4,143,951 | \$4,642,111 |
| Available-for-sale financial assets - net | 85,833 | 79,451 | 78,905 |
| Securities purchased under agreements to resell | - | 499,422 | - |
| Receivables - net | 584,995 | 822,620 | 1,017,854 |
| Current income tax assets | 4,214,708 | 4,323,586 | 4,323,085 |
| Held-to-maturity financial assets | 16,000,000 | 16,000,000 | 31,000,000 |
| Investments accounted for using the equity method - net | 526,899,271 | 487,136,590 | 468,813,575 |
| Property and equipment - net | 7,337 | 7,249 | 6,446 |
| Intangible assets - net | 13,298 | 17,288 | 18,617 |
| Deferred tax assets - net | 579,918 | 875,454 | 972,550 |
| Other assets - net | 8,469 | 8,340 | 8,475 |
| Total assets | \$553,573,660 | \$513,913,951 | \$510,881,618 |
| Liabilities & Equity | | | |
| Liabilities | | | |
| Commercial paper payable - net | \$30,420,000 | \$28,820,000 | \$23,040,000 |
| Payables | 1,346,810 | 8,278,845 | 7,759,249 |
| Current income tax liabilities | 8,378,225 | 946,549 | 1,955,159 |
| Bonds payable | 20,000,000 | 20,000,000 | 40,000,000 |
| Provisions | 638,024 | 726,597 | 656,845 |
| Deferred tax liabilities | 226,706 | 2,915 | 3,270 |
| Other liabilities | 101,423 | 82,051 | 81,848 |
| Total liabilities | 61,111,188 | 58,856,957 | 73,496,371 |
| Equity | | | |
| Capital stock | | | |
| Common stock | 125,632,102 | 125,632,102 | 125,632,102 |
| Capital surplus | 88,782,670 | 88,781,174 | 88,781,174 |
| Retained earnings | | | |
| Legal reserve | 30,577,724 | 24,820,095 | 24,820,095 |
| Special reserve | 149,108,336 | 140,185,120 | 140,185,120 |
| Undistributed earnings | 64,134,458 | 65,190,213 | 62,107,315 |
| Other equity | 34,227,182 | 10,448,290 | (4,140,559) |
| Total equity | 492,462,472 | 455,056,994 | 437,385,247 |
| Total liabilities and equity | \$553,573,660 | \$513,913,951 | \$510,881,618 |

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Statements of Comprehensive Income

For the three-month periods ended 30 September 2016 and 2015, and nine-month periods ended 30 September 2016 and 2015

(Reviewed only, not audited in accordance with the generally accepted auditing standards)

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

| | 2016.7.1~2016.9.30 | 2015.7.1~2015.9.30 | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|---|---------------------|-----------------------|---------------------|----------------------|
| Income | | | | |
| Gains on investment - equity method | \$24,036,235 | \$13,659,919 | \$40,059,767 | \$56,062,142 |
| Other operating income | 1,466,035 | 482,889 | 1,682,861 | 966,955 |
| | <u>25,502,270</u> | <u>14,142,808</u> | <u>41,742,628</u> | <u>57,029,097</u> |
| Expenses and loss | | | | |
| Operating expenses | (188,753) | (178,558) | (549,860) | (478,472) |
| Other expenses and losses | (175,952) | (333,792) | (536,026) | (1,010,133) |
| | <u>(364,705)</u> | <u>(512,350)</u> | <u>(1,085,886)</u> | <u>(1,488,605)</u> |
| Profit before income tax from continuing operations | 25,137,565 | 13,630,458 | 40,656,742 | 55,540,492 |
| Income tax expense | (269,866) | (95,074) | (1,905,232) | (1,109,818) |
| Profit after income tax from continuing operations | 24,867,699 | 13,535,384 | 38,751,510 | 54,430,674 |
| Net Income | <u>24,867,699</u> | <u>13,535,384</u> | <u>38,751,510</u> | <u>54,430,674</u> |
| Other comprehensive income | | | | |
| Not to be reclassified to profit or loss in subsequent periods: | | | | |
| Share of other comprehensive income of associates and joint ventures accounted for using the equity method - not to be reclassified to profit or loss in subsequent periods | (572,848) | 629,098 | 171,155 | 843,620 |
| To be reclassified to profit or loss in subsequent periods: | | | | |
| Unrealized gains (losses) from available-for-sale financial assets | 2,164 | (185,814) | 6,383 | (141,882) |
| Share of other comprehensive income of associates and joint ventures accounted for using the equity method - to be reclassified to profit or loss in subsequent periods | 17,681,920 | (38,654,810) | 23,601,354 | (60,888,680) |
| Income tax relating to the components to be reclassified to profit or loss in subsequent periods | - | 31,847 | - | 24,149 |
| Other comprehensive income, net of tax | 17,111,236 | (38,179,679) | 23,778,892 | (60,162,793) |
| Total comprehensive income | <u>\$41,978,935</u> | <u>\$(24,644,295)</u> | <u>\$62,530,402</u> | <u>\$(5,732,119)</u> |
| Earnings per share (expressed in dollars) | | | | |
| Basic earnings per share: | | | | |
| Net income | <u>\$1.97</u> | <u>\$1.07</u> | <u>\$3.08</u> | <u>\$4.33</u> |

English Translation of Financial Statements Originally Issued in Chinese
Cathay Financial Holding Co., Ltd.
Statements of Changes in Equity
For the nine-month periods ended 30 September 2016 and 2015
(Reviewed only, not audited in accordance with the generally accepted auditing standards)
(Expressed in thousands of New Taiwan Dollars)

