

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For the nine-month periods ended
30 September 2014 and 2013
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 2014, 31 December 2013, 30 September 2013, and 1 January 2013, and the related consolidated statements of comprehensive income for the three-month periods ended 30 September 2014 and 2013, and for the nine-month periods ended 30 September 2014 and 2013, changes in equity and cash flows for the nine-month periods ended 30 September 2014 and 2013. 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 of the Republic of China.

As described in Note 4 to the consolidated financial statements, effective 1 January 2014, the Company and its subsidiaries announced to change the accounting policy regarding subsequent measurement of investment properties from cost model to fair value model and restated retrospectively the consolidated financial statements for the nine-month period ended 30 September 2013, and the related consolidated balance sheets as of 1 January 2013 and 31 December 2013.

Ernst & Young
Taipei, Taiwan
The Republic of China
13 November 2014



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 2014, 31 December 2013, 30 September 2013 and 1 January 2013
(30 September 2014 and 2013 reviewed only, not audited in accordance with the generally accepted auditing standards)
(Expressed in thousands of New Taiwan Dollars)

	Notes	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Assets					
Cash and cash equivalents	4, 6	\$508,527,175	\$331,666,078	\$307,079,076	\$313,663,386
Due from the Central Bank and call loans to banks		146,979,030	151,945,066	132,346,377	109,003,762
Financial assets at fair value through profit or loss	4, 7	202,941,797	244,023,246	226,245,360	146,746,672
Available-for-sale financial assets -net	4, 8	1,301,619,201	1,357,106,776	1,321,363,863	1,302,743,262
Derivative financial assets for hedging	4	799,689	1,300,914	1,607,616	2,362,366
Securities purchased under agreements to resell	4	49,522,901	12,960,817	10,220,471	15,749,244
Receivables -net	4, 9	125,765,347	169,590,966	137,403,067	109,911,278
Current income tax assets	4	6,572,752	5,585,301	4,908,270	3,597,490
Assets held for sale -net		-	81,950	-	-
Loans -net	4, 10	1,791,938,582	1,667,391,682	1,586,501,443	1,521,712,123
Reinsurance assets -net		6,261,024	5,740,684	9,047,802	14,641,999
Held-to-maturity financial assets -net	4, 11	75,387,965	54,970,153	51,384,448	24,380,985
Investments accounted for using the equity method -net	4, 12	4,427,921	3,153,320	2,623,280	2,235,874
Other financial assets -net	4, 13	1,943,342,582	1,724,797,817	1,767,793,219	1,605,300,209
Investment properties -net	4, 14	346,116,294	292,314,571	260,247,792	251,035,215
Property and equipment -net	4, 15	93,044,730	103,394,387	113,148,121	113,460,688
Intangible assets -net	4, 16	9,257,382	9,223,432	9,297,017	9,393,007
Deferred tax assets -net	4	13,242,979	15,062,222	16,482,149	19,065,855
Other assets -net		36,332,068	26,963,277	25,433,465	24,726,997
Total assets		\$6,662,079,419	\$6,177,272,659	\$5,983,132,836	\$5,589,730,412

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated Balance Sheets

As of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013

(30 September 2014 and 2013 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in thousands of New Taiwan Dollars)

Liabilities & equity	Notes	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Liabilities					
Due to the Central Bank and call loans from banks		\$71,776,229	\$56,985,225	\$50,893,236	\$56,934,246
Bankers acceptances and funds borrowed		1,521,800	1,497,500	1,483,500	1,456,800
Financial liabilities at fair value through profit or loss	4, 17	36,507,336	28,754,621	19,073,757	9,086,346
Derivative financial liabilities for hedging		13,397	5,148	-	-
Securities sold under agreements to repurchase	4	62,636,760	60,931,600	58,193,040	22,046,517
Commercial paper payable -net	4, 18	23,400,000	10,050,000	7,780,000	5,540,000
Payables		58,475,379	37,548,440	58,366,163	60,740,926
Current income tax liabilities	4	176,336	37,003	163,357	104
Deposits	19	1,667,763,366	1,585,031,001	1,558,339,204	1,458,392,976
Bonds payable	4, 20	107,288,890	92,417,213	99,913,846	89,831,007
Provisions	4, 22	3,677,395,612	3,477,440,832	3,367,510,568	3,175,688,291
Other financial liabilities -net	4, 21	516,660,371	413,414,217	396,720,427	348,229,937
Deferred tax liabilities	4	21,069,770	18,936,804	17,627,197	19,843,268
Other liabilities		16,662,617	14,712,855	11,979,865	18,548,681
Total liabilities		6,261,347,863	5,797,762,459	5,648,044,160	5,266,339,099
Equity attributable to owners of parent					
Capital stock					
Common stock	24	125,632,102	119,649,621	112,183,851	108,653,851
Stock dividends to be distributed		-	-	7,465,770	-
Capital surplus	25	88,782,304	89,063,184	87,889,556	78,508,148
Retained earnings					
Legal reserve	26	19,784,401	16,922,773	16,922,773	15,222,599
Special reserve		82,305,614	82,314,780	82,314,780	82,314,780
Undistributed earnings		55,258,722	37,287,956	28,274,221	16,296,275
Other equity		23,568,922	30,091,548	3,056,839	25,823,918
Treasury stock	4, 27	-	-	(7,179,872)	(7,179,872)
Non-controlling interests	4, 28	5,399,491	4,180,338	4,160,758	3,751,614
Total equity		400,731,556	379,510,200	335,088,676	323,391,313
Total liabilities and equity		\$6,662,079,419	\$6,177,272,659	\$5,983,132,836	\$5,589,730,412

The accompanying notes are an integral part of these unaudited 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 2014 and 2013, and nine-month periods ended 30 September 2014 and 2013

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

(Expressed in thousands of New Taiwan Dollars, except earnings per share)

	Notes	2014.7.1~2014.9.30	2013.7.1~2013.9.30	2014.1.1~2014.9.30	2013.1.1~2013.9.30
Interest income	4	\$35,174,488	\$32,384,048	\$104,538,716	\$95,781,929
Less: Interest expenses		(4,124,897)	(3,668,405)	(12,001,834)	(10,414,234)
Net interest income	4	31,049,591	28,715,643	92,536,882	85,367,695
Net income other than interest					
Net commission and handling fee		(310,163)	275,613	1,700,158	2,049,059
Net premiums from insurance business		63,687,497	40,227,046	125,524,091	126,038,888
(Losses) gains on financial assets and liabilities at fair value through profit or loss		(12,124,902)	11,569,279	(9,301,419)	(18,663,915)
Gains from investment properties		1,860,061	1,611,896	23,229,350	8,460,600
Realized gains on available-for-sale financial assets		18,475,127	14,617,555	37,609,764	26,992,864
Realized gains on held-to-maturity financial assets		1,120	1,798	3,975	1,382
Gains (losses) on foreign exchange		14,745,643	(11,492,907)	10,188,717	22,706,989
Impairment losses on assets		-	-	(7,123)	-
Share of profit of associates and joint ventures accounted for using equity method		51,913	38,777	119,238	54,988
Net other non-interest gains		878,013	2,001,518	3,822,264	6,605,301
Subtotal		87,264,309	58,850,575	192,889,015	174,246,156
Total income		118,313,900	87,566,218	285,425,897	259,613,851
Bad debt expenses and provision for premiums reserve		(747,127)	(745,086)	(1,189,768)	(1,285,244)
Changes in insurance liabilities and provisions		(85,562,206)	(61,967,556)	(192,620,022)	(187,590,369)
Operating expenses	29				
Employee benefits expenses		(8,967,461)	(7,832,511)	(25,758,852)	(24,872,615)
Depreciation and amortizations expenses		(623,155)	(712,686)	(1,864,288)	(2,127,065)
Other general and administration expenses		(5,419,759)	(4,520,375)	(13,653,558)	(10,960,212)
Subtotal		(15,010,375)	(13,065,572)	(41,276,698)	(37,959,892)
Profit before income tax from continuing operations		16,994,192	11,788,004	50,339,409	32,778,346
Income tax (expense) benefit	4, 31	(2,851,280)	5,516	(5,594,648)	(3,743,820)
Net income		14,142,912	11,793,520	44,744,761	29,034,526
Other comprehensive income	4, 30				
Exchange differences resulting from translating the financial statements of a foreign operation		394,500	(360,960)	13,029	371,207
Unrealized losses from available-for-sale financial assets		(24,641,051)	(7,749,552)	(7,281,424)	(25,197,297)
Losses on cash flow hedges		(146,760)	(198,700)	(322,048)	(591,128)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		404	(23,784)	21,259	(33,441)
Other comprehensive income - others		-	-	902,335	-
Income tax relating to the components of other comprehensive income		108,306	(70,413)	302,949	2,740,770
Other comprehensive income, net of tax		(24,284,601)	(8,403,409)	(6,363,900)	(22,709,889)
Total comprehensive income		\$(10,141,689)	\$3,390,111	\$38,380,861	\$6,324,637
Net income attributable to:					
Owners of parent		\$14,032,206	\$11,727,920	\$44,485,434	\$28,802,302
Non-controlling interests		110,706	65,600	259,327	232,224
Subtotal		\$14,142,912	\$11,793,520	\$44,744,761	\$29,034,526
Total comprehensive income attributable to:					
Owners of parent		\$(10,391,940)	\$3,400,934	\$37,963,311	\$6,035,223
Non-controlling interests		250,251	(10,823)	417,550	289,414
Subtotal		\$(10,141,689)	\$3,390,111	\$38,380,861	\$6,324,637
Earnings per share (expressed in dollars) :	32				
Basic earnings per share:					
Net income		\$1.12	\$0.97	\$3.54	\$2.40
Diluted earnings per share:					
Net income		\$1.12	\$0.97	\$3.54	\$2.40

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
For the nine-month periods ended 30 September 2014 and 2013
(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	Stock dividends to be distributed	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	differences resulting from translating the financial statements of a foreign operation	Unrealized gains from available-for-sale financial assets	Gains on cash flow hedges	Revaluation surplus	Others	Treasury stock	Total		
Balance on 1 January 2013(adjusted)	\$108,653,851	\$-	\$78,508,148	\$15,222,599	\$82,314,780	\$16,296,275	\$(1,082,097)	\$25,930,563	\$976,682	\$-	\$(1,230)	\$(7,179,872)	\$319,639,699	\$3,751,614	\$323,391,313
Appropriations and distribution for 2012(Note1)															
Legal reserve				1,700,174		(1,700,174)								-	-
Cash dividends						(7,465,770)							(7,465,770)		(7,465,770)
Stock dividend		7,465,770				(7,465,770)								-	-
Net income for the nine-month period ended 30 September 2013(adjusted)						28,802,302							28,802,302	232,224	29,034,526
Other comprehensive income for the nine-month period ended 30 September 2013							258,648	(22,533,978)	(491,749)				(22,767,079)	57,190	(22,709,889)
Comprehensive income for the nine-month period ended 30 September 2013(adjusted)						28,802,302	258,648	(22,533,978)	(491,749)				6,035,223	289,414	6,324,637
Increase in cash capital	3,530,000		9,178,000										12,708,000		12,708,000
Value difference between price of subsidiary stock paid and book value						(192,642)							(192,642)		(192,642)
Share-based payment transaction			203,408										203,408		203,408
Increase in non-controlling interests														119,730	119,730
Balance on 30 September 2013(adjusted)	\$112,183,851	\$7,465,770	\$87,889,556	\$16,922,773	\$82,314,780	\$28,274,221	\$(823,449)	\$3,396,585	\$484,933	\$-	\$(1,230)	\$(7,179,872)	\$318,209,152	\$4,160,758	\$335,088,676
Balance on 1 January 2014(adjusted)	\$119,649,621	\$-	\$89,063,184	\$16,922,773	\$82,314,780	\$37,287,956	\$(528,034)	\$20,230,491	\$382,306	\$10,007,738	\$(953)	\$-	\$375,329,862	\$4,180,338	\$379,510,200
Appropriations and distribution for 2013(Note2)															
Legal reserve				2,861,628		(2,861,628)								-	-
Cash dividends						(17,947,443)							(17,947,443)		(17,947,443)
Stock dividend	5,982,481					(5,982,481)								-	-
Reversal of special reserve					(9,166)	9,166								-	-
Other additional paid-in capital															
Share of changes in net assets of associates and joint ventures accounted for using the equity method			(13,665)										(13,665)		(13,665)
The capital reserve set aside for the first-time adoption of TIFRS			(267,215)			267,215								-	-
Net income for the nine-month period ended 30 September 2014						44,485,434							44,485,434	259,327	44,744,761
Other comprehensive income for the nine-month period ended 30 September 2014							(118,017)	(6,963,330)	(268,385)	827,609			(6,522,123)	158,223	(6,363,900)
Comprehensive income for the nine-month period ended 30 September 2014						44,485,434	(118,017)	(6,963,330)	(268,385)	827,609			37,963,311	417,550	38,380,861
Increase in non-controlling interests														801,603	801,603
Others						503				(503)					
Balance on 30 September 2014	\$125,632,102	\$-	\$88,782,304	\$19,784,401	\$82,305,614	\$55,258,722	\$(646,051)	\$13,267,161	\$113,921	\$10,834,844	\$(953)	\$-	\$395,332,065	\$5,399,491	\$400,731,556

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

Note1: As of 31 December 2012, directors' remuneration \$5,400 thousand and employees' bonuses \$1,494 thousand have been deducted from current year's Statements of Comprehensive Income.

Note2: As of 31 December 2013, directors' remuneration \$3,300 thousand and employees' bonuses \$2,394 thousand have been deducted from current year's Statements of Comprehensive Income.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
For the nine-month periods ended 30 September 2014 and 2013
(Reviewed only, not audited in accordance with the generally accepted auditing standards)
(Expressed in thousands of New Taiwan Dollars)