| Items | Equity attributable to owners of parent | | | | | | | | | | | | Total |
|---|---|-----------------|-------------------|-----------------|------------------------|---|--|------------------------------------|---|---|---------------------|-----------|---------------|
| | Capital stock | | Retained earnings | | | | | Other equity | | | | | |
| | Common stock | Capital Surplus | Legal reserve | Special reserve | Undistributed earnings | Exchange differences resulting from translating the financial statements of a foreign operation | Unrealized gains (losses) from available-for-sale financial assets | Gains (losses) on cash flow hedges | Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk | Remeasurements of defined benefit plans | Revaluation Surplus | Others | |
| Balance on 1 January 2015 | \$125,632,102 | \$88,782,304 | \$19,784,401 | \$82,305,614 | \$60,939,777 | \$601,786 | \$44,257,646 | \$180,453 | \$48,151 | \$918,332 | \$10,030,820 | \$(781) | \$433,480,605 |
| Appropriations and distribution for 2014 | | | | | | | | | | | | | |
| Legal reserve | | | 5,035,694 | | (5,035,694) | | | | | | | | - |
| Special reserve | | | | 23,148,991 | (23,148,991) | | | | | | | | - |
| Cash dividends | | | | | (25,126,420) | | | | | | | | (25,126,420) |
| Reversal of special reserve | | | | (33,796) | 33,796 | | | | | | | | - |
| Other additional paid-in capital | | | | | | | | | | | | | |
| Share of changes in net assets of associates and joint ventures accounted for using the equity method | | (1,130) | | | | | | | | | | | (1,130) |
| Net income for the nine-month period ended 30 September 2015 | | | | | 54,430,674 | | | | | | | | 54,430,674 |
| Other comprehensive income for the nine-month period ended 30 September 2015 | | | | | | 1,819,107 | (62,967,689) | 142,169 | 848,313 | (4,693) | - | - | (60,162,793) |
| Comprehensive income for the nine-month period ended 30 September 2015 | - | - | - | - | 54,430,674 | 1,819,107 | (62,967,689) | 142,169 | 848,313 | (4,693) | - | - | (5,732,119) |
| Others | | | | 34,764,311 | 14,173 | | | | | | | (14,173) | 34,764,311 |
| Balance on 30 September 2015 | \$125,632,102 | \$88,781,174 | \$24,820,095 | \$140,185,120 | \$62,107,315 | \$2,420,893 | \$(18,710,043) | \$322,622 | \$896,464 | \$913,639 | \$10,016,647 | \$(781) | \$437,385,247 |
| Balance on 1 January 2016 | \$125,632,102 | \$88,781,174 | \$24,820,095 | \$140,185,120 | \$65,190,213 | \$1,865,366 | \$(417,073) | \$371,524 | \$83,462 | \$(1,562,755) | \$10,108,783 | \$(1,017) | \$455,056,994 |
| Appropriations and distribution for 2015 | | | | | | | | | | | | | |
| Legal reserve | | | 5,757,629 | | (5,757,629) | | | | | | | | - |
| Special reserve | | | | 8,923,216 | (8,923,216) | | | | | | | | - |
| Cash dividends | | | | | (25,126,420) | | | | | | | | (25,126,420) |
| Other additional paid-in capital | | | | | | | | | | | | | |
| Share of changes in net assets of associates and joint ventures accounted for using the equity method | | 1,496 | | | | | | | | | | | 1,496 |
| Net income for the nine-month period ended 30 September 2016 | | | | | 38,751,510 | | | | | | | | 38,751,510 |
| Other comprehensive income for the nine-month period ended 30 September 2016 | | | | | | (9,032,000) | 32,633,444 | 6,293 | 165,509 | 5,646 | - | - | 23,778,892 |
| Comprehensive income for the nine-month period ended 30 September 2016 | - | - | - | - | 38,751,510 | (9,032,000) | 32,633,444 | 6,293 | 165,509 | 5,646 | - | - | 62,530,402 |
| Balance on 30 September 2016 | \$125,632,102 | \$88,782,670 | \$30,577,724 | \$149,108,336 | \$64,134,458 | \$(7,166,634) | \$32,216,371 | \$377,817 | \$248,971 | \$(1,557,109) | \$10,108,783 | \$(1,017) | \$492,462,472 |

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Cathay Financial Holding Co., Ltd.

Statements of Cash Flows

For the nine-month periods ended 30 September 2016 and 2015

(Reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in thousands of New Taiwan Dollars)

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Profit before income tax from continuing operations | \$40,656,742 | \$55,540,492 |
| Adjustments : | | |
| Income and other adjustments with no cash flow effects | | |
| Depreciation | 1,301 | 1,174 |
| Amortization | 3,989 | 3,989 |
| Interest expenses | 485,408 | 977,458 |
| Interest income | (313,699) | (713,975) |
| Share of profit of associates and joint ventures accounted for using the equity method | (40,059,767) | (56,062,142) |
| Losses on disposal of property and equipment | - | 285 |
| Gains on disposal of investments | - | (220,298) |
| Unrealized foreign exchange losses (gains) | 24,737 | (9,995) |
| Others | (1,325,222) | (9,183) |
| Changes in operating assets and liabilities | | |
| Decrease in available-for-sale financial assets | - | 705,548 |
| Decrease (increase) in accounts receivable | 135,658 | (104,382) |
| (Increase) decrease in other assets | (129) | 137,658 |
| Decrease in payables | (7,328,809) | (3,950,094) |
| Decrease in provisions | (88,573) | (61,210) |
| Increase in other liabilities | 19,372 | 72,307 |
| Cash generated from operations | | |
| Interest received | 415,669 | 4,427,130 |
| Interest paid | (88,633) | (117,321) |
| Income taxes received | 6,154,649 | 4,024,702 |
| Net cash flows (used in) from operating activities | (1,307,307) | 4,642,143 |
| Cash flows from investing activities | | |
| Acquisition of property and equipment | (1,390) | (1,177) |
| Dividends received | 25,953,687 | 18,505,732 |
| Net cash from investing activities | 25,952,297 | 18,504,555 |
| Cash flows from financing activities | | |
| Increase in commercial paper payable | 1,600,000 | 2,690,000 |
| Dividends paid | (25,126,420) | (25,126,420) |
| Acquisition of subsidiary | (557,375) | - |
| Net cash flows used in financing activities | (24,083,795) | (22,436,420) |
| Effects of exchange rate changes on cash and cash equivalents | (24,737) | 9,995 |
| Increase in cash and cash equivalents | 536,458 | 720,273 |
| Cash and cash equivalents at the beginning of periods | 4,643,373 | 3,921,838 |
| Cash and cash equivalents at the end of periods | \$5,179,831 | \$4,642,111 |
| The components of cash and cash equivalents | | |
| Cash and cash equivalents presented in balance sheet | \$5,179,831 | \$4,642,111 |
| Securities purchased under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7 | - | - |
| Cash and cash equivalents at the end of periods | \$5,179,831 | \$4,642,111 |

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

**Cathay Life Insurance Co., Ltd.
Condensed Balance Sheet
As of 30 September 2016 and 30 September 2015
(Expressed in thousands of New Taiwan Dollars)**

| Items | 2016.9.30 | 2015.9.30 |
|--|------------------------|------------------------|
| Assets | | |
| Cash and cash equivalents | \$237,759,444 | \$231,813,897 |
| Receivables | 71,044,641 | 60,587,069 |
| Financial asset at fair value through profit or loss | 50,452,241 | 65,318,045 |
| Available-for-sale financial assets | 1,373,778,111 | 1,252,996,440 |
| Derivative financial assets for hedging | 456,539 | 387,698 |
| Investments accounted for using the equity method | 78,289,790 | 72,866,349 |
| Investment in debt securities with no active market | 1,904,821,527 | 1,726,580,192 |
| Held-to-maturity financial assets | 25,058,878 | 24,607,280 |
| Other financial assets | 7,500,000 | 25,000,000 |
| Investment property | 415,442,439 | 410,271,933 |
| Loans | 624,000,971 | 671,576,036 |
| Reinsurance contract assets | 825,662 | 967,803 |
| Property and equipment | 27,851,117 | 25,778,544 |
| Intangible assets | 38,143,863 | 40,184,893 |
| Deferred tax assets | 14,014,634 | 16,975,912 |
| Other assets | 26,391,555 | 23,169,514 |
| Separate account product assets | 496,384,532 | 467,812,160 |
| Total assets | \$5,392,215,944 | \$5,116,893,765 |
| Liabilities | | |
| Payables | \$21,739,649 | \$19,346,157 |
| Financial liability at fair value through profit or loss | 1,367,020 | 65,401,762 |
| Preferred stock liability | 15,000,000 | 30,000,000 |
| Insurance liabilities | 4,411,768,223 | 4,083,844,966 |
| Reserve for insurance contract | | |
| with feature of financial instruments | 14,541,408 | 49,282,493 |
| Foreign exchange volatility reserve | 10,231,206 | 17,567,304 |
| Liability reserve | 150,489 | 2,185,809 |
| Deferred tax liabilities | 33,596,745 | 40,331,862 |
| Other liabilities | 6,246,336 | 10,957,095 |
| Separate account product liabilities | 496,384,532 | 467,812,160 |
| Total liabilities | 5,011,025,608 | 4,786,729,608 |
| Stockholders' equity | | |
| Capital stock | 53,065,274 | 53,065,274 |
| Capital surplus | 13,767,440 | 13,028,012 |
| Retained earnings | 293,331,566 | 282,316,526 |
| Other equity | 21,026,056 | (18,245,655) |
| Total stockholders' equity | 381,190,336 | 330,164,157 |
| Total liabilities and stockholders' equity | \$5,392,215,944 | \$5,116,893,765 |

**Cathay Life Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|---|---------------------|-----------------------|
| Operating income | \$626,998,804 | \$531,710,462 |
| Operating costs | (582,841,607) | (475,745,522) |
| Operating expenses | (16,602,520) | (14,293,049) |
| Operating profit | 27,554,677 | 41,671,891 |
| Non-operating income and expenses | 1,393,349 | 871,706 |
| Profit from continuing operations before income tax | 28,948,026 | 42,543,597 |
| Income tax expense | (3,836,094) | (5,455,176) |
| Profit from continuing operations after income tax | 25,111,932 | 37,088,421 |
| Net income | 25,111,932 | 37,088,421 |
| Other comprehensive income (loss) | 24,682,989 | (59,975,327) |
| Total comprehensive income (loss) | \$49,794,921 | \$(22,886,906) |
| Primary earnings per share | \$4.73 | \$6.99 |

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Century Insurance Co., Ltd.
Condensed Balance Sheet
As of 30 September 2016 and 30 September 2015
(Expressed in thousands of New Taiwan Dollars)**

| Items | 2016.9.30 | 2015.9.30 |
|--|---------------------|---------------------|
| Assets | | |
| Cash and cash equivalents | \$7,313,141 | \$7,320,036 |
| Receivables | 1,992,449 | 2,041,204 |
| Financial asset at fair value through profit or loss | 1,611,784 | 1,394,197 |
| Available-for-sale financial assets | 8,014,905 | 7,144,284 |
| Investments accounted for using the equity method | 1,991,888 | 1,031,368 |
| Investment in debt securities with no active market | 2,983,870 | 3,378,588 |
| Held-to-maturity financial assets | 4,465,882 | 3,523,495 |
| Loans | 356,695 | 365,531 |
| Reinsurance contract assets | 8,285,891 | 4,630,637 |
| Property and equipment | 90,630 | 132,887 |
| Intangible assets | 24,338 | 6,768 |
| Deferred tax assets | 168,276 | 95,812 |
| Other assets | 653,852 | 661,092 |
| Total assets | \$37,953,601 | \$31,725,899 |
| Liabilities | | |
| Payables | \$2,419,918 | \$2,214,203 |
| Financial liability at fair value through profit or loss | 4,741 | 277,467 |
| Preferred stock liability | 1,000,000 | 1,000,000 |
| Insurance liabilities | 24,056,252 | 20,825,757 |
| Liability reserve | 381,577 | 282,891 |
| Deferred tax liabilities | 294,228 | 41,173 |
| Other liabilities | 656,557 | 350,253 |
| Total liabilities | 28,813,273 | 24,991,744 |
| Stockholders' equity | | |
| Capital stock | 2,889,552 | 2,802,202 |
| Retained earnings | 6,681,164 | 4,273,042 |
| Other equity | (430,388) | (341,089) |
| Total stockholders' equity | 9,140,328 | 6,734,155 |
| Total liabilities and stockholders' equity | \$37,953,601 | \$31,725,899 |

**Cathay Century Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|---|--------------------|--------------------|
| Operating income | \$13,553,339 | \$11,362,535 |
| Operating costs | (7,094,755) | (6,612,786) |
| Operating expenses | (3,705,245) | (3,520,786) |
| Operating profit | 2,753,339 | 1,228,963 |
| Non-operating income and expenses | (13,421) | (11,685) |
| Profit from continuing operations before income tax | 2,739,918 | 1,217,278 |
| Income tax expense | (437,939) | (229,234) |
| Profit from continuing operations after income tax | 2,301,979 | 988,044 |
| Net income | 2,301,979 | 988,044 |
| Other comprehensive loss | (55,366) | (377,647) |
| Total comprehensive income | \$2,246,613 | \$610,397 |
| | | |
| Primary earnings per share | \$7.97 | \$3.42 |

English Translation of Financial Statements Originally Issued in Chinese

Cathay Lujiazui Life Insurance Co., Ltd.
Condensed Balance Sheet
As of 30 September 2016 and 30 September 2015
(Expressed in thousands of New Taiwan Dollars)

| Items | 2016.9.30 | 2015.9.30 |
|--|---------------------|---------------------|
| Assets | | |
| Cash and cash equivalents | \$1,895,355 | \$781,883 |
| Receivables | 435,440 | 495,642 |
| Financial asset at fair value through profit or loss | 1,029,319 | 1,307,025 |
| Available-for-sale financial assets | 3,591,464 | 4,089,074 |
| Investment in debt securities with no active market | 7,323,901 | 6,099,441 |
| Held-to-maturity financial assets | 1,009,354 | 1,624,524 |
| Loans | 86,035 | 62,186 |
| Reinsurance contract assets | 18,715 | 10,809 |
| Property and equipment | 101,852 | 109,690 |
| Intangible assets | 33,193 | 54,297 |
| Other assets | 1,591,688 | 2,001,621 |
| Separate account product assets | 163,498 | 180,505 |
| Total assets | \$17,279,814 | \$16,816,697 |
| Liabilities | | |
| Short-term debt | \$117,558 | \$354,356 |
| Payables | 867,365 | 657,173 |
| Reserve for insurance contract | | |
| with feature of financial instruments | 5,396,193 | 5,040,945 |
| Insurance liabilities | 6,391,829 | 5,894,655 |
| Other liabilities | 35,812 | 25,482 |
| Separate account product liabilities | 163,498 | 180,505 |
| Total liabilities | 12,972,255 | 12,153,116 |
| Stockholders' equity | | |
| Capital stock | 7,067,795 | 7,067,795 |
| Retained earnings | (3,096,209) | (3,222,621) |
| Other equity | 335,973 | 818,407 |
| Total stockholders' equity | 4,307,559 | 4,663,581 |
| Total liabilities and stockholders' equity | \$17,279,814 | \$16,816,697 |

Cathay Lujiazui Life Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|---|--------------------|--------------------|
| Operating income | \$3,806,998 | \$3,397,215 |
| Operating costs | (2,495,356) | (1,934,932) |
| Operating expenses | (959,327) | (812,745) |
| Operating profit | 352,315 | 649,538 |
| Non-operating income and expenses | (384) | (23,636) |
| Profit from continuing operations before income tax | 351,931 | 625,902 |
| Income tax expense | - | - |
| Profit from continuing operations after income tax | 351,931 | 625,902 |
| Net income | 351,931 | 625,902 |
| Other comprehensive (loss) income | (532,782) | 104,612 |
| Total comprehensive (loss) income | \$(180,851) | \$730,514 |
| Primary earnings per share | Note | Note |