Items	2014.1.1~2014.9.30	2013.1.1~2013.9.30	Items	2014.1.1~2014.9.30	2013.1.1~2013.9.30
Cash flows from operating activities			Cash flows from investing activities		
Profit before income tax from continuing operations	\$50,339,409	\$32,778,346	Acquisition of financial assets at fair value through profit or loss	(143,000)	-
Adjustments :			Disposal of financial assets at fair value through profit or loss	180,009	310,769
Income and other adjustments with no cash flow effects			Acquisition of financial assets available for sale	(617,334)	(467,937)
Depreciation expenses	1,640,865	1,881,879	Disposal of financial assets available for sale	750,056	626,675
Amortizations expenses	223,423	245,186	Acquisition of bond investments with no active market	-	(403,750)
Bad debt expense	1,189,768	1,285,244	Disposal of bond investments with no active market	2,500	-
Net losses on financial assets and liabilities at fair value through profit or loss	14,008,329	20,891,013	Disposal of financial assets held to maturity	-	200,000
Interest expenses	12,001,834	10,414,234	Acquisition of investments accounted for using the equity method	(397,005)	(472,953)
Interest revenue	(104,538,716)	(95,781,929)	Disposal of investments accounted for using the equity method	39,706	-
Dividend income	(14,967,596)	(13,423,150)	Acquisition of subsidiary	-	(338,612)
Net changes in insurance liabilities and provisions	197,320,482	187,548,925	Cash returned by capital deduction from investments accounted for using equity method	9,942	13,067
Net changes of other liabilities and provisions	2,690,877	4,274,031	Disposal of assets held for sale	65,981	-
Revaluation gains on bonds payable	-	133,786	Acquisition of property and equipment	(919,940)	(1,380,103)
Share of gain of associates and joint ventures accounted for using the equity method	(119,238)	(54,988)	Disposal of property and equipment	57,589	2,952
Losses on disposal or scrapping of property and equipment	(30,564)	12,695	(Increase) decrease in clearing and settlement funds	(2,051)	7,715
Gains on disposal of investment properties	(1,346,197)	-	Increase in guarantee deposits paid	(3,970)	-
Gains on disposal of investments	(27,526,978)	(23,933,917)	Decrease in guarantee deposits paid	8	-
Impairment losses on non-financial assets	7,123	-	Acquisition of intangible assets	(168,556)	(117,654)
Unrealized foreign exchange (gains) losses	(1,674)	(9,975)	Acquisition of investment properties	(27,493,476)	(5,678,948)
Revaluation gains on investment properties	(16,460,839)	(3,607,879)	Disposal of investment properties	1,682,842	-
Others	-	203,408	Increase in other assets	(4,391,282)	(736,529)
Subtotal	<u>64,090,899</u>	<u>90,078,563</u>	Dividends received	67,793	37,496
Changes in operating assets and liabilities			Net Cash used in investing activities	<u>(31,280,188)</u>	<u>(8,397,812)</u>
Changes in operating assets			Cash flows from financing activities		
Increase in due from the Central Bank and call loans to banks	(3,076,451)	(4,692,355)	Increase in short-term borrowings	-	25,000
Decrease (increase) in financial assets at fair value through profit or loss	74,708,716	(67,322,511)	Increase in funds borrowed from Central Bank and banks	24,300	3,085,980
Decrease (increase) in available-for-sale financial assets	69,565,179	(30,137,794)	Increase in commercial paper payable	13,350,000	2,240,000
Decrease in derivative financial assets for hedging	179,178	163,622	Issuance of bank debentures	14,871,677	9,901,957
Decrease (increase) in accounts receivable	46,084,591	(25,264,829)	Increase (decrease) in bills and bonds sold under agreements to repurchase	209,198	(3,576)
Increase in loans	(125,750,266)	(65,400,201)	Decrease in other liabilities	(13,810)	(265,890)
(Increase) decrease in reinsurance contract assets	(514,628)	5,649,472	Payment of cash dividends	(17,947,446)	(7,465,772)
Increase in financial assets held to maturity	(20,394,648)	(27,185,075)	Increase in cash capital	-	12,708,000
Increase in other financial assets	(146,808,049)	(113,168,061)	Net cash flows from financing activities	<u>10,493,919</u>	<u>20,225,699</u>
Increase in other assets	(5,971,688)	(1,495,993)	Effects of exchange rate changes on cash and cash equivalents	<u>331,169</u>	<u>407,983</u>
Subtotal	<u>(111,978,066)</u>	<u>(328,853,725)</u>	Increase in cash and cash equivalents	<u>205,567,061</u>	<u>9,578,645</u>
Changes in operating liabilities			Cash and cash equivalents at the beginning of periods	<u>453,686,200</u>	<u>397,388,554</u>
Increase (decrease) in due to the Central Bank and call loans from banks	14,664,569	(6,189,879)	Cash and cash equivalents at the end of periods	<u>\$659,253,261</u>	<u>\$406,967,199</u>
Decrease in financial liabilities at fair value through profit or loss	(38,241,864)	(22,772,588)			
Increase in derivative financial liabilities for hedging	8,249	-	The components of cash and cash equivalents		
Increase in securities purchased under agreements to resell	1,495,962	36,150,100	Cash and cash equivalents presented in balance sheet	\$508,527,175	\$307,079,076
Increase (decrease) in payables	18,162,560	(6,223,685)	Due from the Central Bank and call loans to banks satisfied the definition of cash and cash equivalents under IAS No.7	101,203,185	89,667,652
Increase in deposits	82,402,727	99,424,291	Bills sold under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7	49,522,901	10,220,471
Increase (decrease) in provisions for the liabilities of employee benefits	63,714	(94,612)	Cash and cash equivalents at the end of periods	<u>\$659,253,261</u>	<u>\$406,967,199</u>
(Decrease) increase in reserves for the liabilities	(140,760)	8,994			
Increase in other financial liabilities	36,695,463	11,083,264			
Increase (decrease) in other liabilities	2,788,072	(5,272,441)			
Subtotal	<u>117,898,692</u>	<u>106,113,444</u>			
Subtotal of Changes in operating assets and liabilities	<u>5,920,626</u>	<u>(222,740,281)</u>			
Subtotal of Adjustment	<u>70,011,525</u>	<u>(132,661,718)</u>			
Cash generated from operations	<u>120,350,934</u>	<u>(99,883,372)</u>			
Interest received	102,117,937	95,087,609			
Dividends received	15,158,421	13,567,352			
Interest paid	(9,620,846)	(9,241,661)			
Income taxes paid	(1,984,285)	(2,187,153)			
Net cash flows from (used in) operating activities	<u>226,022,161</u>	<u>(2,657,225)</u>			

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 2014 and 2013

(30 September 2014 and 2013 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 June 2005, the Company invested in Lucky Bank, Inc. (“Lucky Bank”) which was approved as a strategic investment by the Financial Supervisory Commission, 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 Financial Supervisory Commission 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.

As of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, the total numbers of the employees of the Company and Subsidiaries (the Group) were 44,023, 44,487, 44,869, and 44,678, respectively.

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

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 2014 and 2013 were authorized for issue in accordance with a resolution of the Board of Directors on 13 November 2014.

3. Newly issued or revised standards and interpretations

- (1) International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended, which are recognized by Financial Supervisory Commission (“FSC”) and would be applicable for annual periods beginning on or after 1 January 2015, but not yet adopted by the Group at the date of issuance of the Group’s financial statements are listed below.

A. Improvements to International Financial Reporting Standards (issued in 2010):

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

The annual improvements to International Financial Reporting Standards (“IFRS”) issued in 2010 made the following amendments to IFRS 1: If a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report, it needs to explain those changes and update the reconciliations between previous GAAP and IFRS in accordance with paragraph 23 of IFRS 1. Besides, it needs to update the reconciliations in avoidance with paragraph 32 of IFRS 1.

Furthermore, the amendment allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but before the first IFRS financial statements are issued. The amendment also expands the scope of ‘deemed cost’ for property, plant and equipment or intangible assets to include items used subject to rate regulated activities. The exemption will be applied on an item-by-item basis. All such assets will also need to be tested for impairment at the date of transition. The amendment allows entities with rate-regulated activities to use the carrying amount of their property, plant and equipment and intangible balances from their previous GAAP as its deemed cost upon transition to IFRS. These amendments became effective for annual periods beginning on or after 1 January 2011.

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IFRS 3 “Business Combinations”

Under the amendment, IFRS 3 (as revised in 2008) do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). Furthermore, the amendment limits the scope of the measurement choices for non-controlling interest. Only the components of non-controlling interests that are present ownership interests that entitle their holders to a proportionate share of the entity’s net assets, in the event of liquidation could be measured at either fair value or at the present ownership instruments’ proportionate share of the acquiree’s identifiable net assets. Other components of non-controlling interest are measured at their acquisition date fair value.

The amendment also requires an entity in a business combination to account for the replacement of the acquiree’s share-based payment transactions (when the acquirer is not obliged to do so) as new share-based payment awards in the post-combination financial statements.

Outstanding share-based payment transactions that the acquirer does not exchange for its share-based payment transactions: if vested — they are part of non-controlling interest; if unvested — they are measured at market based value as if granted at acquisition date, and allocated between NCI and post-combination expense.

These amendments became effective for annual periods beginning on or after 1 July 2010.

IFRS 7 “Financial Instruments: Disclosures”

The amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. The amendment became effective for annual periods beginning on or after 1 January 2011.

IAS 1 “Presentation of Financial Statements”

The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment became effective for annual periods beginning on or after 1 January 2011.

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IAS 34 “Interim Financial Reporting”

The amendment clarifies that if a user of an entity's interim financial report have access to the most recent annual financial report of that entity, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual financial report. Furthermore the amendment adds disclosure requirements around disclosures of financial instruments and contingent liabilities/assets. The amendment is effective for annual periods beginning on or after 1 January 2011.

IFRIC 13 “Customer Loyalty Programmes”

The amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme is to be taken into account. The amendment is effective for annual periods beginning on or after 1 January 2011.

B. *IFRS 1 “First-time Adoption of International Financial Reporting Standards” — Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*

IFRS 1 has been amended to allow first-time adopters to utilize the transitional provisions of IFRS 7 *Financial Instruments: Disclosures*. These provisions give relief from providing comparative information in the disclosures required by amendments to IFRS 1 in the first year of application. The amendment is effective for annual periods beginning on or after 1 July 2010.

C. *IFRS 1 “First-time Adoption of International Financial Reporting Standards” — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*

The amendment has provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. The amendment also removes the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions. The amended standard has these dates coinciding with the date of transition to IFRS. The amendment is effective for annual periods beginning on or after 1 July 2011.

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D. *IFRS 7 “Financial Instruments: Disclosures” (Amendment)*

The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, when financial assets are derecognised in their entirety, but the entity has a continuing involvement in them, or financial assets are not derecognised in their entirety. The amendment is effective for annual periods beginning on or after 1 July 2011.

E. *IAS 12 “Income Taxes” — Deferred Taxes: Recovery of Underlying Assets*

The amendment to IAS 12 introduce a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognized on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. The amendment also introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 should always be measured on a sale basis. As a result of this amendment, SIC 21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* has been withdrawn. The amendment is effective for annual periods beginning on or after 1 January 2012.

F. *IFRS 10 “Consolidated Financial Statements”*

IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements and SIC-12. The changes introduced by IFRS 10 primarily relate to the elimination of the perceived inconsistency between IAS 27 and SIC-12 by introducing a new integrated control model. That is, IFRS 10 primarily relates to whether to consolidate another entity, but does not change how an entity is consolidated. The standard is effective for annual periods beginning on or after 1 January 2013.

G. *IFRS 11 “Joint Arrangements”*

IFRS 11 replaces IAS 31. The changes introduced by IFRS 11 primarily relate to increase comparability within IFRS by removing the choice for jointly controlled entities to use proportionate consolidation, so that the structure of the arrangement is no longer the most important factor when determining the classification as a joint operation or a joint venture, which then determines the accounting. The standard is effective for annual periods beginning on or after 1 January 2013.

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H. *IFRS 12 “Disclosures of Interests in Other Entities”*

IFRS 12 primarily integrates and makes consistent the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities and present those requirements in a single IFRS. The standard is effective for annual periods beginning on or after 1 January 2013.

I. *IFRS 13 “Fair Value Measurement”*

IFRS 13 primarily relates to defining fair value, setting out in a single IFRS a framework for measuring fair value and requiring disclosures about fair value measurements to reduce complexity and improve consistency in application when measuring fair value. However, IFRS 13 does not change existing requirements in other IFRS as to when the fair value measurement or related disclosures required. The standard is effective for annual periods beginning on or after 1 January 2013.

J. *IAS 1 “Presentation of Financial Statements” — Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income. Items that would be reclassified (or recycled) to profit or loss in the future would be presented separately from items that will never be reclassified. The amendment is effective for annual periods beginning on or after 1 July 2012.

K. *IAS 19 “Employee Benefits” (Revised)*

The revision includes: (1) For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. Actuarial gains and losses are now recognized in Other Comprehensive Income. (2) Amounts recorded in profit or loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). (3) New disclosures include quantitative information about the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption. (4) Termination benefits will be recognized at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognized under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, etc.. The revised standard is effective for annual periods beginning on or after 1 January 2013.

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L. *IFRS 1 “First-time Adoption of International Financial Reporting Standards” — Government Loans*

The IASB has added an exception to the retrospective application of IFRS 9 (or IAS 39) and IAS 20. These amendments require first-time adopters to apply the requirements of IAS 20 prospectively to government loans existing at the date of transition to IFRS. However, entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. The amendment is effective for annual periods beginning on or after 1 January 2013.

M. *IFRS 7 “Financial Instruments: Disclosures” — Disclosures — Offsetting Financial Assets and Financial Liabilities*

These amendments require an entity to disclose information about rights of set-off and related arrangements. The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or ‘similar agreement’. The amendment is effective for annual periods beginning on or after 1 January 2013.

N. *IAS 32 “Financial Instruments: Presentation” — Offsetting Financial Assets and Financial Liabilities*

The amendment clarifies the meaning of “currently has legally enforceable right to set-off” in IAS 32. The amendment is effective for annual periods beginning on or after 1 January 2014.

O. *IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”*

This Interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity recognizes these costs as a non-current asset (“stripping activity asset”), only if certain criteria are met. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. The interpretation is effective for annual periods beginning on or after 1 January 2013.

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P. *Improvements to International Financial Reporting Standards (2009-2011 cycle):*

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

The amendment clarifies that an entity that has stopped applying IFRS may choose to either: Re-apply IFRS 1, even if the entity applied IFRS 1 in a previous reporting period; or Apply IFRS retrospectively in accordance with IAS 8 (i.e., as if it had never stopped applying IFRS) in order to resume reporting under IFRS. The amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 1 “Presentation of Financial Statements”

The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. The opening statement of financial position (known as ‘the third balance sheet’) must be presented when an entity changes its accounting policies (making retrospective restatements or reclassifications) and those changes have a material effect on the statement of financial position. The opening statement would be at the beginning of the preceding period. However, unlike the voluntary comparative information, the related notes are not required to include comparatives as of the date of the third balance sheet. The amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 16 “Property, Plant and Equipment” (Amendment)

The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. The amendment is effective for annual periods beginning on or after 1 January 2013.

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IAS 32 “Financial Instruments: Presentation” (Amendment)

The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 34 “Interim Financial Reporting” (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Besides, total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity’s previous annual financial statements for that reportable segment. The amendment is effective for annual periods beginning on or after 1 January 2013.

Q. IFRS 10 “Consolidated Financial Statements” (Amendment)

The Investment Entities amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The amendment is effective for annual periods beginning on or after 1 January 2014.

The abovementioned standards and interpretations were issued by IASB and recognized by FSC so that they are applicable for annual periods beginning on or after 1 January 2015. When the Group applies the amendments to IAS 19 in 2015, employee benefits will be recognized based on actuarial calculations in accordance with IAS 19. The Group anticipates that as of 1 January 2014, deferred tax assets will be retrospectively restated to decrease by \$359,178 thousand; accrued pension liabilities will be retrospectively restated to decrease by \$2,112,810 thousand; equity will be retrospectively restated to increase by \$1,753,632 thousand.

The Group is still currently determining the potential impact of the standards and interpretations.

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- (2) Standards or interpretations issued by IASB but not yet recognized by FSC 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.

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.

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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 adds 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 recognised 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.

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.

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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 recognise 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.

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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. *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 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. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The Standard is effective for annual periods beginning on or after 1 January 2017.

K. *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.

L. *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).

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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.

M. *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.

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

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O. *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.

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.

The abovementioned standards and interpretations issued by IASB have not yet recognized 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 currently determining the potential impact of the standards and interpretations mentioned above.

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4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Group for the nine-month periods ended 30 September 2014 and 2013 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”, the “Regulations Governing the Preparation of Financial Reports by Securities Firms” 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 thousand of New Taiwan Dollars (“NT\$”) unless otherwise stated.

(3) Basis of consolidation

Preparation principle of consolidated financial statement

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Bank 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 parent’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	2014.9.30	2013.12.31	2013.9.30	2013.1.1	Notes
The Company	Cathay Life Insurance Co., Ltd. (“Cathay Life”)	Life insurance	100.00	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	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	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	100.00	Cathay Securities was incorporated on 12 May 2004, under the Company Act. The securities department and the securities agent (Taipei branch) of Cathay United Bank were assigned to Cathay Securities along with its business, assets and liabilities. The assignment date was 13 August 2004.

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Investor	Subsidiary	Business nature	2014.9.30	2013.12.31	2013.9.30	2013.1.1	Notes
The Company	Cathay Venture Inc. (“Cathay Venture”)	Venture capital investment	100.00	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	100.00	Cathay Securities Investment Trust was incorporated on 11 February 2000.
Cathay Life	Cathay Lujiazui Life Insurance Company Limited. (“Cathay Life (China)”)	Life insurance	50.00	50.00	50.00	50.00	Cathay Life (China) was incorporated on 29 December 2004. Cathay Life and Cathay Lujiazui Life Insurance Co., Ltd. each owns 50% interest in Cathay Life (China).
Cathay Life	Symphox Information Co., Ltd. (“Symphox Information”)	Type II telecom service, data processing service, information supply service	49.12	49.12	100.00	100.00	Symphox Information was incorporated on 12 December 1999, under the Company Act. Cathay Life own 49.12% interest in Symphox Information.
Cathay Life	Cathay Life Insurance (Vietnam) Co., Ltd. (“Cathay Life (Vietnam)”)	Life insurance	100.00	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	-	-	-	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	-	-	-	Cathay Woolgate Exchange Holding 2 Limited was incorporated on 30 July 2014.

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Investor	Subsidiary	Business nature	2014.9.30	2013.12.31	2013.9.30	2013.1.1	Notes
Cathay Life	Lin Yuan (Shanghai) Real Estate Co., Ltd (“Lin Yuan”)	Office equipment leasing company	100.00	100.00	100.00	100.00	Lin Yuan was incorporated on 15 August 2012.
Cathay Life, Cathay Century	Cathay Insurance Co., Ltd. (China) (“Cathay Century (China)”)	Property and casualty insurance	100.00	100.00	100.00	100.00	Cathay Century (China) was incorporated on 26 August 2008. Cathay Life and Cathay Century each owns 50% interest of Cathay Century (China).
Cathay Century	Cathay Insurance (Vietnam) Co., Ltd. (“Cathay Century (Vietnam)”)	Property and casualty insurance	100.00	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	50.00	Indovina Bank was incorporated in Vietnam on 29 October 1992. Cathay United Bank and Vietinbank each owns 50% interest of Indovina Bank.
Cathay United Bank	Cathay United Bank (Cambodia) Corporation Limited (“CUBC Bank”)	Wholesale banking	100.00	100.00	100.00	70.00	SBC Bank was incorporated in Cambodia on 1993 and renamed as CUBC Bank on 14 January 2014.
Cathay Securities	Cathay Futures Corp. (“Cathay Futures”)	Futures related business	99.99	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.