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Life Insurance Company (Vietnam)
Condensed Balance Sheet
As of 30 September 2016 and 30 September 2015
(Expressed in thousands of New Taiwan Dollars)**

| Items | 2016.9.30 | 2015.9.30 |
|---|--------------------|--------------------|
| Assets | | |
| Cash and cash equivalents | \$685,101 | \$141,038 |
| Receivables | 255,565 | 162,442 |
| Available-for-sale financial assets | 5,652,213 | 3,750,061 |
| Investment in debt securities with no active market | 200,777 | 198,891 |
| Loans | 21,906 | 16,223 |
| Property and equipment | 14,699 | 16,506 |
| Intangible assets | 190 | 267 |
| Deferred tax assets | - | 1,964 |
| Other assets | 46,201 | 42,515 |
| Total assets | \$6,876,652 | \$4,329,907 |
| Liabilities | | |
| Payables | \$57,753 | \$36,436 |
| Insurance liabilities | 1,045,695 | 724,802 |
| Other liabilities | 442 | 330 |
| Total liabilities | 1,103,890 | 761,568 |
| Stockholders' equity | | |
| Capital stock | 5,410,990 | 3,424,930 |
| Retained earnings | 365,507 | 196,548 |
| Other equity | (3,735) | (53,139) |
| Total stockholders' equity | 5,772,762 | 3,568,339 |
| Total liabilities and stockholders' equity | \$6,876,652 | \$4,329,907 |

**Cathay Life Insurance Company (Vietnam)
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|--|--------------------|--------------------|
| Operating income | \$716,829 | \$464,712 |
| Operating costs | (334,123) | (335,955) |
| Operating expenses | (194,791) | (138,260) |
| Operating profit (loss) | 187,915 | (9,503) |
| Non-operating income and expenses | 1,275 | 4,558 |
| Profit (loss) from continuing operations before income tax | 189,190 | (4,945) |
| Income tax (expense) profit | (35,737) | 1,952 |
| Profit (loss) from continuing operations after income tax | 153,453 | (2,993) |
| Net income (loss) | 153,453 | (2,993) |
| Other comprehensive income (loss) | 59,141 | (95,206) |
| Total comprehensive income (loss) | \$212,594 | \$(98,199) |
| Primary earnings per share | Note | Note |

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

English Translation of Financial Statements Originally Issued in Chinese

**Lin Yuan (Shanghai) Real Estate Co., Ltd.
Condensed Balance Sheet
As of 30 September 2016 and 30 September 2015
(Expressed in thousands of New Taiwan Dollars)**

| Items | 2016.9.30 | 2015.9.30 |
|--|--------------------|--------------------|
| Assets | | |
| Current assets | \$608,899 | \$443,330 |
| Investment property | 6,705,856 | 7,015,318 |
| Property and equipment | 586,375 | 669,890 |
| Total assets | <u>\$7,901,130</u> | <u>\$8,128,538</u> |
| Liabilities | | |
| Current liabilities | \$812 | \$1,114 |
| Deferred tax liabilities | 260,277 | 135,728 |
| Other liabilities | 83,196 | 96,142 |
| Total liabilities | <u>344,285</u> | <u>232,984</u> |
| Stockholders' equity | | |
| Capital stock | 7,223,435 | 7,223,435 |
| Retained earnings | 459,342 | 4,109 |
| Other equity | (125,932) | 668,010 |
| Total stockholders' equity | <u>7,556,845</u> | <u>7,895,554</u> |
| Total liabilities and stockholders' equity | <u>\$7,901,130</u> | <u>\$8,128,538</u> |

**Lin Yuan (Shanghai) Real Estate Co., Ltd.
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|---|--------------------|--------------------|
| Operating income | \$589,810 | \$210,332 |
| Operating expenses | (40,828) | (53,288) |
| Operating profit | 548,982 | 157,044 |
| Non-operating income and expenses | 3,268 | 4,484 |
| Profit from continuing operations before income tax | 552,250 | 161,528 |
| Income tax expense | (133,197) | (35,882) |
| Profit from continuing operations after income tax | 419,053 | 125,646 |
| Net income | 419,053 | 125,646 |
| Other comprehensive (loss) income | (613,126) | 149,414 |
| Total comprehensive (loss) income | <u>\$(194,073)</u> | <u>\$275,060</u> |
| Primary earnings per share | <u>Note</u> | <u>Note</u> |

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Woolgate Exchange Holding 1 Limited
Condensed Balance Sheet
As of 30 September 2016 and 30 September 2015
(Expressed in thousands of New Taiwan Dollars)**

| Items | 2016.9.30 | 2015.9.30 |
|--|---------------------|---------------------|
| Assets | | |
| Current assets | \$1,650,033 | \$1,775,820 |
| Investment property | 13,019,437 | 15,438,112 |
| Total assets | <u>\$14,669,470</u> | <u>\$17,213,932</u> |
| Liabilities | | |
| Current liabilities | \$33,024 | \$187,445 |
| Total liabilities | <u>33,024</u> | <u>187,445</u> |
| Stockholders' equity | | |
| Capital stock | 16,654,013 | 16,654,013 |
| Retained earnings | 1,574,658 | 616,184 |
| Other equity | <u>(3,592,225)</u> | <u>(243,710)</u> |
| Total stockholders' equity | <u>14,636,446</u> | <u>17,026,487</u> |
| Total liabilities and stockholders' equity | <u>\$14,669,470</u> | <u>\$17,213,932</u> |

**Cathay Woolgate Exchange Holding 1 Limited
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|---|----------------------|--------------------|
| Operating income | \$1,071,993 | \$605,420 |
| Operating expenses | <u>(779)</u> | <u>(384)</u> |
| Operating profit | 1,071,214 | 605,036 |
| Non-operating income and expenses | <u>3,421</u> | <u>645</u> |
| Profit from continuing operations before income tax | 1,074,635 | 605,681 |
| Income tax profit (expense) | <u>28,437</u> | <u>(121,084)</u> |
| Profit from continuing operations after income tax | 1,103,072 | 484,597 |
| Net income | 1,103,072 | 484,597 |
| Other comprehensive (loss) income | <u>(2,961,874)</u> | <u>285,787</u> |
| Total comprehensive (loss) income | <u>\$(1,858,802)</u> | <u>\$770,384</u> |
| Primary earnings per share | <u>Note</u> | <u>Note</u> |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Woolgate Exchange Holding 2 Limited
Condensed Balance Sheet
As of 30 September 2016 and 30 September 2015
(Expressed in thousands of New Taiwan Dollars)

| Items | 2016.9.30 | 2015.9.30 |
|--|------------------|------------------|
| Assets | | |
| Current assets | \$16,949 | \$17,283 |
| Investment property | 131,510 | 155,941 |
| Total assets | <u>\$148,459</u> | <u>\$173,224</u> |
| Liabilities | | |
| Current liabilities | \$298 | \$2,188 |
| Total liabilities | <u>298</u> | <u>2,188</u> |
| Stockholders' equity | | |
| Capital stock | 168,222 | 168,222 |
| Retained earnings | 16,241 | 5,294 |
| Other equity | (36,302) | (2,480) |
| Total stockholders' equity | <u>148,161</u> | <u>171,036</u> |
| Total liabilities and stockholders' equity | <u>\$148,459</u> | <u>\$173,224</u> |

Cathay Woolgate Exchange Holding 2 Limited
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|---|--------------------|--------------------|
| Operating income | \$10,828 | \$6,115 |
| Operating expenses | (723) | (480) |
| Operating profit | 10,105 | 5,635 |
| Non-operating income and expenses | 31 | 5 |
| Profit from continuing operations before income tax | 10,136 | 5,640 |
| Income tax profit (expense) | 482 | (1,223) |
| Profit from continuing operations after income tax | 10,618 | 4,417 |
| Net income | 10,618 | 4,417 |
| Other comprehensive (loss) income | (29,941) | 2,862 |
| Total comprehensive (loss) income | <u>\$(19,323)</u> | <u>\$7,279</u> |
| Primary earnings per share | <u>Note</u> | <u>Note</u> |

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Walbrook Holding 1 Limited
Condensed Balance Sheet
As of 30 September 2016 and 30 September 2015
(Expressed in thousands of New Taiwan Dollars)**

| Items | 2016.9.30 | 2015.9.30 |
|---|---------------------|---------------------|
| Assets | | |
| Current assets | \$678,868 | \$941,133 |
| Investment property | 22,109,153 | 26,037,313 |
| Other non-current assets | 16,986 | - |
| Total assets | \$22,805,007 | \$26,978,446 |
| Liabilities | | |
| Current liabilities | \$13,383,102 | \$16,492,270 |
| Total liabilities | 13,383,102 | 16,492,270 |
| Stockholders' equity | | |
| Capital stock | 10,189,090 | 10,189,090 |
| Retained earnings | 802,572 | (230,548) |
| Other equity | (1,569,757) | 527,634 |
| Total stockholders' equity | 9,421,905 | 10,486,176 |
| Total liabilities and stockholders' equity | \$22,805,007 | \$26,978,446 |

**Cathay Walbrook Holding 1 Limited
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|--|--------------------|--------------------|
| Operating income | \$1,538,131 | \$144,687 |
| Operating cost | (392,296) | (204,385) |
| Operating expenses | (723) | (142,099) |
| Operating profit (loss) | 1,145,112 | (201,797) |
| Profit (loss) from continuing operations before income tax | 1,145,112 | (201,797) |
| Income tax expense | (20,649) | (28,750) |
| Profit (loss) from continuing operations after income tax | 1,124,463 | (230,547) |
| Net income (loss) | 1,124,463 | (230,547) |
| Other comprehensive (loss) income | (1,862,026) | 527,634 |
| Total comprehensive (loss) income | \$(737,563) | \$297,087 |
| Primary earnings per share | Note | Note |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Walbrook Holding 2 Limited
Condensed Balance Sheet
As of 30 September 2016 and 30 September 2015
(Expressed in thousands of New Taiwan Dollars)

| Items | 2016.9.30 | 2015.9.30 |
|--|--------------------|--------------------|
| Assets | | |
| Current assets | \$34,784 | \$49,527 |
| Investment property | 1,163,640 | 1,370,385 |
| Other non-current assets | 894 | - |
| Total assets | <u>\$1,199,318</u> | <u>\$1,419,912</u> |
| Liabilities | | |
| Current liabilities | \$704,567 | \$868,014 |
| Total liabilities | <u>704,567</u> | <u>868,014</u> |
| Stockholders' equity | | |
| Capital stock | 536,268 | 536,268 |
| Retained earnings | 40,925 | (12,140) |
| Other equity | (82,442) | 27,770 |
| Total stockholders' equity | <u>494,751</u> | <u>551,898</u> |
| Total liabilities and stockholders' equity | <u>\$1,199,318</u> | <u>\$1,419,912</u> |

Cathay Walbrook Holding 2 Limited
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|--|--------------------|--------------------|
| Operating income | \$80,954 | \$7,615 |
| Operating cost | (20,647) | (10,757) |
| Operating expenses | (723) | (7,485) |
| Operating profit (loss) | <u>59,584</u> | <u>(10,627)</u> |
| Profit (loss) from continuing operations before income tax | 59,584 | (10,627) |
| Income tax expense | (1,087) | (1,513) |
| Profit (loss) from continuing operations after income tax | <u>58,497</u> | <u>(12,140)</u> |
| Net income (loss) | 58,497 | (12,140) |
| Other comprehensive (loss) income | (97,822) | 27,770 |
| Total comprehensive (loss) income | <u>\$(39,325)</u> | <u>\$15,630</u> |
| Primary earnings per share | <u>Note</u> | <u>Note</u> |

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Insurance Co., Ltd (Vietnam)
Condensed Balance Sheet
As of 30 September 2016 and 30 September 2015
(Expressed in thousands of New Taiwan Dollars)**

| Items | 2016.9.30 | 2015.9.30 |
|---|------------------|--------------------|
| Assets | | |
| Cash and cash equivalents | \$163,198 | \$24,801 |
| Receivables | 29,784 | 126,628 |
| Investment in debt securities with no active market | 52,022 | 95,540 |
| Held-to-maturity financial assets | 426,644 | 426,380 |
| Reinsurance contract assets | 268,620 | 382,668 |
| Property and equipment | 531 | 4,148 |
| Intangible assets | 339 | 297 |
| Other assets | 33,540 | 26,346 |
| Total assets | \$974,678 | \$1,086,808 |
| Liabilities | | |
| Payables | \$32,518 | \$42,732 |
| Liability reserve | 336,999 | 457,094 |
| Deferred tax liabilities | 44 | 39 |
| Other liabilities | 5,134 | 1,455 |
| Total liabilities | 374,695 | 501,320 |
| Stockholders' equity | | |
| Capital stock | 845,585 | 845,585 |
| Retained earnings | (146,969) | (161,328) |
| Other equity | (98,633) | (98,769) |
| Total stockholders' equity | 599,983 | 585,488 |
| Total liabilities and stockholders' equity | \$974,678 | \$1,086,808 |

**Cathay Insurance Co., Ltd (Vietnam)
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|--|--------------------|--------------------|
| Operating income | \$129,667 | \$85,889 |
| Operating costs | (41,771) | (34,979) |
| Operating expenses | (81,022) | (59,882) |
| Operating profit (loss) | 6,874 | (8,972) |
| Non-operating income and expenses | 102 | 6 |
| Profit (loss) from continuing operations before income tax | 6,976 | (8,966) |
| Income tax expense | - | - |
| Profit (loss) from continuing operations after income tax | 6,976 | (8,966) |
| Net income (loss) | 6,976 | (8,966) |
| Other comprehensive income (loss) | 91 | (12,149) |
| Total comprehensive income (loss) | \$7,067 | \$(21,115) |
| Primary earnings per share | Note | Note |

Note: Cathay Century (Vietnam) is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

Conning Holdings Limited
Condensed Balance Sheet
As of 30 September 2016 and 30 September 2015
(Expressed in thousands of New Taiwan Dollars)

| Items | 2016.9.30 | 2015.9.30 |
|---|---------------------|--------------------|
| Assets | | |
| Current assets | \$4,194,787 | \$1,829,377 |
| Investment in debt securities with no active market | 3,159 | 2,998 |
| Held-to-maturity financial assets | 431,566 | - |
| Property and equipment | 172,823 | 130,707 |
| Intangible assets | 11,271,012 | 7,345,800 |
| Deferred tax assets | 105,413 | - |
| Other non-current assets | 173,437 | 128,097 |
| Total assets | <u>\$16,352,197</u> | <u>\$9,436,979</u> |
| Liabilities | | |
| Current liabilities | \$1,130,503 | \$1,092,896 |
| Liability reserve | 247,791 | 67,250 |
| Deferred tax liabilities | 697,121 | 32,991 |
| Other non-current liabilities | 322,183 | 275,096 |
| Total liabilities | <u>2,397,598</u> | <u>1,468,233</u> |
| Stockholders' equity | | |
| Capital stock | 91,191 | 326 |
| Capital surplus | 14,415,868 | 7,841,993 |
| Retained earnings | (86,148) | (37,141) |
| Other equity | (778,970) | 83,200 |
| Non-controlling interest | 312,658 | 80,368 |
| Total stockholders' equity | <u>13,954,599</u> | <u>7,968,746</u> |
| Total liabilities and stockholders' equity | <u>\$16,352,197</u> | <u>\$9,436,979</u> |