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Cathay Life (China) renamed as Cathay Lujiazui Life Insurance Company Limited with the approval of China Insurance Regulatory Commission on 12 August 2014.

Cathay Life and Cathay Venture disposed the subsidiaries of Symphox Information's investment of equity in 11% and 39.88% during the November 2013, respectively. Since December 2013, Symphox Information excluded from condensed consolidated financial statements.

Cathay United Bank acquired 70% of the voting shares of SBC Bank by US\$22,500 thousand on 13 December 2012, and acquired remaining 30% of the voting shares for US\$11,418 thousand on 30 September 2013, SBC Bank subsequently became a wholly-owned subsidiary of Cathay United Bank, and renamed as Cathay United Bank (Cambodia) Corporation Limited ("CUBC Bank") on 14 January 2014.

The Board of Cathay United Bank approved that raised capital of CUBC by US\$43,000 thousand, and after that, the paid-in capital is amounted to US\$60,000 thousand. Cathay United Bank had transferred investment US\$43,000 thousand which is presented as "investment accounted for using equity method".

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

Investor	Investee	Business	2014.9.30 Ownership interest	2013.12.31 Ownership interest	2013.9.30 Ownership interest	2013.1.1 Ownership interest	Notes
Cathay Life	Cathay Insurance (Bermuda) Co., Ltd. ("Cathay Insurance (Bermuda)")	Reinsurance	100.00	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 research analysis	100.00	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")	Credit card service	100.00	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	-	-	-	Cathy Investment Consulting (Shanghai) Co., Ltd. was incorporated on 11 June 2014.

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(4) Foreign currency transactions

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

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

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

- A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- B. Foreign currency items within the scope of IAS 39 Financial Instruments: Recognition and Measurement are accounted for based on the accounting policy for financial instruments.
- C. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

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

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(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 jointly controlled entity 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. The Group classify 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.

(6) Cash and cash equivalents

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

(7) The transaction of Repo notes and bonds

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

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(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, available-for-sale financial assets 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 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 asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

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- 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.

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

Loans and receivables

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

Loans and receivables are separately presented on the balance sheet as receivables or bond 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.

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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 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.

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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 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.

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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 OCI.
- 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

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.

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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 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.

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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.

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

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.

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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.

D. Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices, without any deduction for transaction costs.

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For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

(9) Derivative financial instrument

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) 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.

Under the equity method, the investment in the associate 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. After the interest in the associate 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. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's related interest in the associate.

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

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the ‘share of profit or loss of an associate’ in the statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

The Group recognizes its interest in the jointly controlled entities using the equity method other than those that meet the criteria to be classified as held for sale. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity.

(11) Property, plant and equipment

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

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

Buildings	5~70 years
Machinery and equipment	3~8 years
Transportation equipment	3~8 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.

(12) 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 the cost model in accordance with the requirements of IAS 16 for that model, 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.

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(13) Leases

Group as a lessee

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

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

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

Group as a lessor

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

(14) 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.

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

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

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

Computer software

The cost of computer software is amortized on a straight-line basis over the estimated useful life (3 to 5 years).

The cost of other intangible assets is amortized on a straight-line basis over the estimated useful life (4 to 8 years).

(15) 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.

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

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

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

(16) 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 Financial Supervisory Commission. 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.

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a. Unearned premium reserve

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

b. Reserve for claims

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

c. Reserve for life insurance liabilities

Based upon the life table and projected interest rates in the manual provided by the authority for each type of insurance, the dollar amount of life insurance reserve is calculated and deposited according to the calculation method listing on Section 12 of “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and the manual published by each authority of insurance products.

Starting from policy year 2003, for valid insurance contract whose bonus calculation is stipulated by the regulations established by the authorities, the downward adjustments of bonus due to the offset between mortality saving (loss) and gain (loss) from difference of interest rates should be recognized and recorded as the increase of reserve for long-term valid contract.

The method prescribed by law for computing reserve for life insurance liabilities was modified by the authority on 28 December 2012.

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. The Company 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.

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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

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.

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

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

e. Premium deficiency reserve

For the contracts over 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. The method prescribed by law for computing premium deficiency reserve was amended by the regulator on 28 December 2012.

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f. Liability adequacy reserve

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

g. Reserves for insurance contract with feature of financial instruments

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

h. Foreign exchange volatility reserve

The beginning balance of foreign exchange volatility reserve is 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”.

i. 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 Financial Supervisory Commission.

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a. Unearned premium reserve

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

b. Claims reserve

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

c. Special reserve

The special reserve is classified into 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.

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(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

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.

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C. Cathay Life (China) and Cathay Century (China)

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.

Other provisions

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

(17) 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.

(18) Post-employment benefits

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

Defined contribution plan

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

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Defined benefit plan

Post-employment benefit plan that is classified as a defined benefit plan uses the projected unit credit method to measure its obligations and costs based on actuarial assumptions. The Group recognizes all actuarial gains and losses in the period in which they occur in other comprehensive income. Actuarial gains and losses recognized in other comprehensive income are recognized immediately in retained earnings. 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 28 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.

(19) 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:

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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

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.

(20) 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.

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Deferred tax

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

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

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

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

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

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

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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.

(21) 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.

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.

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

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

(22) Changes in accounting policy

The FSC revised the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies on 9 January 2014, and Article 14, Paragraph 16 and Article 17, paragraph 2, subparagraph 4 of the Regulations were effective as from 1 January 2014. To improve the reliability and relevance of financial reporting, enhance financial disclosure transparency, be in line with the international conventions, and increase net value and risk tolerance, the Group volunteered to change the subsequent measurements of investment property from cost model to fair value model since year of 2014. The adjustments resulted in increases of retained earnings by \$75,242,150 thousand as of 1 January 2013 and increases of net income by \$9,000,261 thousand, other comprehensive income by \$10,007,738 thousand, and total comprehensive income by \$19,007,999 thousand for the year ended 31 December 2013. Please refer to Note 40 (8) for items and amounts of retrospective adjustments.

5. Significant accounting judgments, estimates and assumptions

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

(1) Judgment

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

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A. The classification of financial assets

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

B. Investment properties

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

C. Operating lease commitment—Group as the lessor

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

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

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

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

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

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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 re-insurance policy

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

When 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 review 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.

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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

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

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.

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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 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.

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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

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Petty cash and cash on hand	\$14,055,038	\$14,461,722	\$13,395,668	\$13,493,296
Cash in banks	85,179,398	28,536,508	42,754,542	67,388,184
Time deposits	279,093,338	226,485,422	206,671,398	185,720,653
Cash equivalents	22,816,343	8,210,983	9,624,856	25,367,336
Checks for clearance	2,764,298	3,315,374	2,275,064	8,326,315
Due from commercial banks	104,618,760	50,656,069	32,357,548	13,367,602
Total	<u>\$508,527,175</u>	<u>\$331,666,078</u>	<u>\$307,079,076</u>	<u>\$313,663,386</u>

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

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Common stock	\$11,273,497	\$15,162,795	\$16,129,630	\$13,933,929
Funds and beneficiary certificates	38,987,298	42,506,734	39,104,218	36,983,400
Short-term notes	102,334,812	142,879,991	123,211,543	58,526,767
Corporate bonds	9,405,707	8,151,196	5,441,054	2,985,754
Government bonds	10,522,064	7,136,362	14,324,289	4,588,851
Structured time deposits	2,301,250	12,434,800	12,328,700	18,334,342
Margin for futures trading-own funds	397,194	407,066	271,989	170,491
Derivative financial instruments	19,883,282	13,603,174	13,498,484	4,614,049
Overseas financial instruments	7,836,693	1,741,128	1,935,453	6,609,089
Total	<u>\$202,941,797</u>	<u>\$244,023,246</u>	<u>\$226,245,360</u>	<u>\$146,746,672</u>

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- (1) As of 1 January 2013, certain financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of \$2,950,500 thousand. Such repurchase agreements amounting to \$3,252,317 thousand are recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements entered prior to 1 January 2013 are settled at \$3,255,003 thousand, prior to 31 March 2013.
- (2) Please refer to Note 36 for related information on the above financial assets at fair value through profit or loss being pledged as collaterals as of 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013.

8. Available-for-sale financial assets

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Common stock	\$296,456,933	\$301,182,150	\$273,291,690	\$218,513,045
Funds and beneficiary certificates	20,784,651	25,805,922	23,151,113	23,132,131
Collateralized loans obligation and collateralized bonds obligation	4,230,415	5,704,214	6,533,180	6,761,735
Government bonds	206,478,084	239,377,149	230,394,136	228,054,133
Corporate bonds	66,736,561	74,735,796	71,537,401	70,704,273
Financial debentures	124,906,189	169,682,258	190,895,559	200,618,738
Overseas financial instruments	590,732,913	550,130,528	535,072,223	564,482,514
Less: Litigation deposits	(44,804)	(37,307)	(27,904)	-
Less: Securities serving as deposits paid-bonds	(8,661,741)	(9,473,934)	(9,483,535)	(9,523,307)
Total	<u>\$1,301,619,201</u>	<u>\$1,357,106,776</u>	<u>\$1,321,363,863</u>	<u>\$1,302,743,262</u>

- (1) As of 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013, Cathay United Bank and its subsidiaries sold certain available-for-sale financial assets under repurchase agreements with notional amounts of \$16,374,568 thousand, \$14,414,200 thousand, \$65,065,238 thousand, and \$15,936,600 thousand, respectively. Such repurchase agreements amounting to \$16,300,401 thousand, \$14,071,807 thousand, \$55,899,348 thousand, and \$17,116,932 thousand, were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements entered prior to 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013 are settled at \$16,315,362 thousand, \$14,079,632 thousand, \$55,902,042 thousand, and \$17,125,290 thousand, prior to 1 January 2015, 30 June 2014, 31 March 2014, and 30 June 2013, respectively; as of 30 September 2014 and 31 December 2013, Cathay United Bank and its subsidiaries sold certain available-for-sale financial assets under repurchase agreement with notional amounts of \$186,387 thousand and \$1,411,144 thousand, but didn’t have repurchase agreements date.

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- (2) As of 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013, Cathay Securities and its subsidiaries sold certain available-for-sale financial assets under repurchase agreements with notional amounts of \$250,000 thousand, \$250,000 thousand, \$300,000 thousand, and \$0 thousand, respectively.
- (3) Cathay Life and its subsidiaries recognized an impairment provision as some objective evidences are identified showing impairment indicators associated with stocks and collateralized loans obligation held by Cathay Life and its subsidiaries. As of 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013, Cathay Life and its subsidiaries recognized impairment losses amounting to \$1,669,430 thousand, \$1,669,430 thousand, \$1,673,957 thousand, and \$1,697,370 thousand, respectively.
- (4) Cathay United Bank has recognized accumulated impairment loss for the available-for-sale financial assets in the amount of \$163,785 thousand, \$163,785 thousand, \$189,052 thousand, and \$438,311 thousand as of 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013, respectively, due to the existence of objective impairment evidence.
- (5) Please refer to Note 36 for related information on the above available-for-sale financial assets being pledged as collaterals as of 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013.

9. Receivable -net

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Notes receivable	\$1,972,497	\$2,540,478	\$2,251,872	\$3,238,517
Accounts receivable	57,780,155	52,532,967	44,123,624	40,152,466
Interest receivable	31,474,822	30,143,010	28,976,230	28,194,033
Foreign currency receivable	307,599	103,526	75,068	88,657
Acceptances	1,667,396	1,378,174	1,434,690	1,639,721
Factoring receivable	11,015,834	69,249,723	38,530,505	9,151,418
Others	23,525,464	15,849,520	24,363,112	29,575,597
Subtotal	127,743,767	171,797,398	139,755,101	112,040,409
Adjustment for discounts and premiums	(7,323)	(6,519)	(6,129)	(5,602)
Less: Allowance for bad debts	(1,971,097)	(2,199,913)	(2,345,905)	(2,123,529)
Total	<u>\$125,765,347</u>	<u>\$169,590,966</u>	<u>\$137,403,067</u>	<u>\$109,911,278</u>

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

	2014.1.1~2014.9.30	2013.1.1~2013.9.30
Balance, beginning of the period	\$2,199,913	\$2,123,529
Provision (reversal) of doubtful accounts	(399,602)	71,763
Write-offs	(251,411)	(286,071)
Debt counseling recoveries	97,664	101,813
Recoveries	419,137	437,794
Reclassification	(97,664)	(103,837)
Effect of exchange rates change	3,060	914
Balance, end of the period	\$1,971,097	\$2,345,905

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

Item		Total receivables			
		2014.9.30	2013.12.31	2013.9.30	2013.1.1
Objective evidence of impairment exists individually	Individual assessment of impairment	\$14,391,888	\$11,250,457	\$20,592,700	\$24,591,363
	Collective assessment of impairment	159,910	172,872	159,023	140,445
Objective evidence of impairment does not exist individually	Collective assessment of impairment	113,191,969	160,374,069	119,003,378	87,308,601

Item		Allowance for bad debts			
		2014.9.30	2013.12.31	2013.9.30	2013.1.1
Objective evidence of impairment exists individually	Individual assessment of impairment	\$87,289	\$62,751	\$350,339	\$39,675
	Collective assessment of impairment	118,910	128,609	118,893	110,930
Objective evidence of impairment does not exist individually	Collective assessment of impairment	1,764,898	2,008,553	1,876,673	1,972,924

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

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10. Loans -net

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Inward-outward documentary bills	\$13,256,408	\$6,669,210	\$1,708,581	\$1,764,969
Loans	1,793,998,242	1,673,190,609	1,596,412,238	1,529,906,452
Overdrafts	1,220,078	867,731	837,601	594,231
Delinquent accounts	2,851,736	4,188,586	4,921,618	4,532,217
Subtotal	1,811,326,464	1,684,916,136	1,603,880,038	1,536,797,869
Adjustment for discounts and premiums	907,561	982,481	1,021,266	1,097,491
Less: Allowance for bad debts	(20,295,443)	(18,506,935)	(18,399,861)	(16,183,237)
Total	<u>\$1,791,938,582</u>	<u>\$1,667,391,682</u>	<u>\$1,586,501,443</u>	<u>\$1,521,712,123</u>

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

	2014.1.1~2014.9.30	2013.1.1~2013.9.30
Balance, beginning of the period	\$18,506,935	\$16,183,237
Provision of doubtful accounts	1,654,010	1,434,462
Write-offs	(1,479,446)	(341,165)
Debt counseling recoveries	91,521	86,542
Recoveries	1,396,307	1,045,256
Reclassification	97,664	(28,416)
Effect of exchange rates change	28,452	19,945
Balance, end of the period	<u>\$20,295,443</u>	<u>\$18,399,861</u>

(2) Assessment for loans are showed as followed:

Item		Total loans			
		2014.9.30	2013.12.31	2013.9.30	2013.1.1
Objective evidence of impairment exists individually	Individual assessment of impairment	\$20,681,792	\$25,525,560	\$74,008,522	\$31,951,217
	Collective assessment of impairment	10,310,943	10,395,734	9,906,731	4,566,018
Objective evidence of impairment does not exist individually	Collective assessment of impairment	1,780,333,729	1,648,994,842	1,519,964,785	1,500,280,634

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Item		Allowance for bad debts			
		2014.9.30	2013.12.31	2013.9.30	2013.1.1
Objective evidence of impairment exists individually	Individual assessment of impairment	\$4,500,796	\$4,925,984	\$5,463,583	\$4,887,318
	Collective assessment of impairment	1,778,748	1,679,630	1,668,547	713,956
Objective evidence of impairment does not exist individually	Collective assessment of impairment	14,015,899	11,901,321	11,267,731	10,581,963

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

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Government bonds	\$19,458,374	\$951,287	\$953,988	\$962,741
Corporate bonds	2,696,461	-	-	-
Financial debentures	-	-	-	200,000
Overseas financial instruments	53,858,517	54,018,866	50,430,460	23,218,244
Subtotal	76,013,352	54,970,153	51,384,448	24,380,985
Less: Securities serving as deposits paid-bonds	(625,387)	-	-	-
Total	\$75,387,965	\$54,970,153	\$51,384,448	\$24,380,985

- (1) As of 30 September 2014, and 31 December 2013, the held-to-maturity financial assets were sold under repurchase agreements with notional amounts of \$39,897,513 thousand, and \$42,319,350 thousand, respectively. Such repurchase agreements amounting to \$40,170,719 thousand, and \$39,394,999 thousand, were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements entered prior to 31 October 2014, and 31 January 2014 are settled at \$40,177,468 thousand, and \$39,411,066 thousand; as of 30 September 2014, the held-to-maturity financial assets were sold under repurchase agreement with notional amounts of \$19,915 thousand, but didn’t have repurchase agreements date.
- (2) Please refer to Note 36 for related information on the above held-to-maturity financial assets being pledged as collaterals as of 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013.

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12. Investments accounted for using the equity method

Investee	2014.9.30		2013.12.31		2013.9.30		2013.1.1	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Investments in subsidiaries								
exclude from consolidated:								
Cathay Securities Investment								
Consulting	\$ 193,026	100.00	\$207,884	100.00	\$186,266	100.00	\$170,659	100.00
Seaward Card	40,653	100.00	39,107	100.00	38,758	100.00	39,752	100.00
Cathay Insurance (Bermuda)	120,470	100.00	114,759	100.00	112,283	100.00	101,761	100.00
Cathy Investment Consulting								
(Shanghai) Co., Ltd.	36,191	100.00	-	-	-	-	-	-
Subtotal	<u>390,340</u>		<u>361,750</u>		<u>337,307</u>		<u>312,172</u>	
Investments in associates:								
WK Technology Fund VI Co., Ltd	281,023	21.43	280,880	21.43	263,757	21.43	279,441	21.43
Vista Technology Venture Capital Corp.	-	-	5,935	35.00	6,431	58.56	10,533	35.00
Omnitek Venture Capital Corp.	-	-	39,704	24.79	39,648	24.79	31,694	24.79
Da Sheng Venture Inc.	1,244,730	25.00	-	-	-	-	-	-
Taiwan Real-estate Management Corp.	94,743	30.15	99,359	30.15	94,091	30.15	105,357	30.15
Taiwan Finance Corp.	1,478,304	24.57	1,487,419	24.57	1,377,634	24.57	1,418,699	24.57
IBT Venture Capital Corp.	21,045	24.96	29,365	24.96	47,175	24.96	56,435	24.96
Tien-Tai Energy Corp.	41,533	44.44	42,598	44.44	39,651	44.44	-	-
Tien-Tai One Energy Corp.	29,568	33.33	21,107	33.33	19,443	33.33	-	-
Tien-Tai Management Consulting Co., Ltd.	210	30.00	150	30.00	150	30.00	-	-
Chi-Chia Energy Corp.	32,400	23.27	-	-	-	-	-	-
Chao-Yang Energy Corp.	32,400	23.27	-	-	-	-	-	-
CDBS Cathay Asset Management Co., Ltd	277,153	33.33	298,036	33.33	304,976	33.33	-	-
Cathay Conning Asset Management Ltd.	77,331	50.00	81,032	50.00	93,017	50.00	21,543	50.00
Symphox Information Co., Ltd.	427,141	49.12	405,985	49.12	-	-	-	-
Subtotal	<u>4,037,581</u>		<u>2,791,570</u>		<u>2,285,973</u>		<u>1,923,702</u>	
Total	<u>\$ 4,427,921</u>		<u>\$3,153,320</u>		<u>\$2,623,280</u>		<u>\$2,235,874</u>	

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The following table illustrates summarized financial information of the Group's investment in the associates:

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Total assets (100%)	\$58,599,330	\$49,834,525	\$46,629,369	\$40,808,912
Total liabilities (100%)	(43,840,638)	(40,072,134)	(38,042,196)	(32,986,134)
	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Revenue (100%)	\$756,791	\$628,995	\$2,149,323	\$1,342,531
Profit (loss) (100%)	93,521	41,478	150,951	(11,323)

- (1) There are no public prices at the Group's investment in the associates and the associates are not restricted to issue cash dividends, repay the borrowings or transfer the capital to the investors in the way of advance.
- (2) As of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, the carrying amount of investments accounted for using the equity method amounted to \$4,037,581 thousand, \$2,791,570 thousand, \$2,285,973 thousand, and \$1,923,701 thousand, respectively. The share of the profits (losses) of associates and joint ventures accounted for using the equity method amounts to \$27,871 thousand and \$(11,349) thousand for the three-month periods ended 30 September 2014 and 2013, respectively. The share of the profits (losses) of associates and joint ventures accounted for using the equity method amounts to \$47,603 thousand and \$(8,377) thousand for the nine-month periods ended 30 September 2014 and 2013, respectively. The share of the other comprehensive income (loss) of associates and joint ventures accounted for using the equity method amounts to \$(1,637) thousand and \$(31,801) thousand for the three-month periods ended 30 September 2014 and 2013, respectively. The share of the other comprehensive income (loss) of associates and joint ventures accounted for using the equity method amounts to \$19,365 thousand and \$(38,135) thousand for the nine-month periods ended 30 September 2014 and 2013, respectively. The carrying amount of investments accounted for under the equity method in investees whose financial statements were unreviewed amounts to \$32,939 thousand and \$(18,266) thousand for three-month periods ended 30 September 2014 and 2013, respectively. The carrying amount of investments accounted for under the equity method in investees whose financial statements were unreviewed amounts to \$67,122 thousand and \$9,570 thousand for nine-month periods ended 30 September 2014 and 2013, respectively. As of 30 September 2014 and 2013, the remaining balance of related investments were \$3,760,428 and \$1,980,997 thousand, respectively.

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- (3) No investment in the associates was pledged.
- (4) Cathay Life obtained proceeds of \$90,297 thousand from disposal of 11% shares of Symphox Information during November 2013. The disposal resulted in a decrease of related net carrying amount by \$61,155 thousand, and the differences between proceeds obtained and net carrying amount was \$29,142 thousand, which was recognized under equity. Cathay Venture disposed the investments accounted for using the equity method of Symphox Information's investment of equity in 39.88%, and its proceeds from disposal amount of \$327,365 thousand, and profit from disposal amount of \$109,828 thousand.

The Group loses the control of Symphox Information and remaining 49.12% interest investment whose fair value at the date of was \$404,431 thousand and the \$131,174 thousand profit represented. Although losing control over the subsidiary, the Group does not lose the significant influence. Thus, the Group still keeps the equity method of accounting.

This transaction resulted in the recognition of a gain in profit or loss, calculated as follows:

Retained investment is measured at fair value	\$404,431
Carrying amount of the investment at the date when control is lost	(273,274)
Share of other equity of associates and joint ventures accounted for using equity method turn into profit or loss	17
Recognized in profit	\$131,174

- (5) Cathay Securities Investment Trust reinvested CNY\$66,000 thousand in COBS Cathay Asset Management Co., Ltd. on August 2013, obtaining 33% of its equity. Such case was approved by MOEAIC. For further information related to investment in Mainland China, please refer to Note 40(9).

13. Other financial assets

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Investments in debt securities with no active market	\$1,460,159,213	\$1,305,675,228	\$1,357,046,326	\$1,242,279,799
Separate account product assets	442,715,117	376,252,736	367,150,507	329,557,246
Structured time deposits	39,200,000	40,900,000	39,400,000	23,500,000
Other miscellaneous financial assets	1,268,252	1,969,853	4,196,386	9,963,164
Total	\$1,943,342,582	\$1,724,797,817	\$1,767,793,219	\$1,605,300,209

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Investments in debt securities with no active market

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Preferred stocks	\$8,437,017	\$8,481,017	\$8,481,017	\$8,481,017
Corporate bonds	46,196,921	29,000,000	24,650,000	22,949,999
Overseas financial instruments	1,044,899,925	987,760,191	928,404,034	781,861,152
Time deposit	359,039,350	280,334,020	395,411,275	428,987,631
Beneficial right of real estate	200,000	100,000	100,000	-
Collateralized loans obligation and collateralized bonds obligation	1,386,000	-	-	-
Total	\$1,460,159,213	\$1,305,675,228	\$1,357,046,326	\$1,242,279,799

(1) A CDO impairment is recognized as objective impairment evidence exists for some overseas bonds held by Cathay Life and its subsidiaries. As of 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013, Cathay Life and its subsidiaries recognized impairment losses amounting to \$395,668 thousand, \$389,350 thousand, \$385,710 thousand, and \$378,768 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 \$1,218,788 thousand, \$1,199,326 thousand, \$1,100,147 thousand, and \$1,167,518 thousand as of 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013, 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, \$95,586 thousand, \$95,586 thousand and \$106,215 thousand as of 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013, respectively, due to the default on the convertible bonds.

(3) As of 30 September 2014, and 31 December 2013, certain investments in debt securities with no active market classified as overseas financial instruments with the notional amounts of \$4,219,738 thousand, and \$10,739,833 thousand, respectively, were sold at the price amounted to \$3,500,140 thousand, and \$3,803,650 thousand, respectively, under the repurchase agreement and recorded under “securities sold under agreements to repurchase” account. Abovementioned overseas financial instruments will be settled at the price amounted to \$3,500,405 thousand, and \$3,805,024 thousand, respectively, no later than 31 October 2014, and 31 January 2014 under the repurchase agreement accordingly.

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(4) Please refer to Note 36 for related information on the above investments in debt securities with no active market being pledged as collaterals as of 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013.

14. Investment property

	Land	Buildings	Construction	Prepayments for buildings	Total
1 January 2014	\$219,714,070	\$51,857,227	\$15,570,122	\$5,173,152	\$292,314,571
Additions from acquisitions	-	15,665,223	3,348,494	7,744,573	26,758,290
Additions from subsequent expenditure	-	-	735,186	-	735,186
Transfers from property and equipment	9,697,012	800,418	-	-	10,497,430
Transfers from (to) investment property under construction and prepayments for buildings and land	7,036,238	5,711,537	(1,728,968)	(11,079,221)	(60,414)
Gains(losses) generated from fair value adjustments	16,644,338	(183,499)	-	-	16,460,839
Depreciation	-	(403)	-	-	(403)
Impairment	(7,123)	-	-	-	(7,123)
Disposals	(316,197)	(24,580)	-	-	(340,777)
Exchange differences	-	(240,143)	-	(1,162)	(241,305)
30 September 2014	<u>\$252,768,338</u>	<u>\$73,585,780</u>	<u>\$17,924,834</u>	<u>\$1,837,342</u>	<u>\$346,116,294</u>

	Land	Buildings	Construction	Prepayments for buildings	Total
1 January 2013	\$196,322,433	\$45,611,538	\$7,519,477	\$1,581,767	\$251,035,215
Additions from acquisitions	-	2,413	4,739,790	36,399	4,778,602
Additions from subsequent expenditure	-	-	900,346	-	900,346
Transfers from property and equipment	-	(74,251)	-	-	(74,251)
Transfers from (to) investment property under construction and prepayments for buildings and land	5,305	106,484	(106,484)	(5,305)	-
Gains(losses) generated from fair value adjustments	3,517,752	90,128	-	-	3,607,880
30 September 2013	<u>\$199,845,490</u>	<u>\$45,736,312</u>	<u>\$13,053,129</u>	<u>\$1,612,861</u>	<u>\$260,247,792</u>

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	2014.7.1~2014.9.30	2013.7.1~2013.9.30
Rental income from investment properties	\$1,893,796	\$1,589,761
Less: Direct operating expense from investment properties generating rental income	(60,399)	(47,834)
Direct operating expense from investment properties not generating rental income	(13,773)	(16,972)
Total	\$1,819,624	\$1,524,955
	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Rental income from investment properties	\$5,487,811	\$4,852,721
Less: Direct operating expense from investment properties generating rental income	(234,855)	(187,675)
Direct operating expense from investment properties not generating rental income	(64,024)	(66,073)
Total	\$5,188,932	\$4,598,973

- (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 2014, 31 December 2013, 30 June 2013, and 31 December 2012. Please refer to original financial report for detail information of the appraisers and agencies.

Fair value has been supported by observable evidences in the market. The appraisal approaches used are mainly the comparison approach, income approach, cost approach and land development analysis of cost approach. Commercial office buildings and residences are valued using comparison approach and income approach mostly because of the market liquidity and comparable sales and rental cases in neighboring areas. Hotels, department stores, and marketplaces are valued using income approach mostly because of the stable rental income in the long run. Industrial factory buildings for rental are valued using comparison approach and direct capitalization method, and wholesale stores located in industrial and commercial integrated district are valued using cost approach since land is industrial land and buildings are constructed for specific purposes so that seldom similar transactions can be referred in the market. Vacant land that building permission obtained and under construction are valued using comparison approach and land development analysis of cost approach. Urban renewal land that building permission obtained and under construction are value based on rental long-held building, hotels, etc. which is received from urban renewal scheme.

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The inputs used are as follows:

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
	Mainly	Mainly	Mainly	Mainly
Direct capitalization rate (Net)	1.5%~4.8%	1.5%~4.8%	1.5%~4.3%	1.5%~4.8%
Discount rate	3.3%~4.2%	3.3%~4.2%	3.3%~4.2%	3.2%~4.2%

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.

- (2) Cathay United Bank appointed appraisers from Savills Valuation and Professional Services (Kempis Tai, Howard Chang, Sky Liu, Yi-Jun Chen) to evaluate the fair value of investment property based on the “Regulations on Real Estate Appraisal” on 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013.

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

- A. Office building have market liquidity and their rent levels are more comparable with similar items from the same neighborhood. The fair value has been determined by discounted cash flow method.

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, according to the ROC Real Estate Appraisers Association Gazette No.5.

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The main parameters are as follows:

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Discounted rates	4.625%	4.625%	4.625%	4.625%

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.

- B. The fair value has been determined by the method of land development analysis. Road space and 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.

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Rate of return	18%~20%	18%~20%	18%~20%	18%~20%
Overall capital interest rate	1.29%~2.53%	1.29%~4.16%	1.29%~4.16%	1.29%~4.16%

Some of the roads and scenic land sites are difficult to develop and have no prospects of profits, for which the fair value cannot be reliably measured. The cost model is adopted in accordance with International Accounting Standards No. 16.

- (3) Cathay Futures chooses cost method to measure investment property. As of 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013, investment property on Cathay Futures' balance amounted to \$245,078 thousand, \$365,762 thousand, \$376,364 thousand, and \$489,823 thousand, respectively. Cathay Futures did not appoint independent experts to measure the aforementioned fair value and determined the fair value through net rate of return method in calculating its value. The parameters used are as followed:

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Yield rate	2.221%	2.091%	2.025%	1.555%

- (4) The real estate investments are held mainly for leasing purposes.
- (5) All the lease agreements of the Company'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 2014, 31 December 2013, 30 September 2013, and 1 January 2013, no investments in real estate were pledged as collateral.