Conning Holdings Limited
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|--|--------------------|--------------------|
| Operating income | \$4,175,782 | \$156,520 |
| Operating costs | (550,690) | (14,722) |
| Operating expenses | <u>(3,505,492)</u> | <u>(178,403)</u> |
| Operating profit (loss) | 119,600 | (36,605) |
| Profit (loss) from continuing operations before income tax | 119,600 | (36,605) |
| Income tax expense | (57,146) | - |
| Profit (loss) from continuing operations after income tax | <u>62,454</u> | <u>(36,605)</u> |
| Net income (loss) | 62,454 | (36,605) |
| Other comprehensive (loss) income | (1,023,984) | 84,272 |
| Total comprehensive (loss) income | <u>\$(961,530)</u> | <u>\$47,667</u> |
| Primary earnings per share | <u>Note</u> | <u>Note</u> |

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay United Bank Co., Ltd.
Condensed Balance Sheet
As of 30 September 2016 and 30 September 2015
(Expressed in thousands of New Taiwan Dollars)**

| Items | 2016.9.30 | 2015.9.30 |
|--|------------------------|------------------------|
| Assets | | |
| Cash and cash equivalents | \$59,352,158 | \$101,127,528 |
| Due from the Central Bank and call loans to banks | 95,603,138 | 95,635,264 |
| Financial assets at fair value through profit or loss | 246,789,721 | 230,240,945 |
| Derivative financial assets for hedging | - | 230,497 |
| Securities purchased under agreements to resell | 42,845,973 | 26,284,686 |
| Receivables | 69,944,670 | 87,302,829 |
| Discounts and loans | 1,274,458,806 | 1,111,997,438 |
| Available-for-sale financial assets | 145,725,225 | 116,411,301 |
| Held-to-maturity financial assets | 41,390,433 | 49,125,669 |
| Investments accounted for using the equity method | 7,827,890 | 7,708,717 |
| Other financial assets | 5,845 | 3,047 |
| Investment in debt securities with no active market | 414,745,066 | 449,220,968 |
| Property and equipment | 24,125,459 | 24,727,274 |
| Investment property | 1,613,159 | 1,339,839 |
| Intangible assets | 7,353,873 | 7,116,481 |
| Deferred tax assets | 2,090,242 | 1,791,700 |
| Other assets | 25,804,044 | 39,195,265 |
| Total assets | \$2,459,675,702 | \$2,349,459,448 |
| Liabilities | | |
| Due to the Central Bank and call loans from banks | \$50,265,328 | \$33,616,764 |
| Financial liabilities at fair value through profit or loss | 81,940,481 | 92,483,129 |
| Securities sold under agreements to repurchase | 46,305,533 | 79,678,268 |
| Payables | 22,176,408 | 25,986,334 |
| Deposits and remittances | 1,973,586,561 | 1,812,728,089 |
| Financial debentures payable | 51,900,000 | 65,550,788 |
| Other financial liabilities | 60,233,573 | 75,118,387 |
| Liability reserve | 3,038,736 | 2,737,987 |
| Deferred tax liabilities | 2,527,259 | 1,872,638 |
| Other liabilities | 12,187,280 | 8,690,558 |
| Total liabilities | 2,304,161,159 | 2,198,462,942 |
| Stockholders' equity | | |
| Capital stock | 72,099,815 | 69,479,605 |
| Capital surplus | 23,969,412 | 23,969,412 |
| Retained earnings | 56,428,686 | 53,454,025 |
| Other equity | 3,016,630 | 4,093,464 |
| Total stockholders' equity | 155,514,543 | 150,996,506 |
| Total liabilities and stockholders' equity | \$2,459,675,702 | \$2,349,459,448 |

**Cathay United Bank Co., Ltd.
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|---|---------------------|---------------------|
| Interest income | \$27,879,837 | \$30,570,565 |
| Interest expenses | (10,221,132) | (11,233,400) |
| Operating profit | 17,658,705 | 19,337,165 |
| Non-interest income | 19,813,266 | 16,919,329 |
| Total income | 37,471,971 | 36,256,494 |
| Bad debt expense and reserve for loss on guarantees | (2,975,792) | (21,377) |
| Operating expenses | (19,025,545) | (17,634,000) |
| Profit from continuing operations before income tax | 15,470,634 | 18,601,117 |
| Income tax expense | (1,594,000) | (2,143,000) |
| Profit from continuing operations after income tax | 13,876,634 | 16,458,117 |
| Net income | 13,876,634 | 16,458,117 |
| Other comprehensive (loss) income | (948,045) | 661,073 |
| Total comprehensive income | \$12,928,589 | \$17,119,190 |
| Primary earnings per share | \$1.92 | \$2.28 |

English Translation of Financial Statements Originally Issued in Chinese

Indovina Bank Limited
Condensed Balance Sheet
As of 30 September 2016 and 30 September 2015
(Expressed in thousands of New Taiwan Dollars)

| Items | 2016.9.30 | 2015.9.30 |
|--|---------------------|---------------------|
| Assets | | |
| Cash and cash equivalents | \$6,435,649 | \$1,030,650 |
| Due from the Central Bank and call loans to banks | 7,194,016 | 13,611,144 |
| Financial assets at fair value through profit or loss | 862,008 | 100,763 |
| Securities purchased under agreements to resell | 818,242 | - |
| Available-for-sale financial assets | 7,685,778 | 2,925,885 |
| Receivables | 1,826,558 | 794,686 |
| Discounts and loans | 24,911,874 | 20,643,074 |
| Held-to-maturity financial assets | 3,269,473 | 1,749,640 |
| Property and equipment | 437,153 | 474,406 |
| Intangible assets | 18,046 | 24,628 |
| Deferred tax assets | - | 1,807 |
| Other assets | 580,127 | 499,079 |
| Total assets | \$54,038,924 | \$41,855,762 |
| Liabilities | | |
| Due to the Central Bank and call loans from banks | \$15,578,411 | \$7,415,232 |
| Financial liabilities at fair value through profit or loss | 98,623 | - |
| Payables | 359,393 | 283,496 |
| Current income tax liabilities | 78,170 | 46,357 |
| Deposits and remittances | 30,154,629 | 26,346,267 |
| Deferred tax liabilities | 70,427 | 27,445 |
| Other liabilities | 169,782 | 269,188 |
| Total liabilities | 46,509,435 | 34,387,985 |
| Stockholders' equity | | |
| Capital stock | 6,094,911 | 6,094,911 |
| Retained earnings | 1,355,800 | 1,034,187 |
| Other equity | 78,778 | 338,679 |
| Total stockholders' equity | 7,529,489 | 7,467,777 |
| Total liabilities and stockholders' equity | \$54,038,924 | \$41,855,762 |