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15. Property and equipment

Cost:	Land	Building and construction	Computer equipment	Transport equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and real estate	prepayment for	Total
1 January 2014	\$72,197,094	\$44,887,944	\$7,335,567	\$114,673	\$10,375,537	\$398,867	\$423,216	\$768,297		\$136,501,195
Additions	-	514	177,836	2,646	249,859	38,970	-	450,113		919,938
Transfers	(8,538,782)	(1,089,653)	55,965	19,967	236,893	(345)	-	(455,430)		(9,771,385)
Disposal	(16,717)	(6,642)	(319,617)	(15,829)	(137,852)	-	-	-		(496,657)
Exchange difference	2,107	6,565	6,249	1,217	(6,266)	791	-	2,206		12,869
30 September 2014	\$63,643,702	\$43,798,728	\$7,256,000	\$122,674	\$10,718,171	\$438,283	\$423,216	\$765,186		\$127,165,960
1 January 2013	\$76,637,886	\$50,726,103	\$7,334,966	\$124,337	\$10,524,820	\$311,353	\$275,652	\$425,810		\$146,360,927
Additions	-	21,207	503,444	4,435	265,645	85,986	-	515,646		1,396,363
Transfers	-	1,427,557	54,145	(80)	106,194	(3,593)	-	(195,525)		1,388,698
Disposal	-	(337)	(416,760)	(12,011)	(79,658)	(22,486)	-	-		(531,252)
Reclassification	-	-	-	-	-	(3,360)	-	-		(3,360)
Exchange difference	2,315	124,286	18,087	1,514	1,748	6,973	-	3,027		157,950
30 September 2013	\$76,640,201	\$52,298,816	\$7,493,882	\$118,195	\$10,818,749	\$374,873	\$275,652	\$748,958		\$148,769,326
Depreciation and impairment:										
1 January 2014	\$105,610	\$17,621,797	\$6,214,639	\$85,461	\$8,721,079	\$213,118	\$145,104	\$-		\$33,106,808
Depreciation	-	844,065	309,860	7,743	363,736	35,781	79,277	-		1,640,462
Transfers	-	(164,114)	-	-	(517)	(345)	-	-		(164,976)
Disposal	-	(4,264)	(316,123)	(15,829)	(133,540)	-	-	-		(469,756)
Other	-	-	-	-	-	39	-	-		39
Exchange difference	-	1,294	4,502	915	1,259	683	-	-		8,653
30 September 2014	\$105,610	\$18,298,778	\$6,212,878	\$78,290	\$8,952,017	\$249,276	\$224,381	\$-		\$34,121,230
1 January 2013	\$105,610	\$17,406,773	\$6,290,375	\$89,828	\$8,758,658	\$220,281	\$28,714	\$-		\$32,900,239
Depreciation	-	1,010,756	391,244	6,953	388,564	32,677	51,685	-		1,881,879
Transfers	-	1,330,465	(2,986)	45	7,738	-	-	-		1,335,262
Disposal	-	(175)	(407,413)	(11,094)	(75,597)	(18,929)	-	-		(513,208)
Reclassification	-	-	-	-	-	(3,360)	-	-		(3,360)
Exchange difference	-	2,431	9,069	932	2,744	5,217	-	-		20,393
30 September 2013	\$105,610	\$19,750,250	\$6,280,289	\$86,664	\$9,082,107	\$235,886	\$80,399	\$-		\$35,621,205
30 September 2014	\$63,538,092	\$25,499,950	\$1,043,122	\$44,384	\$1,766,154	\$189,007	\$198,835	\$765,186		\$93,044,730
31 December 2013	\$72,091,484	\$27,266,147	\$1,120,928	\$29,212	\$1,654,458	\$185,749	\$278,112	\$768,297		\$103,394,387
30 September 2013	\$76,534,591	\$32,548,566	\$1,213,593	\$31,531	\$1,736,642	\$138,987	\$195,253	\$748,958		\$113,148,121
1 January 2013	\$76,532,276	\$33,319,330	\$1,044,591	\$34,509	\$1,766,162	\$91,072	\$246,938	\$425,810		\$113,460,688

- (1) No property and equipment were pledged as collaterals as of 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013.
- (2) Components of building the 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

	Goodwill	Computer software	Total
Cost:			
1 January 2014	\$8,579,854	\$3,504,382	\$12,084,236
Addition-individual acquisition	-	168,555	168,555
Reduction	-	(75,754)	(75,754)
Transfer	-	82,131	82,131
Exchange difference	5,137	2,349	7,486
30 September 2014	<u>\$8,584,991</u>	<u>\$3,681,663</u>	<u>\$12,266,654</u>
1 January 2013	\$8,571,250	\$3,552,107	\$12,123,357
Addition-individual acquisition	-	117,654	117,654
Reduction	-	(63,123)	(63,123)
Transfer	-	22,133	22,133
Exchange difference	5,644	8,446	14,090
30 September 2013	<u>\$8,576,894</u>	<u>\$3,637,217</u>	<u>\$12,214,111</u>
Amortization and impairment:			
1 January 2014	\$-	\$2,860,804	\$2,860,804
Amortization	-	222,146	222,146
Reduction	-	(75,753)	(75,753)
Transfer	-	-	-
Exchange difference	-	2,075	2,075
30 September 2014	<u>\$-</u>	<u>\$3,009,272</u>	<u>\$3,009,272</u>
Amortization and impairment:			
1 January 2013	\$-	\$2,730,350	\$2,730,350
Amortization	-	244,286	244,286
Reduction	-	(59,227)	(59,227)
Transfer	-	(2,535)	(2,535)
Exchange difference	-	4,220	4,220
30 September 2013	<u>\$-</u>	<u>\$2,917,094</u>	<u>\$2,917,094</u>
Net Book value:			
30 September 2014	<u>\$8,584,991</u>	<u>\$672,391</u>	<u>\$9,257,382</u>
31 December 2013	<u>\$8,579,854</u>	<u>\$643,578</u>	<u>\$9,223,432</u>
30 September 2013	<u>\$8,576,894</u>	<u>\$720,123</u>	<u>\$9,297,017</u>
1 January 2013	<u>\$8,571,250</u>	<u>\$821,757</u>	<u>\$9,393,007</u>

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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.

17. Financial liabilities at fair value through profit or loss

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Derivative financial instruments	\$34,728,283	\$27,290,672	\$17,504,112	\$7,582,664
Bond Investment	946,304	497,002	-	-
Security lending payables hedging	228,718	147,557	217,999	287,312
Security lending payables non-hedging	604,031	819,390	1,351,646	1,216,370
Total	<u>\$36,507,336</u>	<u>\$28,754,621</u>	<u>\$19,073,757</u>	<u>\$9,086,346</u>

18. Commercial paper payables

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Commercial paper payable	\$23,400,000	\$10,050,000	\$7,780,000	\$5,540,000
Less: Discount on commercial paper payable	-	-	-	-
Total	<u>\$23,400,000</u>	<u>\$10,050,000</u>	<u>\$7,780,000</u>	<u>\$5,540,000</u>
Average interest rates	<u>0.64%~0.92%</u>	<u>0.60%~0.97%</u>	<u>0.70%~0.97%</u>	<u>0.74%~0.93%</u>

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19. Deposits

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Check deposits	\$16,233,087	\$16,080,928	\$12,319,232	\$15,963,648
Demand deposits	309,462,424	294,045,326	274,854,592	249,757,411
Demand savings deposits	677,265,091	618,233,159	613,858,752	577,491,231
Time deposits	662,803,059	655,284,136	655,551,215	613,620,928
Remittances	1,999,705	1,387,452	1,755,413	1,559,758
Total	<u>\$1,667,763,366</u>	<u>\$1,585,031,001</u>	<u>\$1,558,339,204</u>	<u>\$1,458,392,976</u>

20. Bonds payable

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Subordinated bonds payable-net	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000
Convertible bonds	-	-	7,548,048	7,412,199
Discount on convertible bonds	-	-	(54,790)	(99,823)
Subordinated financial debentures	66,864,138	51,705,031	51,613,364	41,438,544
Discount on financial debentures	(10,237)	(16,366)	(18,204)	(23,666)
Valuation adjustment	434,989	728,548	825,428	1,103,753
Total	<u>\$107,288,890</u>	<u>\$92,417,213</u>	<u>\$99,913,846</u>	<u>\$89,831,007</u>

- (1) The Company recognized discount amortization expense of the second Euro convertible bonds issued by the Company on 14 August 2012 in the amount of \$55,116 thousand for the year ended 31 December 2013. Loss on valuation of financial liabilities \$1,685,577 thousand and loss on disposal of financial liabilities \$85,139 thousand, which were recorded under “Interest Expenses”, “Losses on valuation of financial liabilities at fair value through profit or loss” and “Losses on disposal of financial liabilities at fair value through profit or loss”, respectively.

The Company did meet Early Redemption and announced for by exercising the conversion right of the second Euro convertible bonds issued by the Company from 29 October 2013.

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On conversion of a convertible bond before maturity at 11 October 2013 of conversion is transferred to common stock 1,011,703 shares and the conversion price was set at \$35.51 per share. On 8 November 2013, the Company distributed share dividends \$0.678 dollars per share, resulting in a decrease in the exercise price of the second Unsecured Euro-Convertible bonds from \$35.51 dollars to \$33.26 dollars. As of 28 November 2013, all the bondholders exercise the conversion right and its underlying stock was treasury stock of the Company 200,000 thousand shares which the shortage was paid in cash.

- (2) Cathay United Bank issued a 15-year US\$500,000 thousand subordinated financial debenture with a stated interest rate of 5.5% on 5 October 2005, and the interest is payable semiannually. Cathay United Bank can redeem the bond after 10 years by exercising the call option. Cathay United Bank has adopted hedge accounting to account for its subordinated financial debentures. Cathay United Bank had bought back the bonds amounting to US\$172,620 thousand in May 2009.
- (3) Cathay United Bank issued a seven-year subordinated financial debentures totaling \$1,200,000 thousand with a stated interest rate of 2.95% in September 2008, and the interest is payable quarterly.
- (4) Cathay United Bank issued a seven-year subordinated financial debentures totaling \$1,000,000 thousand with floating interest rate in September 2008, and the interest is payable quarterly.
- (5) Cathay United Bank issued a seven-year subordinated financial debentures totaling \$2,800,000 thousand with a stated interest rate of 2.95% in October 2008, and the interest is payable quarterly.
- (6) On December 8, 2008, the Company issued a seven-year subordinated bond totaling \$20,000,000 thousand with a stated interest rate of 3.10%. The subordinated bonds and repayable at maturity and the interest is payable annually.
- (7) Cathay United Bank issued an eight-year subordinated financial debentures totaling \$3,650,000 thousand with a stated interest rate of 2.42% in June 2009, and the interest is payable quarterly.
- (8) Cathay United Bank issued a ten-year subordinated financial debentures 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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- (9) On September 16, 2009, the Company issued a seven-year subordinated bond totaling \$20,000,000 thousand with a stated interest rate of 2.65%. The subordinated bonds and repayable at maturity and the interest is payable annually.
- (10) Cathay United Bank issued a seven-year subordinated financial debentures totaling \$3,850,000 thousand with a stated interest rate of 1.65% in March 2011, and the interest is payable quarterly.
- (11) Cathay United Bank issued a ten-year subordinated financial debentures totaling \$1,500,000 thousand with a stated interest rate of 1.72% in March 2011, and the interest is payable quarterly.
- (12) Cathay United Bank issued a seven-year subordinated financial debentures totaling \$3,900,000 thousand with a stated interest rate of 1.65% in June 2011, and the interest is payable quarterly.
- (13) Cathay United Bank issued a ten-year subordinated financial debentures totaling \$2,500,000 thousand with a stated interest rate of 1.72% in June 2011, and the interest is payable quarterly.
- (14) Cathay United Bank issued a seven-year subordinated financial debentures totaling \$200,000 thousand with a stated interest rate of 1.48% in June 2012, and the interest is payable annually.
- (15) Cathay United Bank issued a ten-year subordinated financial debentures totaling \$4,200,000 thousand with a stated interest rate of 1.65% in June 2012, and the interest is payable annually.
- (16) Cathay United Bank issued a ten-year subordinated financial debentures totaling \$5,600,000 thousand with a stated interest rate of 1.65% in August 2012, and the interest is payable annually.
- (17) Cathay United Bank issued a seven-year subordinated financial debentures totaling \$100,000 thousand with a stated interest rate of 1.55% in April 2013, and the interest is payable annually.
- (18) Cathay United Bank issued a ten-year subordinated financial debentures 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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(19) Cathay United Bank issued a seven-year subordinated financial debentures totaling \$3,000,000 thousand with a stated interest rate of 1.70% in May 2014, and the interest is payable annually.

(20) Cathay United Bank issued a ten-year subordinated financial debentures totaling \$12,000,000 thousand with a stated interest rate of 1.85% in May 2014, and the interest is payable annually.

(21) 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

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Separate account insurance products-liabilities	\$442,715,117	\$376,252,736	\$367,150,507	\$329,557,246
Principle received from the sale of structured products	72,840,621	36,113,309	28,460,292	17,340,691
Borrowed funds	-	31,849	49,163	85,500
Other financial liabilities	1,104,633	1,016,323	1,060,465	1,246,500
Total	<u>\$516,660,371</u>	<u>\$413,414,217</u>	<u>\$396,720,427</u>	<u>\$348,229,937</u>

22. Provisions

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Unearned premium reserve	\$24,216,030	\$23,779,676	\$23,093,190	\$22,176,220
Reserve for life insurance liabilities	3,504,452,332	3,298,323,062	3,188,304,950	2,993,462,480
Special reserve	41,749,382	49,775,293	52,372,525	59,874,744
Reserve for claims	13,343,052	10,682,607	10,576,364	10,356,844
Premium deficiency reserve	18,454,670	19,872,859	19,430,050	17,198,784
Reserve for insurance contracts with feature of financial instruments	55,145,882	57,596,449	58,276,728	61,350,872
Foreign exchange volatility reserve	13,173,058	10,482,181	8,544,887	4,270,856
Reserve for Guarantees	116,714	24,892	24,892	24,892
Reserve for employee benefits liabilities	5,950,670	5,959,721	5,930,467	5,813,917
Contingent liabilities reserve	771,142	921,412	956,515	1,158,682
Other operating reserve	22,680	22,680	-	-
Total	<u>\$3,677,395,612</u>	<u>\$3,477,440,832</u>	<u>\$3,367,510,568</u>	<u>\$3,175,688,291</u>

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(1) Life insurance subsidiaries

As of 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013, the details and changes of insurance contracts and financial instruments with discretionary participation feature are summarized below:

A. Reserve for life insurance liabilities:

	2014.9.30			2013.12.31		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
	Life insurance	\$3,055,878,330	\$13,008,484	\$3,068,886,814	\$2,830,815,643	\$41,698,426
Injury insurance	7,932,066	-	7,932,066	7,948,252	-	7,948,252
Health insurance	354,298,430	-	354,298,430	317,416,493	-	317,416,493
Annuity insurance	1,264,505	70,937,363	72,201,868	1,230,168	98,089,349	99,319,517
Investment-linked insurance	1,069,862	-	1,069,862	1,061,439	-	1,061,439
Recover from major incident reserve	63,292	-	63,292	63,292	-	63,292
Total	\$3,420,506,485	\$83,945,847	\$3,504,452,332	\$3,158,535,287	\$139,787,775	\$3,298,323,062

	2013.9.30			2013.1.1		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
	Life insurance	\$2,723,920,157	\$42,693,646	\$2,766,613,803	\$2,543,865,959	\$44,435,855
Injury insurance	7,902,089	-	7,902,089	7,888,169	-	7,888,169
Health insurance	304,210,521	-	304,210,521	270,572,717	-	270,572,717
Annuity insurance	1,233,184	107,190,683	108,423,867	1,226,217	124,300,017	125,526,234
Investment-linked insurance	1,091,378	-	1,091,378	1,110,254	-	1,110,254
Recover from major incident reserve	63,292	-	63,292	63,292	-	63,292
Total	\$3,038,420,621	\$149,884,329	\$3,188,304,950	\$2,824,726,608	\$168,735,872	\$2,993,462,480

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Reserve for life insurance liabilities is summarized below:

	2014.1.1~2014.9.30			2013.1.1~2013.9.30		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$3,158,535,287	\$139,787,775	\$3,298,323,062	\$2,824,726,608	\$168,735,872	\$2,993,462,480
Reserve	349,588,149	2,060,001	351,648,150	295,577,675	8,835,260	304,412,935
Recover	(93,733,098)	(57,881,950)	(151,615,048)	(85,164,892)	(27,003,557)	(112,168,449)
Losses(gains) on foreign exchange	6,116,147	(19,979)	6,096,168	3,281,230	(683,246)	2,597,984
Ending balance	\$3,420,506,485	\$83,945,847	\$3,504,452,332	\$3,038,420,621	\$149,884,329	\$3,188,304,950

B. Unearned premium reserve:

	2014.9.30			2013.12.31		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance	\$401,931	\$-	\$401,931	\$354,815	\$-	\$354,815
Individual injury insurance	4,748,028	-	4,748,028	4,695,925	-	4,695,925
Individual health insurance	6,396,137	-	6,396,137	6,457,104	-	6,457,104
Group insurance	1,115,762	-	1,115,762	946,897	-	946,897
Investment-linked insurance	110,924	-	110,924	111,466	-	111,466
Total	12,772,782	-	12,772,782	12,566,207	-	12,566,207
Less ceded unearned premium reserve:						
Individual life insurance	114,383	-	114,383	132,364	-	132,364
Individual injury insurance	6,077	-	6,077	151,009	-	151,009
Individual health insurance	61	-	61	6,151	-	6,151
Group insurance	552	-	552	32,458	-	32,458
Total	121,073	-	121,073	321,982	-	321,982
Net	\$12,651,709	\$-	\$12,651,709	\$12,244,225	\$-	\$12,244,225

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	2013.9.30			2013.1.1		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance	\$332,622	\$-	\$332,622	\$286,321	\$-	\$286,321
Individual injury insurance	4,582,620	-	4,582,620	4,536,860	-	4,536,860
Individual health insurance	6,079,407	-	6,079,407	6,137,375	-	6,137,375
Group insurance	1,125,567	-	1,125,567	1,025,604	-	1,025,604
Investment-linked insurance	111,070	-	111,070	118,616	-	118,616
Total	12,231,286	-	12,231,286	12,104,776	-	12,104,776
Less ceded unearned premium reserve:						
Individual life insurance	2,667,015	-	2,667,015	3,686,674	-	3,686,674
Individual injury insurance	474,455	-	474,455	4,690,485	-	4,690,485
Individual health insurance	4,519	-	4,519	2,862	-	2,862
Group insurance	23,801	-	23,801	4,260	-	4,260
Total	3,169,790	-	3,169,790	8,384,281	-	8,384,281
Net	\$9,061,496	\$-	\$9,061,496	\$3,720,495	\$-	\$3,720,495