Indovina Bank Limited
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|---|--------------------|--------------------|
| Interest income | \$1,851,169 | \$1,459,727 |
| Interest expenses | (829,798) | (676,689) |
| Net interest income | 1,021,371 | 783,038 |
| Non-interest income | 68,925 | 114,791 |
| Total income | 1,090,296 | 897,829 |
| Bad debt expense and reserve for loss on guarantees | (123,654) | (125,493) |
| Operating expenses | (389,952) | (413,702) |
| Profit from continuing operations before income tax | 576,690 | 358,634 |
| Income tax expense | (115,977) | (76,381) |
| Profit from continuing operations after income tax | 460,713 | 282,253 |
| Net income | 460,713 | 282,253 |
| Other comprehensive (loss) income | (258,969) | 265,511 |
| Total comprehensive income | \$201,744 | \$547,764 |
| Primary earnings per share | Note | Note |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank (Cambodia) Corporation Limited

Condensed Balance Sheet

As of 30 September 2016 and 30 September 2015

(Expressed in thousands of New Taiwan Dollars)

| Items | 2016.9.30 | 2015.9.30 |
|---|--------------------|--------------------|
| Assets | | |
| Cash and cash equivalents | \$919,810 | \$1,034,319 |
| Due from the Central Bank and call loans to banks | 1,333,835 | 1,155,301 |
| Available-for-sale financial assets | 803 | 848 |
| Receivables | 104,622 | 65,514 |
| Discounts and loans | 6,069,174 | 4,473,816 |
| Property and equipment | 160,980 | 159,262 |
| Intangible assets | 36,787 | 38,777 |
| Other assets | 121,995 | 106,503 |
| Total assets | <u>\$8,748,006</u> | <u>\$7,034,340</u> |
| Liabilities | | |
| Due to the Central Bank and call loans from banks | \$784,150 | \$18,200 |
| Payables | 69,511 | 55,747 |
| Deposits and remittances | 5,956,566 | 5,089,134 |
| Deferred tax liabilities | 9,203 | - |
| Other liabilities | 45,381 | 23,663 |
| Total liabilities | <u>6,864,811</u> | <u>5,186,744</u> |
| Stockholders' equity | | |
| Capital stock | 1,786,169 | 1,786,169 |
| Retained earnings | 19,788 | (117,777) |
| Other equity | 77,238 | 179,204 |
| Total stockholders' equity | <u>1,883,195</u> | <u>1,847,596</u> |
| Total liabilities and stockholders' equity | <u>\$8,748,006</u> | <u>\$7,034,340</u> |

Cathay United Bank (Cambodia) Corporation Limited

Condensed Statement of Comprehensive Income

For the nine-month periods ended 30 September 2016 and 2015

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

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|---|--------------------|--------------------|
| Interest income | \$379,892 | \$220,541 |
| Interest expenses | (87,419) | (45,420) |
| Net interest income | 292,473 | 175,121 |
| Non-interest income | 78,090 | 65,476 |
| Total income | <u>370,563</u> | <u>240,597</u> |
| Bad debt expense and reserve for loss on guarantees | (60,624) | (26,580) |
| Operating expenses | (180,619) | (126,128) |
| Profit from continuing operations before income tax | 129,320 | 87,889 |
| Income tax expense | (5,004) | (2,253) |
| Profit from continuing operations after income tax | <u>124,316</u> | <u>85,636</u> |
| Net profit | 124,316 | 85,636 |
| Other comprehensive (loss) income | (98,736) | 78,135 |
| Total comprehensive income | <u>\$25,580</u> | <u>\$163,771</u> |
| Primary earnings per share | <u>\$2.06</u> | <u>\$1.42</u> |

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation
Condensed Balance Sheet
As of 30 September 2016 and 30 September 2015
(Expressed in thousands of New Taiwan Dollars)

| Items | 2016.9.30 | 2015.9.30 |
|---|---------------------|---------------------|
| Assets | | |
| Current assets | \$19,173,946 | \$18,110,543 |
| Available-for-sale financial assets | 18 | 18 |
| Investments accounted for using the equity method | 1,582,838 | 1,234,243 |
| Property and equipment | 151,525 | 170,660 |
| Intangible assets | 48,633 | 53,385 |
| Deferred tax assets | 7,556 | 1,822 |
| Other non-current assets | 440,239 | 429,042 |
| Total assets | <u>\$21,404,755</u> | <u>\$19,999,713</u> |
| Liabilities | | |
| Current liabilities | \$14,331,415 | \$13,360,483 |
| Deferred tax liabilities | 12,727 | 7,851 |
| Other non-current liabilities | 23,683 | 18,569 |
| Total liabilities | <u>14,367,825</u> | <u>13,386,903</u> |
| Stockholders' equity | | |
| Capital stock | 5,330,000 | 4,950,000 |
| Capital surplus | 491,766 | 491,766 |
| Retained earnings | 926,803 | 895,671 |
| Other equity | 288,361 | 275,373 |
| Total stockholders' equity | <u>7,036,930</u> | <u>6,612,810</u> |
| Total liabilities and stockholders' equity | <u>\$21,404,755</u> | <u>\$19,999,713</u> |

Cathay Securities Corporation
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|---|--------------------|--------------------|
| Revenues | \$1,681,429 | \$1,770,622 |
| Service fee expenses | (57,220) | (61,411) |
| Employee benefit expenses | (627,421) | (617,045) |
| Share of the profit of associates and joint ventures accounted for using the equity method | (4,065) | 4,285 |
| Operating expenses | (666,225) | (678,571) |
| Non-operating income and expenses | (8,040) | 20,454 |
| Profit from continuing operations before income tax | 318,458 | 438,334 |
| Income tax expense | (49,079) | (43,148) |
| Profit from continuing operations after income tax | <u>269,379</u> | <u>395,186</u> |
| Net income | 269,379 | 395,186 |
| Other comprehensive (loss) income | (71,191) | 62,362 |
| Total comprehensive income | <u>\$198,188</u> | <u>\$457,548</u> |
| Primary earnings per share | <u>\$0.51</u> | <u>\$0.74</u> |

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities (Hong Kong) Limited
Condensed Balance Sheet
As of 30 September 2016 and 30 September 2015
(Expressed in thousands of New Taiwan Dollars)

| Items | 2016.9.30 | 2015.9.30 |
|--|------------------|------------------|
| Assets | | |
| Current assets | \$782,024 | \$259,259 |
| Property and equipment | 19,776 | 14,015 |
| Intangible assets | 2,013 | 2,111 |
| Other non-current assets | 18,974 | 7,097 |
| Total assets | <u>\$822,787</u> | <u>\$282,482</u> |
| Liabilities | | |
| Current liabilities | <u>\$387,150</u> | <u>\$144,908</u> |
| Total liabilities | <u>387,150</u> | <u>144,908</u> |
| Stockholders' equity | | |
| Capital stock | 728,544 | 360,069 |
| Retained earnings | (263,575) | (222,669) |
| Other equity | (29,332) | 174 |
| Total stockholders' equity | <u>435,637</u> | <u>137,574</u> |
| Total liabilities and stockholders' equity | <u>\$822,787</u> | <u>\$282,482</u> |

Cathay Securities (Hong Kong) Limited
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|---|--------------------|--------------------|
| Revenues | \$70,527 | \$193 |
| Service fee expenses | (2,014) | (12) |
| Employee benefit expenses | (24,775) | (2,989) |
| Operating expenses | (65,023) | (5,539) |
| Non-operating income and expenses | (410) | (172) |
| Loss from continuing operations before income tax | <u>(21,695)</u> | <u>(8,519)</u> |
| Income tax expense | - | - |
| Loss from continuing operations after income tax | <u>(21,695)</u> | <u>(8,519)</u> |
| Net loss | (21,695) | (8,519) |
| Other comprehensive (loss) income | (29,323) | 174 |
| Total comprehensive loss | <u>\$(51,018)</u> | <u>\$(8,345)</u> |
| Primary earnings per share | <u>Note</u> | <u>Note</u> |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Venture Inc.
Condensed Balance Sheet
As of 30 September 2016 and 30 September 2015
(Expressed in thousands of New Taiwan Dollars)

| Items | 2016.9.30 | 2015.9.30 |
|---|--------------------|--------------------|
| Assets | | |
| Current assets | \$759,506 | \$362,316 |
| Available-for-sale financial assets | 2,813,977 | 2,129,408 |
| Investments accounted for using the equity method | 293,116 | 280,612 |
| Property and equipment | 158 | 229 |
| Deferred tax assets | 1,575 | 6,003 |
| Other non-current assets | 1,963 | 837 |
| Total assets | <u>\$3,870,295</u> | <u>\$2,779,405</u> |
| Liabilities | | |
| Current liabilities | \$6,480 | \$16,640 |
| Deferred tax liabilities | 5,385 | - |
| Other non-current liabilities | 5,154 | 2,509 |
| Total liabilities | <u>17,019</u> | <u>19,149</u> |
| Stockholders' equity | | |
| Capital stock | 3,000,000 | 2,403,000 |
| Stock dividends to be distributed | 128,625 | - |
| Retained earnings | 245,587 | 246,704 |
| Other equity | 479,064 | 110,552 |
| Total stockholders' equity | <u>3,853,276</u> | <u>2,760,256</u> |
| Total liabilities and stockholders' equity | <u>\$3,870,295</u> | <u>\$2,779,405</u> |

Cathay Venture Inc.
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|---|--------------------|--------------------|
| Operating income | \$170,762 | \$211,990 |
| Operating costs | (21,916) | (19,353) |
| Operating expenses | (12,868) | (10,672) |
| Non-operating income and expenses | (1,557) | - |
| Profit from continuing operations before income tax | 134,421 | 181,965 |
| Income tax expense | (889) | (28,621) |
| Profit from continuing operations after income tax | 133,532 | 153,344 |
| Net income | 133,532 | 153,344 |
| Other comprehensive income (loss) | 238,545 | (427,613) |
| Total comprehensive income (loss) | <u>\$372,077</u> | <u>\$(274,269)</u> |
| Primary earnings per share | <u>\$0.50</u> | <u>\$0.60</u> |

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Investment Trust Co., Ltd.
Condensed Balance Sheet
As of 30 September 2016 and 30 September 2015
(Expressed in thousands of New Taiwan Dollars)

| Items | 2016.9.30 | 2015.9.30 |
|---|--------------------|--------------------|
| Assets | | |
| Current assets | \$1,791,200 | \$1,785,205 |
| Available-for-sale financial assets | 90,757 | 109,364 |
| Financial assets carried at cost | 5,745 | - |
| Investments accounted for using the equity method | 277,326 | 307,103 |
| Property and equipment | 71,149 | 23,591 |
| Intangible assets | 8,240 | 7,462 |
| Deferred tax assets | 15,116 | 9,282 |
| Other non-current assets | 254,093 | 309,797 |
| Total assets | <u>\$2,513,626</u> | <u>\$2,551,804</u> |
| Liabilities | | |
| Current liabilities | \$281,477 | \$254,931 |
| Other non-current liabilities | 152,260 | 152,683 |
| Total liabilities | <u>433,737</u> | <u>407,614</u> |
| Stockholders' equity | | |
| Capital stock | 1,500,000 | 1,500,000 |
| Capital surplus | 13,908 | 13,908 |
| Retained earnings | 589,135 | 588,583 |
| Other equity | (23,154) | 41,699 |
| Total stockholders' equity | <u>2,079,889</u> | <u>2,144,190</u> |
| Total liabilities and stockholders' equity | <u>\$2,513,626</u> | <u>\$2,551,804</u> |

Cathay Securities Investment Trust Co., Ltd.
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|---|--------------------|--------------------|
| Operating income | \$1,108,798 | \$1,051,380 |
| Operating expenses | (825,471) | (772,290) |
| Operating gross profit | 283,327 | 279,090 |
| Non-operating income and expenses | (7,641) | 35,847 |
| Profit from continuing operations before income tax | 275,686 | 314,937 |
| Income tax expense | (45,142) | (51,578) |
| Profit from continuing operations after income tax | 230,544 | 263,359 |
| Net income | 230,544 | 263,359 |
| Other comprehensive (loss) income | (21,680) | 17,815 |
| Total comprehensive income | <u>\$208,864</u> | <u>\$281,174</u> |
| Primary earnings per share | <u>\$1.54</u> | <u>\$1.76</u> |

English Translation of Financial Statements Originally Issued in Chinese

Cathay Futures Co., Ltd.

Condensed Balance Sheet

As of 30 September 2016 and 30 September 2015

(Expressed in thousands of New Taiwan Dollars)

| Items | 2016.9.30 | 2015.9.30 |
|--|--------------------|--------------------|
| Assets | | |
| Current assets | \$4,639,525 | \$4,280,657 |
| Available-for-sale financial assets | 297,396 | 265,719 |
| Property and equipment | 66,620 | 56,091 |
| Investment property | 286,253 | 285,085 |
| Intangible assets | 17,061 | 8,641 |
| Other non-current assets | 160,600 | 169,999 |
| Total assets | <u>\$5,467,455</u> | <u>\$5,066,192</u> |
| Liabilities | | |
| Current liabilities | \$4,338,201 | \$3,998,493 |
| Deferred tax liabilities | 6,788 | 6,379 |
| Other non-current liabilities | 1,455 | 1,446 |
| Total liabilities | <u>4,346,444</u> | <u>4,006,318</u> |
| Stockholders' equity | | |
| Capital stock | 667,000 | 650,000 |
| Retained earnings | 186,685 | 174,034 |
| Other equity | 267,326 | 235,840 |
| Total stockholders' equity | <u>1,121,011</u> | <u>1,059,874</u> |
| Total liabilities and stockholders' equity | <u>\$5,467,455</u> | <u>\$5,066,192</u> |

Cathay Futures Co., Ltd.

Condensed Statement of Comprehensive Income

For the nine-month periods ended 30 September 2016 and 2015

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

| Items | 2016.1.1~2016.9.30 | 2015.1.1~2015.9.30 |
|---|--------------------|--------------------|
| Operating income | \$161,575 | \$125,351 |
| Operating expenses | <u>(180,841)</u> | <u>(131,428)</u> |
| Operating loss | (19,266) | (6,077) |
| Non-operating income and expenses | <u>46,120</u> | <u>29,450</u> |
| Profit from continuing operations before income tax | 26,854 | 23,373 |
| Income tax expense | <u>(2,566)</u> | <u>(3,409)</u> |
| Profit from continuing operations after income tax | <u>24,288</u> | <u>19,964</u> |
| Net income | 24,288 | 19,964 |
| Other comprehensive income | <u>19,309</u> | <u>20,786</u> |
| Total comprehensive income | <u>\$43,597</u> | <u>\$40,750</u> |
| Primary earnings per share | <u>\$0.36</u> | <u>\$0.30</u> |