Unearned premium reserve is summarized below:

	2014.1.1~2014.9.30			2013.1.1~2013.9.30		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$12,566,207	\$-	\$12,566,207	\$12,104,776	\$-	\$12,104,776
Reserve	12,721,592	-	12,721,592	12,178,438	-	12,178,438
Recover	(12,516,237)	-	(12,516,237)	(12,061,844)	-	(12,061,844)
Losses(gains) on foreign exchange	1,220	-	1,220	9,916	-	9,916
Ending balance	12,772,782	-	12,772,782	12,231,286	-	12,231,286
Less ceded unearned premium reserve:						
Beginning balance-Net	321,982	-	321,982	8,384,281	-	8,384,281
Increase	463	-	463	173,595	-	173,595
Decrease	(201,119)	-	(201,119)	(5,388,551)	-	(5,388,551)
Losses(gains) on foreign exchange	(253)	-	(253)	465	-	465
Total	121,073	-	121,073	3,169,790	-	3,169,790
Ending balance-Net	\$12,651,709	\$-	\$12,651,709	\$9,061,496	\$-	\$9,061,496

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C. Reserve for claims:

	2014.9.30			2013.12.31		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance						
– Reported but not paid claim	\$176,193	\$797	\$176,990	\$120,787	\$1,091	\$121,878
– Unreported claim	62,327	-	62,327	55,499	-	55,499
Individual injury insurance						
– Reported but not paid claim	112,377	-	112,377	104,922	-	104,922
– Unreported claim	1,216,330	-	1,216,330	1,136,476	-	1,136,476
Individual health insurance						
– Reported but not paid claim	171,742	-	171,742	161,210	-	161,210
– Unreported claim	1,853,831	-	1,853,831	1,668,718	-	1,668,718
Group insurance						
– Reported but not paid claim	77,459	-	77,459	133,679	-	133,679
– Unreported claim	1,207,689	-	1,207,689	1,254,846	-	1,254,846
Investment-linked insurance						
– Reported but not paid claim	7,238	-	7,238	3,856	-	3,856
Total	4,885,186	797	4,885,983	4,639,993	1,091	4,641,084
Less ceded reserve for claims:						
Individual injury insurance	16,926	-	16,926	16,875	-	16,875
Net	\$4,868,260	\$797	\$4,869,057	\$4,623,118	\$1,091	\$4,624,209

	2013.9.30			2013.1.1		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance						
– Reported but not paid claim	\$147,605	\$797	\$148,402	\$110,006	\$797	\$110,803
– Unreported claim	52,838	-	52,838	52,108	-	52,108
Individual injury insurance						
– Reported but not paid claim	127,011	-	127,011	150,906	-	150,906
– Unreported claim	1,077,209	-	1,077,209	1,027,670	-	1,027,670
Individual health insurance						
– Reported but not paid claim	147,109	-	147,109	127,591	-	127,591
– Unreported claim	1,698,416	-	1,698,416	1,542,886	-	1,542,886
Group insurance						
– Reported but not paid claim	95,102	-	95,102	102,306	-	102,306
– Unreported claim	1,293,175	-	1,293,175	1,432,384	-	1,432,384
Investment-linked insurance						
– Reported but not paid claim	10,900	-	10,900	4,600	-	4,600
Total	4,649,365	797	4,650,162	4,550,457	797	4,551,254
Less ceded reserve for claims:						
Individual injury insurance	689,157	-	689,157	780,831	-	780,831
Individual life insurance	6,165	-	6,165	523	-	523
Net	\$3,954,043	\$797	\$3,954,840	\$3,769,103	\$797	\$3,769,900

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Reserve for claims is summarized below:

	2014.1.1~2014.9.30			2013.1.1~2013.9.30		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	4,639,993	1,091	4,641,084	\$4,550,457	\$797	\$4,551,254
Reserve	4,747,472	797	4,748,269	4,600,603	797	4,601,400
Recover	(4,502,555)	(1,091)	(4,503,646)	(4,516,617)	(797)	(4,517,414)
Losses(gains) on foreign exchange	276	-	276	14,922	-	14,922
Ending balance	4,885,186	797	4,885,983	4,649,365	797	4,650,162
Less ceded reserve for claims:						
Beginning balance-Net	16,875	-	16,875	781,354	-	781,354
Increase	16	-	16	5,568	-	5,568
Decrease	-	-	-	(91,674)	-	(91,674)
Losses(gains) on foreign exchange	35	-	35	74	-	74
Total	16,926	-	16,926	695,322	-	695,322
Net	\$4,868,260	\$797	\$4,869,057	\$3,954,043	\$797	\$3,954,840

D. Special reserve:

	2014.9.30				2013.12.31			
	Financial instruments with discretionary participation				Financial instruments with discretionary participation			
	Insurance contract	feature	Other	Total	Insurance contract	feature	Other	Total
Participating policies dividends reserve	\$1,492	\$-	\$-	\$1,492	\$1,931	\$-	\$-	\$1,931
Special reserve for revaluation increments of property	-	37,946,619	37,946,619	-	-	45,416,619	45,416,619	
Others	1,770	-	-	1,770	1,751	-	-	1,751
Total	\$3,262	\$-	\$37,946,619	\$37,949,881	\$3,682	\$-	\$45,416,619	\$45,420,301

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	2013.9.30				2013.1.1			
	Financial instruments with discretionary participation				Financial instruments with discretionary participation			
	Insurance contract	feature	Other	Total	Insurance contract	feature	Other	Total
	Participating policies dividends reserve	\$1,683	\$-	\$-	\$1,683	\$1,970	\$-	\$-
Special reserve for revaluation increments of property	-	-	47,946,619	47,946,619	-	-	55,416,619	55,416,619
Others	517	-	-	517	517	-	-	517
Total	\$2,200	\$-	\$47,946,619	\$47,948,819	\$2,487	\$-	\$55,416,619	\$55,419,106

Special reserve is summarized below:

	2014.1.1~2014.9.30				2013.1.1~2013.9.30			
	Financial instruments with discretionary participation				Financial instruments with discretionary participation			
	Insurance contract	feature	Other	Total	Insurance contract	feature	Other	Total
	Beginning balance	\$3,682	\$-	\$45,416,619	\$45,420,301	\$2,487	\$-	\$55,416,619
Reserves for participating policies dividends reserve	878	-	-	878	908	-	-	908
Recover from participating policies dividends reserve	(1,317)	-	-	(1,317)	(1,195)	-	-	(1,195)
Special reserve for revaluation increments of property (Note)	-	-	(7,470,000)	(7,470,000)	-	-	(7,470,000)	(7,470,000)
Exchange difference	19	-	-	19	-	-	-	-
Ending balance	\$3,262	\$-	\$37,946,619	\$37,949,881	\$2,200	\$-	\$47,946,619	\$47,948,819

Note: According to the regulations authorized by the FSC on 29 January 2014 and 28 January 2013, Cathay Life can recover special reserve for revaluation increments of property by month, and the total recovered amount during the year ended 31 December 2014 and 2013 is NT\$10 billion.

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E. Premium deficiency reserve:

	2014.9.30			2013.12.31		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance	\$17,658,322	\$-	\$17,658,322	\$19,012,225	\$-	\$19,012,225
Individual health insurance	624,383	-	624,383	615,791	-	615,791
Group insurance	938	-	938	1,237	-	1,237
Total	\$18,283,643	\$-	\$18,283,643	\$19,629,253	\$-	\$19,629,253

	2013.9.30			2013.1.1		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance	\$18,667,313	\$-	\$18,667,313	\$16,389,516	\$-	\$16,389,516
Individual health insurance	614,810	-	614,810	690,546	-	690,546
Group insurance	1,461	-	1,461	41,573	-	41,573
Total	\$19,283,584	\$-	\$19,283,584	\$17,121,635	\$-	\$17,121,635

Premium deficiency reserve is summarized below:

	2014.1.1~2014.9.30			2013.1.1~2013.9.30		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$19,629,253	\$-	\$19,629,253	\$17,121,635	\$-	\$17,121,635
Reserve	303,195	-	303,195	2,382,523	-	2,382,523
Recover	(1,804,034)	-	(1,804,034)	(347,578)	-	(347,578)
Losses(gains) on foreign exchange	155,229	-	155,229	127,004	-	127,004
Ending balance	\$18,283,643	\$-	\$18,283,643	\$19,283,584	\$-	\$19,283,584

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F. Liability adequacy reserve

	<u>2014.9.30</u>	<u>2013.12.31</u>	<u>2013.9.30</u>	<u>2013.1.1</u>
	<u>Insurance contract</u>	<u>Insurance contract</u>	<u>Insurance contract</u>	<u>Insurance contract</u>
	<u>and financial</u>	<u>and financial</u>	<u>and financial</u>	<u>and financial</u>
	<u>instruments with</u>	<u>instruments with</u>	<u>instruments with</u>	<u>instruments with</u>
	<u>discretionary</u>	<u>discretionary</u>	<u>discretionary</u>	<u>discretionary</u>
	<u>participation feature</u>	<u>participation feature</u>	<u>participation feature</u>	<u>participation feature</u>
Reserve for life				
insurance liabilities	\$3,504,452,331	\$3,298,323,062	\$3,188,304,950	\$2,993,462,480
Unearned premium				
reserve	12,772,782	12,566,207	12,231,286	12,104,776
Premium deficiency				
reserve	18,283,643	19,629,253	19,283,584	17,121,635
Total	<u>3,535,508,756</u>	<u>\$3,330,518,522</u>	<u>\$3,219,819,820</u>	<u>\$3,022,688,891</u>
Book value of				
insurance liabilities	<u>3,535,508,756</u>	<u>\$3,330,518,522</u>	<u>\$3,219,819,820</u>	<u>\$3,022,688,891</u>
Estimated present				
value of cash flows	<u>2,873,147,728</u>	<u>\$2,611,105,371</u>	<u>\$2,768,317,572</u>	<u>\$2,176,699,004</u>
Balance of liability				
adequacy reserve	<u>\$-</u>	<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: There are no instances of merger or transfer of insurance contract for the subsidiaries of life insurance. As such, the book value of related intangible assets shall not be deducted from book value of insurance liability for liability adequacy reserve test.

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

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing	Integrated testing	Integrated testing
Assumptions	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 30 September 2014.	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 December 2013.	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 30 September 2013.	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 December 2012.
	(2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2013, with neutral assumption for discount rates after 30 years.	(2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2012, with neutral assumption for discount rates after 30 years.	(2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2012, with neutral assumption for discount rates after 30 years.	(2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2011, with neutral assumption for discount rates after 30 years.

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Cathay Life (China)'s liability adequacy testing methodology are listed as follows:

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing	Integrated testing	Integrated testing
Assumptions	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 30 September 2014.	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 December 2013.	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 30 September 2013.	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 December 2012.
	(2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2013, with neutral assumption for discount rates after 30 years.	(2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2012, with neutral assumption for discount rates after 30 years.	(2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2012, with neutral assumption for discount rates after 30 years.	(2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2011, with neutral assumption for discount rates after 30 years.

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G. 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 2014, 31 December 2013, 30 September 2013 and 1 January 2013, reserve for insurance contract with feature of financial instruments is summarized below:

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Life insurance	\$55,144,587	\$57,595,990	\$58,276,567	\$61,350,872
Investment-linked insurance	1,295	459	161	-
Total	\$55,145,882	\$57,596,449	\$58,276,728	\$61,350,872

	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Beginning balance	\$57,596,449	\$61,350,872
Premiums (returned) received	707,763	1,084,282
Insurance claim payments	(3,294,169)	(3,866,189)
Net provision of statutory reserve	126,161	(467,000)
Losses(gains) on foreign exchange	9,678	174,763
Ending balance	\$55,145,882	\$58,276,728

H. 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, life insurance subsidiaries consistently adjusts the hedge ratios and risk exposure position under the risk control.

(B) Adjustment in foreign exchange volatility reserve:

	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Beginning balance	\$10,482,181	\$4,270,856
Reserve:		
Compulsory reserve	2,176,201	1,658,930
Extra reserve	3,892,579	3,558,051
Subtotal	6,068,780	5,216,981
Recover	3,377,903	942,950
Total	\$13,173,058	\$8,544,887

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(C) Effects due to foreign exchange volatility reserve:

2014.1.1~2014.9.30			
Item	Inapplicable amount (1)	Applicable amount (2)	Effects (3)= (2) - (1)
Consolidated income	\$46,978,188	\$44,744,761	\$(2,233,427)
Earnings per share	3.72	3.54	(0.18)
Foreign exchange volatility reserve	-	13,173,058	13,173,058
Equity	407,920,727	400,731,556	(7,189,171)

2013.1.1~2013.9.30			
Item	Inapplicable amount (1)	Applicable amount (2)	Effects (3)= (2) - (1)
Consolidated income	\$32,581,972	\$29,034,526	\$(3,547,446)
Earnings per share	2.69	2.40	(0.29)
Foreign exchange volatility reserve	-	8,544,887	8,544,887
Equity	338,436,465	335,088,676	(3,347,789)

(2) Century Insurance subsidiaries

A. Unearned premiums reserve

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

Item	2014.9.30			
	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance	
			business	Retained business
Fire insurance	\$2,065,033	\$74,606	\$1,035,197	\$1,104,442
Marine insurance	129,376	16,908	93,179	53,105
Land and air insurance	3,760,959	7,734	163,066	3,605,627
Liability insurance	520,507	1,106	159,134	362,479
Bonding insurance	40,126	586	24,692	16,020
Other property insurance	1,388,990	23,662	551,797	860,855
Accident insurance	1,562,730	2,248	73,389	1,491,589
Health insurance	40,508	-	6	40,502
Compulsory automobile liability insurance	1,608,500	199,669	532,515	1,275,654
Total	\$11,116,729	\$326,519	\$2,632,975	\$8,810,273

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2013.12.31				
Item	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance	
			business	Retained business
Fire insurance	\$2,026,423	\$54,083	\$964,076	\$1,116,430
Marine insurance	139,775	14,955	104,044	50,686
Land and air insurance	3,590,802	8,625	178,898	3,420,529
Liability insurance	538,568	597	166,651	372,514
Bonding insurance	35,730	722	18,958	17,494
Other property insurance	1,477,530	30,213	475,846	1,031,897
Accident insurance	1,510,910	2,591	71,337	1,442,164
Health insurance	48,879	-	156	48,723
Compulsory automobile liability insurance	1,544,803	188,263	515,124	1,217,942
Total	\$10,913,420	\$300,049	\$2,495,090	\$8,718,379

2013.9.30				
Item	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance	
			business	Retained business
Fire insurance	\$2,139,405	\$62,222	\$823,532	\$1,378,095
Marine insurance	160,604	11,984	118,871	53,717
Land and air insurance	3,294,044	13,153	116,206	3,190,991
Liability insurance	522,982	60	169,083	353,959
Bonding insurance	28,404	50	13,148	15,306
Other property insurance	1,373,786	30,806	475,198	929,394
Accident insurance	1,516,340	2,289	51,695	1,466,934
Health insurance	58,153	-	190	57,963
Compulsory automobile liability insurance	1,459,824	187,798	505,256	1,142,366
Total	\$10,553,542	\$308,362	\$2,273,179	\$8,588,725

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Item	2013.1.1			
	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance	
			business	Retained business
Fire insurance	\$2,100,879	\$56,882	\$916,559	\$1,241,202
Marine insurance	241,010	17,432	209,087	49,355
Land and air insurance	2,926,171	13,196	161,337	2,778,030
Liability insurance	514,215	173	171,208	343,180
Bonding insurance	26,491	537	9,156	17,872
Other property insurance	1,152,073	15,942	514,617	653,398
Accident insurance	1,529,451	3,976	84,690	1,448,737
Health insurance	88,102	-	1,154	86,948
Compulsory automobile liability insurance	1,198,010	186,904	479,228	905,686
Total	\$9,776,402	\$295,042	\$2,547,036	\$7,524,408

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

Item	2014.1.1~2014.9.30		2013.1.1~2013.9.30	
	Unearned premium reserve	Ceded unearned premium reserve	Unearned premium reserve	Ceded unearned premium reserve
Beginning balance	\$11,213,469	\$2,495,090	\$10,071,444	\$2,547,036
Reserve	11,433,551	2,630,425	10,843,524	2,262,874
Recover	(11,206,568)	(2,494,813)	(10,104,026)	(2,539,836)
Effects of exchange rate changes	2,796	2,273	50,962	3,105
Ending balance	\$11,443,248	\$2,632,975	\$10,861,904	\$2,273,179

B. Claims reserve

a. Claims reserve and ceded claims reserve

Item	2014.9.30			
	Claims reserve		Ceded claims reserve	Retained business (4)=(1)+(2)-(3)
	Direct business (1)	Assumed reinsurance business (2)	Ceded reinsurance business (3)	
Claims reported but not paid off	\$4,409,607	\$251,293	\$1,418,466	\$3,242,434
Unreported claims	3,579,610	216,559	969,232	2,826,937
Total	\$7,989,217	\$467,852	\$2,387,698	\$6,069,371

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2013.12.31				
Item	Claims reserve		Ceded claims	Retained business (4)=(1)+(2)-(3)
	Assumed		reserve	
	Direct business	reinsurance business	Ceded reinsurance	
	(1)	(2)	business (3)	
Claims reported but not paid off	\$3,886,032	\$307,234	\$1,350,564	\$2,842,702
Unreported claims	1,789,128	59,129	313,203	1,535,054
Total	\$5,675,160	\$366,363	\$1,663,767	\$4,377,756

2013.9.30				
Item	Claims reserve		Ceded claims	Retained business (4)=(1)+(2)-(3)
	Assumed		reserve	
	Direct business	reinsurance business	Ceded reinsurance	
	(1)	(2)	business (3)	
Claims reported but not paid off	\$3,793,036	\$309,903	\$1,404,635	\$2,698,304
Unreported claims	1,754,952	68,311	377,943	1,445,320
Total	\$5,547,988	\$378,214	\$1,782,578	\$4,143,624

2013.1.1				
Item	Claims reserve		Ceded claims	Retained business (4)=(1)+(2)-(3)
	Assumed		reserve	
	Direct business	reinsurance business	Ceded reinsurance	
	(1)	(2)	business (3)	
Claims reported but not paid off	\$4,111,890	\$293,676	\$1,723,922	\$2,681,644
Unreported claims	1,362,292	37,732	290,394	1,109,630
Total	\$5,474,182	\$331,408	\$2,014,316	\$3,791,274

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b. Net changes for claims reserve and ceded claims reserve

2014.1.1~2014.9.30								
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	\$4,399,489	\$3,882,078	\$251,292	\$307,234	\$461,469	\$1,414,241	\$1,350,397	\$63,844
Unreported claims	3,575,002	1,786,588	216,554	59,076	1,945,892	968,319	312,701	655,618
Total	\$7,974,491	\$5,668,666	\$467,846	\$366,310	\$2,407,361	\$2,382,560	\$1,663,098	\$719,462

2013.1.1~2013.9.30								
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	\$3,788,450	\$4,125,018	\$309,903	\$293,676	\$(320,341)	\$1,404,561	\$1,728,408	\$(323,847)
Unreported claims	1,751,241	1,369,881	68,273	39,583	410,050	377,170	292,173	84,997
Total	\$5,539,691	\$5,494,899	\$378,176	\$333,259	\$89,709	\$1,781,731	\$2,020,581	\$(238,850)

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

2014.9.30			
Item	Claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$1,549,290	\$113,163	\$1,662,453
Marine insurance	408,866	230,224	639,090
Land and air insurance	914,095	776,268	1,690,363
Liability insurance	271,141	469,853	740,994
Bonding insurance	20,125	3,357	23,482
Other property insurance	702,366	313,783	1,016,149
Accident insurance	101,664	388,917	490,581
Health insurance	3,793	39,604	43,397
Compulsory automobile liability insurance	689,560	1,461,000	2,150,560
Total	\$4,660,900	\$3,796,169	\$8,457,069

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Item	2013.12.31		
	Claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$859,480	\$134,727	\$994,207
Marine insurance	621,182	176,133	797,315
Land and air insurance	820,143	620,039	1,440,182
Liability insurance	259,018	281,177	540,195
Bonding insurance	19,789	1,837	21,626
Other property insurance	654,657	189,141	843,798
Accident insurance	67,805	350,047	417,852
Health insurance	6,149	44,518	50,667
Compulsory automobile liability insurance	885,043	50,638	935,681
Total	\$4,193,266	\$1,848,257	\$6,041,523

Item	2013.9.30		
	Claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$848,335	\$43,566	\$891,901
Marine insurance	692,563	269,284	961,847
Land and air insurance	802,050	609,528	1,411,578
Liability insurance	252,927	298,340	551,267
Bonding insurance	19,604	1,387	20,991
Other property insurance	589,824	189,576	779,400
Accident insurance	89,694	331,934	421,628
Health insurance	100	41,492	41,592
Compulsory automobile liability insurance	807,842	38,156	845,998
Total	\$4,102,939	\$1,823,263	\$5,926,202

Item	2013.1.1		
	Claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$1,338,560	\$19,362	\$1,357,922
Marine insurance	794,556	159,313	953,869
Land and air insurance	690,396	491,381	1,181,777
Liability insurance	249,023	226,183	475,206
Bonding insurance	19,834	14,294	34,128
Other property insurance	487,486	145,645	633,131
Accident insurance	68,515	284,938	353,453
Health insurance	6,816	39,229	46,045
Compulsory automobile liability insurance	750,380	19,679	770,059
Total	\$4,405,566	\$1,400,024	\$5,805,590

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d. Reinsurance asset- ceded claims reserve for policyholder

Item	2014.9.30		
	Ceded claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$603,761	\$38,227	\$641,988
Marine insurance	253,448	164,951	418,399
Land and air insurance	50,924	28,269	79,193
Liability insurance	74,936	137,459	212,395
Bonding insurance	18,214	1,276	19,490
Other property insurance	247,461	67,892	315,353
Accident insurance	8,946	42,941	51,887
Health insurance	-	(142)	(142)
Compulsory automobile liability insurance	160,776	488,359	649,135
Total	\$1,418,466	\$969,232	\$2,387,698

Item	2013.12.31		
	Ceded claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$286,597	\$32,707	\$319,304
Marine insurance	439,425	121,983	561,408
Land and air insurance	61,353	17,045	78,398
Liability insurance	71,041	89,780	160,821
Bonding insurance	18,180	695	18,875
Other property insurance	181,717	13,811	195,528
Accident insurance	5,034	28,494	33,528
Health insurance	-	692	692
Compulsory automobile liability insurance	287,217	7,996	295,213
Total	\$1,350,564	\$313,203	\$1,663,767

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Item	2013.9.30		
	Ceded claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$355,159	\$10,491	\$365,650
Marine insurance	484,814	207,344	692,158
Land and air insurance	61,028	16,602	77,630
Liability insurance	67,851	88,398	156,249
Bonding insurance	18,162	542	18,704
Other property insurance	139,267	16,680	155,947
Accident insurance	7,322	29,186	36,508
Health insurance	-	816	816
Compulsory automobile liability insurance	271,032	7,884	278,916
Total	\$1,404,635	\$377,943	\$1,782,578

Item	2013.1.1		
	Ceded claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$556,200	\$3,430	\$559,630
Marine insurance	614,236	133,937	748,173
Land and air insurance	42,156	11,765	53,921
Liability insurance	68,341	76,629	144,970
Bonding insurance	18,225	5,719	23,944
Other property insurance	152,278	18,356	170,634
Accident insurance	6,829	31,650	38,479
Health insurance	75	1,398	1,473
Compulsory automobile liability insurance	265,582	7,510	273,092
Total	\$1,723,922	\$290,394	\$2,014,316

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e. Reconciliation statement of claims reserve and ceded claims reserve

Item	2014.1.1~2014.9.30		2013.1.1~2013.9.30	
	Claims reserve	Ceded claims reserve	Claims reserve	Ceded claims reserve
Beginning balance	\$6,041,523	\$1,663,767	\$5,805,590	\$2,014,316
Reserve	8,442,337	2,382,560	5,917,867	1,781,731
Recover	(6,034,976)	(1,663,098)	(5,828,158)	(2,020,581)
Effects of exchange rate changes	8,185	4,469	30,903	7,112
Ending balance	<u>\$8,457,069</u>	<u>\$2,387,698</u>	<u>\$5,926,202</u>	<u>\$1,782,578</u>

C. Special reserve

a. Special reserve - Compulsory automobile liability insurance

Item	2014.1.1~2014.9.30	2013.1.1~2013.9.30
Beginning balance	\$2,225,672	\$2,307,591
Reserve	25,290	215,711
Recover	(580,781)	(247,643)
Ending balance	<u>\$1,670,181</u>	<u>\$2,275,659</u>

b. Special reserve - Non-compulsory automobile liability insurance

Item	Liability					
	2014.1.1~2014.9.30			2013.1.1~2013.9.30		
	Major incidents	Fluctuation of risks	Total	Major incidents	Fluctuation of risks	Total
Beginning balance	\$543,080	\$1,586,240	\$2,129,320	\$1,113,068	\$1,034,979	\$2,148,047
Reserve	-	-	-	-	-	-
Recover	-	-	-	-	-	-
Ending balance	<u>\$543,080</u>	<u>\$1,586,240</u>	<u>\$2,129,320</u>	<u>\$1,113,068</u>	<u>\$1,034,979</u>	<u>\$2,148,047</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 material impact on the Cathay Century profit and earnings per share. The special reserve under liabilities increased \$1,277,740 thousand and special earnings capital under equity decreased \$456,594 thousand.

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D. Premiums deficiency reserve

a. Premiums deficiency reserve and ceded premium deficiency reserve

2014.9.30				
Item	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
		business		
Fire insurance	\$288	\$1	\$-	\$289
Marine insurance	-	13	(3,367)	3,380
Land and air insurance	-	557	(228)	785
Liability insurance	16,802	10	2,302	14,510
Bonding insurance	23	-	4	19
Other property insurance	108,890	10	34,601	74,299
Accident insurance	-	16	-	16
Health insurance	-	-	-	-
Compulsory automobile liability insurance	44,417	-	-	44,417
Total	<u>\$170,420</u>	<u>\$607</u>	<u>\$33,312</u>	<u>\$137,715</u>

2013.12.31				
Item	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
		business		
Fire insurance	\$4,237	\$92	\$-	\$4,329
Marine insurance	160	2	(8,736)	8,898
Land and air insurance	-	377	(329)	706
Liability insurance	27,518	12	3,485	24,045
Bonding insurance	10,288	-	9,698	590
Other property insurance	161,090	424	-	161,514
Accident insurance	-	97	-	97
Health insurance	-	-	-	-
Compulsory automobile liability insurance	39,309	-	-	39,309
Total	<u>\$242,602</u>	<u>\$1,004</u>	<u>\$4,118</u>	<u>\$239,488</u>

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2013.9.30				
Item	Ceded premiums			
	Premiums deficiency reserve		deficiency reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	\$3,840	\$80	\$-	\$3,920
Marine insurance	127	3	(10,632)	10,762
Land and air insurance	-	561	-	561
Liability insurance	15,489	7	-	15,496
Bonding insurance	7,223	-	6,516	707
Other property insurance	86,900	433	2	87,331
Accident insurance	-	120	-	120
Health insurance	-	-	-	-
Compulsory automobile liability insurance	31,683	-	-	31,683
Total	\$145,262	\$1,204	\$(4,114)	\$150,580

2013.1.1				
Item	Ceded premiums			
	Premiums deficiency reserve		deficiency reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	\$6,198	\$23	\$-	\$6,221
Marine insurance	9,322	726	(7,185)	17,233
Land and air insurance	-	9,319	-	9,319
Liability insurance	13,059	10	-	13,069
Bonding insurance	2,204	-	2,096	108
Other property insurance	35,659	435	34	36,060
Accident insurance	-	194	-	194
Health insurance	-	-	-	-
Total	\$66,442	\$10,707	\$(5,055)	\$82,204

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

Item	2014.1.1~2014.9.30								
	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	\$286	\$4,209	\$1	\$91	\$(4,013)	\$-	\$-	\$-	\$(4,013)
Marine insurance	-	159	13	2	(148)	(3,367)	(8,736)	5,369	(5,517)
Land and air insurance	-	-	557	377	180	(229)	(329)	100	80
Liability insurance	16,658	27,338	10	11	(10,681)	2,283	3,462	(1,179)	(9,502)
Bonding insurance	22	10,288	-	-	(10,266)	4	9,698	(9,694)	(572)
Other property insurance	107,955	160,035	10	422	(52,492)	34,304	-	34,304	(86,796)
Accident insurance	-	-	16	97	(81)	-	-	-	(81)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	44,035	39,051	-	-	4,984	-	-	-	4,984
Total	\$168,956	\$241,080	\$607	\$1,000	\$(72,517)	\$32,995	\$4,095	\$28,900	\$(101,417)

Item	2013.1.1~2013.9.30								
	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	\$3,802	\$6,341	\$80	\$24	\$(2,483)	\$-	\$-	\$-	\$(2,483)
Marine insurance	126	9,328	3	726	(9,925)	(10,633)	(7,183)	(3,450)	(6,475)
Land and air insurance	-	-	561	9,320	(8,759)	-	-	-	(8,759)
Liability insurance	15,338	13,409	7	10	1,926	-	-	-	1,926
Bonding insurance	7,222	2,207	-	-	5,015	6,516	2,096	4,420	595
Other property insurance	86,054	36,637	429	447	49,399	2	35	(33)	49,432
Accident insurance	-	-	119	199	(80)	-	-	-	(80)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	31,374	-	-	-	31,374	-	-	-	31,374
Total	\$143,916	\$67,922	\$1,199	\$10,726	\$66,467	\$(4,115)	\$(5,052)	\$937	\$65,530

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

Item	2014.1.1~2014.9.30		2013.1.1~2013.9.30	
	Premiums deficiency reserve	Ceded premiums deficiency reserve	Premiums deficiency reserve	Ceded premiums deficiency reserve
Beginning balance	\$243,606	\$4,118	\$77,149	\$(5,055)
Reserve	169,563	32,995	145,115	(4,115)
Recover	(242,080)	(4,095)	(78,648)	5,052
Effects of exchange rate changes	(62)	294	2,850	4
Ending balance	\$171,027	\$33,312	\$146,466	\$(4,114)

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 statements in the past three years exclude 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.

23. Post-employment benefits

(1) Defined contribution plans

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

The subsidiaries located in People's Republic of China contributed social endowment insurance in certain proportion of gross salary of employees to government, depositing the contribution in each employee's independent account.

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The other overseas subsidiaries and branches made pension contribution to related pension administration entities.

The Group recognized expenses for defined contribution plan amounted to \$359,669 thousand, \$312,223 thousand, \$980,630 thousand and \$952,827 thousand for the three-month and nine-month periods ended 30 September 2014 and 2013, respectively, and recorded as “Employee benefits expenses”.

(2) Defined benefit plans

The Group recognized expenses for defined benefit plans amounted to \$105,470 thousand, \$143,809 thousand \$315,850 thousand and \$431,266 thousand for the three-month and nine-month periods ended 30 September 2014 and 2013, respectively, and recorded as “Employee benefits expenses”.

(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 \$76,014 thousand, \$74,759 thousand, \$228,744 thousand and \$218,041 thousand for the three-month and nine-month periods ended 30 September 2014 and 2013, respectively, and recorded as “Employee benefits expenses”.

24. Common Stock

- (1) As of 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013, the authorized share capital amounted to \$180,000,000 thousand, \$120,000,000 thousand, \$120,000,000 thousand, and \$120,000,000 thousand respectively, and the issued share capital amounted to \$125,632,102 thousand, \$119,649,621 thousand (including stock dividends to be distributed), \$119,649,621 thousand, and \$108,653,851 thousand, with 12,563,210 thousand shares, 11,964,962 thousand shares, 11,964,962 thousand shares and 10,865,385 thousand shares, respectively. These shares are common stock with par value of \$10.

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- (2) The recapitalization of undistributed earnings of \$5,982,481 thousand by issuing 598,248 thousand shares with par value of \$10 was resolved at the Company's shareholders' meeting on 6 June 2014. The recapitalization was approved by the Financial Supervisory Commission on 20 August 2014 and the recapitalization record date was 4 August 2014.
- (3) The recapitalization of cash by issuing 353,000 thousand shares with par value of \$10 was resolved at the Company's board of directors on 24 May 2013 and approved by the Financial Supervisory Commission on 17 June 2013. The company set the issue par value at \$36 on 12 July 2013. The authorized share capital amounted to \$12,708,000 thousand, and the recapitalization record date was 9 September 2013.
- (4) The recapitalization of undistributed earnings of \$7,465,770 thousand by issuing 746,577 thousand shares with par value of \$10 was resolved at the Company's shareholders' meeting on 14 June 2013. The recapitalization was approved by the Financial Supervisory commission on 3 October 2013, and the recapitalization record date was 8 November 2013.
- (5) On 31 December 2001, the Company listed its shares on Taiwan Stock Exchange Corporation (TWSE) in accordance with relevant regulations. On 29 July 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs).

25. Capital surplus

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Additional paid-in capital	\$84,858,972	\$85,126,187	\$85,126,187	\$75,948,187
Treasury share transactions	2,539,377	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	-	-
Additional paid-in capital-Employee stock option	203,408	203,408	203,408	-
Convertible bonds to convert	1,144,486	1,144,486	-	-
Others	6,919	20,584	20,584	20,584
Total	<u>\$88,782,304</u>	<u>\$89,063,184</u>	<u>\$87,889,556</u>	<u>\$78,508,148</u>

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- (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 \$88,782,304 thousand, \$89,063,184 thousand, \$87,889,556 thousand, and \$78,508,148 thousand as of 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013, respectively. Retained earnings from certain subsidiaries of the Company before the stock exchange of formation of the financial holding company amounted to \$267,215 thousand and were included in the capital surplus as of 31 December 2013, 30 September 2013, and 1 January 2013.
- (2) According to the Letter Taiwan-Finance-Securities (VI) No. 0910003413 issued by Ministry of Finance on 11 June 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".
- (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 6 June 2014, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of \$2,861,628 thousand. On 14 June 2013, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of \$1,700,174 thousand.

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(2) Special reserve

- A. According to the legal interpretations No.1010012865 issued by Financial Supervisory Commission 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.
- 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.

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- 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 \$9,166 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 the nine-month period ended September 30 2014. As of 30 September 2014, 31 December 2013, 30 September 2013, 1 January 2013, the special reserves amounted to \$75,232,984 thousand, \$75,242,150 thousand, \$75,242,150 thousand, \$75,242,150 thousand, respectively.
- F. On 21 April 2014, the Company's board of directors, acting on behalf of the shareholders, resolved to use the special capital reserves to offset the cumulative deficits amounting to \$1,684,327 thousand after recognizing special capital reserves of \$14,144,966 thousand, among which special reserves for major incidents and special reserves for fluctuation of risks in the amount of \$1,439,845 thousand had been recognized at the end of 2013 in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises." The resolution was authorized by Financial Supervisory Commission on 22 April 2014.
- G. Cathay Century's special reserves for major incidents and special reserve for fluctuation of risks shall be recorded as special reserve at the end of year. As of 30 September 2014, the reserves amounted to \$1,364,645 thousand.

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(3) Undistributed earnings

- A. According to Article 30 of 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, and 0.01%~0.05% of the aforementioned amount shall be distributed as the employee bonus.
- 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.
- D. The employee bonus and remuneration of directors for the nine-month periods ended 30 September 2014 and 2013, amounting to \$1,575 thousand and \$2,475 thousand, respectively, were accrued based on the average of actual distribution in the past three years and recognized as operating costs or expenses. The difference between the actual distribution and the estimated amount will be adjusted in the following fiscal year.
- E. Details of the year ended 31 December 2013 and 2012 earnings distribution and dividends per share as approved by the shareholders' meeting on 6 June 2014 and 14 June 2013, respectively, are as follows:

	Appropriation of earnings		Dividend per share	
	2013	2012	2013	2012
Legal reserve	\$2,861,628	\$1,700,174	\$-	\$-
Common stock -cash dividend	17,947,443	7,465,770	1.5	0.7
Common stock-stock dividend	5,982,481	7,465,770	0.5	0.7
Directors' remuneration	3,300	5,400	-	-
Employee bonus-cash	2,394	1,494	-	-

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There is no significant difference between the actual employee bonuses and remuneration to directors and supervisors distributed from the year ended 31 December 2012's earnings and the estimated amount in the financial statements for the year ended 31 December 2012.

F. Information regarding the board of directors' recommendations and shareholders' approval regarding the employee bonuses and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of TWSE.

27. Treasury stock

As of 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013, the amount and share number of treasury stocks were \$0 thousand, \$0 thousand, \$7,179,872 thousand, and \$7,179,872 thousand, and 0 thousand shares, 0 thousand shares, 200,000 thousand shares, and 200,000 thousand shares, respectively. Please refer to Note 20 for the change in treasury stock for the year ended 31 December 2013.

28. Non-controlling interests

	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Beginning balance	4,180,338	\$3,751,614
Net income attributed to non-controlling interests	259,327	232,224
Other comprehensive income attributed to non-controlling interests:		
Exchange differences resulting from translating the financial statements of a foreign operation	81,923	84,572
Unrealized gains from available-for-sale financial assets	76,300	(27,382)
The movement of non-controlling interests	801,603	119,730
Ending balance	<u>5,399,491</u>	<u>\$4,160,758</u>

29. Employee benefits, depreciation and amortization

Summary statement of employee benefits and depreciation expenses breakdown:

	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Employee benefits expense				
Salary and wages	7,044,841	\$5,909,674	20,284,414	\$19,169,809
Labor and health insurance	823,369	792,838	2,391,829	2,604,421
Pension expense	487,349	477,933	1,364,432	1,451,372
Other employee benefits	611,902	652,066	1,718,177	1,647,013
Depreciation	543,967	630,123	1,640,865	1,881,879
Amortization	79,188	82,563	223,423	245,186

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30. The Components of other comprehensive income

For the three-month periods ended 30 September 2014

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	\$394,500	\$-	\$394,500	\$(69,554)	\$324,946
Unrealized gains(losses) from available-for-sale financial assets	(17,947,653)	(6,693,398)	(24,641,051)	153,067	(24,487,984)
Gains(losses) on cash flow hedges	(39,244)	(107,516)	(146,760)	24,793	(121,967)
Gains from revaluation	-	-	-	-	-
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	404	-	404	-	404
Total	<u>\$(17,591,993)</u>	<u>\$(6,800,914)</u>	<u>\$(24,392,907)</u>	<u>\$108,306</u>	<u>\$(24,284,601)</u>

For the three-month periods ended 30 September 2013

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	\$(360,960)	\$-	\$(360,960)	\$32,733	\$(328,227)
Unrealized gains(losses) from available-for-sale financial assets	(3,766,963)	(3,982,589)	(7,749,552)	(136,762)	(7,886,314)
Gains(losses) on cash flow hedges	(24,791)	(173,909)	(198,700)	33,616	(165,084)
Gains from revaluation	(23,784)	-	(23,784)	-	(23,784)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	\$(4,176,498)	\$(4,156,498)	\$(8,332,996)	\$(70,413)	\$(8,403,409)

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For the nine-month period ended 30 September 2014

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	\$13,029	\$-	\$13,029	\$(54,824)	\$(41,795)
Unrealized gains(losses) from available-for-sale financial assets	13,795,617	(21,077,041)	(7,281,424)	378,836	(6,902,588)
Gains(loss) on cash flow hedges	55,209	(377,257)	(322,048)	53,663	(268,385)
Gains from revaluation	902,335	-	902,335	(74,726)	827,609
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	21,272	(13)	21,259	-	21,259
Total	<u>\$14,787,462</u>	<u>\$(21,454,311)</u>	<u>\$(6,666,849)</u>	<u>\$302,949</u>	<u>\$(6,363,900)</u>

For the nine-month period ended 30 September 2013

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	\$371,207	\$-	\$371,207	\$(31,874)	\$339,333
Unrealized gains(losses) from available-for-sale financial assets	(11,848,887)	(13,348,410)	(25,197,297)	2,673,265	(22,524,032)
Gains(losses) on cash flow hedges	(45,135)	(545,993)	(591,128)	99,379	(491,749)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(33,441)	-	(33,441)	-	(33,441)
Total	<u>\$(11,556,256)</u>	<u>\$(13,894,403)</u>	<u>\$(25,450,659)</u>	<u>\$2,740,770</u>	<u>\$(22,709,889)</u>

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31. Income taxes

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

Income tax expense recognized in profit or loss	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30
Current income tax expense(income):		
Current income tax charge	995,945	\$514,731
Adjustments in respect of current income tax of prior periods	5,193	(106,248)
Deferred tax expense(income):		
Deferred tax expense relating to origination and reversal of temporary differences	(373,521)	(33,640)
Deferred tax expense(income) relating to origination and reversal of tax loss and tax credit	1,526,014	(65,264)
Tax expense recognized in the period for previously unrecognized tax loss, tax credit or temporary difference of prior periods	-	(20,833)
Other components of deferred tax expense(income)	697,649	(294,262)
Total income tax expense	<u>2,851,280</u>	<u>\$(5,516)</u>
	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Current income tax expense(income):		
Current income tax charge	\$2,650,025	\$1,924,776
Adjustments in respect of current income tax of prior periods	(256,370)	(355,123)
Deferred tax expense(income):		
Deferred tax expense relating to origination and reversal of temporary differences	4,371,728	3,280,565
Deferred tax expense(income) relating to origination and reversal of tax loss and tax credit	(2,267,322)	(192,382)
Tax expense recognized in the period for previously unrecognized tax loss, tax credit or temporary difference of prior periods	-	89,442
Other components of deferred tax expense(income)	1,096,587	(1,003,458)
Total income tax expense	<u>\$5,594,648</u>	<u>\$3,743,820</u>

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Income tax relating to components of other comprehensive income

	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30
Deferred tax expense (income):		
Exchange difference resulting from translating the financial statements of a foreign operation	\$69,554	\$(32,733)
Unrealized gains (losses) from available-for-sale financial assets	(153,067)	136,762
Losses on cash flow hedges	(24,793)	(33,616)
Gains from revaluation	-	-
Income tax relating to components of other comprehensive income	\$(108,306)	\$70,413
	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Deferred tax expense(income):		
Exchange difference resulting from translating the financial statements of a foreign operation	\$54,824	\$31,874
Unrealized gains(losses) from available-for-sale financial assets	(378,836)	(2,673,265)
Losses on cash flow hedges	(53,663)	(99,379)
Gains from revaluation	74,726	-
Income tax relating to components of other comprehensive income	\$(302,949)	\$(2,740,770)

(2) Income tax relating to components of other comprehensive income:

	2014.9.30		
	Income tax returns examined by tax authorities		Notes
The Company	through 2008		The Company was in the process of administrative litigation procedure for 2007 and 2008.
Cathay Life	through 2008		Cathay Life was in the process of administrative litigation procedure for 2006 and 2007 tax returns.

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			2014.9.30
			Income tax returns
		<u>examined by tax authorities</u>	<u>Notes</u>
Cathay United Bank	through 2008		Cathay United Bank was in the process of administrative litigation procedure for 2006 and 2008.
Cathay Century	through 2008		Cathay Century was in the process of administrative litigation procedure for 2006 and 2008.
Cathay Securities	through 2008		Cathay Securities was in the process of administrative remedy for 2007 tax returns.
Cathay Venture	through 2009		Cathay Venture was in the process of administrative remedy for 2008 tax returns.
Cathay Securities Investment Trust	through 2011		Cathay Security Investment Trust has not been examined for 2009 tax return.
Cathay Futures	through 2011		-

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:

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Balance of imputation credit account	\$15,062	\$703,186	\$1,963,758	\$1,962,845

The Company's cash dividends-imputed and stock dividends-imputed tax credit ratio applied to actual distribution were 2.39% and 1.19% for the year ended 31 December 2013, respectively. And the cash dividends-imputed and stock dividends-imputed tax credit rate applied to actual distribution were 18.68% and 20.66% for the year ended 31 December 2012, respectively.

Undistributed earnings occurred before 1997 in the amount of \$267,215 thousand were originally appropriated as capital reserve which may be distributed as cash dividends and were undistributed earnings of the company's subsidiaries before conversion of shares. On September 30 2014, this amount was used to compensate the changes due to first-time adoption of IFRS.

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32. 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.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent entity (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
(1) Basic earnings per share (\$)				
Profit attributable to ordinary equity holders of the Company (in thousand)	\$14,032,206	\$11,727,920	\$44,485,434	\$28,802,302
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand)	12,563,210	12,071,194	12,563,210	12,012,429
Basic earnings per share (\$)	\$1.12	\$0.97	\$3.54	\$2.40
(2) Diluted earnings per share (\$)				
Profit attributable to ordinary equity holders of the Company (in thousand \$)	\$14,032,206	\$11,727,920	\$44,485,434	\$28,802,302
Less: Interest expense from convertible bonds (in thousand \$)	-	392,597	-	1,062,462
Profit attributable to ordinary equity holders of the Company after dilution (in thousand \$)	\$14,032,206	\$12,120,517	\$44,485,434	\$29,864,764
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand)	12,563,210	12,071,194	12,563,210	12,012,429
Effect of dilution:				
Convertible bonds (in thousand)	-	200,000	-	200,000
Weighted average number of ordinary shares outstanding after dilution (in thousand)	12,563,210	12,271,194	12,563,210	12,212,429
Diluted earnings per share (\$)	\$1.12	\$0.97	\$3.54	\$2.40

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- (3) 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.
- (4) The calculation of diluted earnings per share in consideration of potential ordinary shares for the nine-month periods ended 30 September 2013 had an antidilutive effect; as a result, diluted earnings per share was not calculated.

33. Business combinations

During November 2013, Cathay Life and Cathay Venture disposed of 11% and 39.88% of investment in equity of Symphox Information respectively. Since December 2013, Symphox Information was excluded from condensed consolidated financial statements.

Cathay United Bank acquired 70% of the voting shares of CUBC Bank on 13 December 2012, and acquired the rest 30% of the voting shares on 30 September 2013. CUBC Bank became 100% holding subsidiary. CUBC Bank was incorporated in Cambodia, mainly engaged in the wholesale banking business.

Cathay United Bank has elected to measure the non-controlling interest in CUBC Bank at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

34. Information of 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.

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(C) Chief Risk Officer

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

(D) Risk management department

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

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(E) Operating departments

a. Managers of the operating departments shall:

- (a) be responsible for such department's daily risk management reporting and report issues if necessary; and
- (b) urge the disclosure of risk management information regularly to the risk management department.

b. Operating departments shall:

- (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; and
- (e) assist in risk management data collection.

(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.

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.

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(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 and sets the investment ceiling for specific countries. Cathay Life reviews and adjusts the ceiling on a regular basis.

(D) Liquidity risk

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

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(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 had set the standard operating procedures based on all characteristics of operations and established losses reporting system as well to manage operating risk losses information.

(F) Insurance risk

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

(G) Asset and liability matching risk

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

(H) Risk-based capital (RBC) ratio

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

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

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

- a. Promulgate Cathay Life's risk management standards including the definitions and range of risks, management structure, risk management indexes and other risk management measures.

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- 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
- (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.

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- c. Reinsurance risk: This risk occurs when a company fails to reinsure the excess risk or a reinsurer fails to fulfill its responsibility that results in losses in premium, claims or non-reimbursed expenses.
 - d. Catastrophe risk: This risk arises from accidents which lead to considerable losses in one or more categories of insurance and the aggregate amount of such losses is huge enough to affect Cathay Life's credit rating and solvency.
 - e. Claim risk: This risk arises from mishandling claims.
 - f. Risk of insufficient reserve: It happens when Cathay Life does not have sufficient reserves to fulfill its obligations owing to underestimating its liabilities.
- (B) The scope of management of insurance risk
- a. Build up a top-down framework of Cathay Life's insurance risk management and empower relevant parties to execute risk management.
 - b. Establish Cathay Life's insurance risk management standards including the definitions and types of risks, management of the structure, risk management indexes and other risk management measures.
 - c. Develop action plans in consideration of Cathay Life's growth strategy and the global financial environment.
 - d. Determine methods to measure insurance risks.
 - e. Regularly provide insurance risk management report for supervision and as a reference to initiate insurance management strategy.
 - f. Manage other risk management issues.
- F. The method to limit or transfer insurance risk exposure and to avoid inappropriate concentration risk

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

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G. Asset/liability management

- (A) Cathay Life has an asset/liability management committee to establish management structure, to ensure full application of the management policy, to integrate human capital and resources, to review the strategy and practice regularly and, furthermore, to reduce all types of risks.
- (B) Authorized departments will review the measurement of asset/liability management regularly and report to the asset/liability management committee regularly; following that, the results will be sent to the risk management committee of Cathay Life. Furthermore, the annual report should be delivered to the risk management committee of the 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.

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(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

(A) Cathay Life also enters into derivative transactions such as stock index options, index futures, interest rate future, interest rate swaps, currency forwards, cross currency swap and credit default swaps to hedge risks arising from investments, such as equity risk, interest rate risk, foreign exchange risk and credit risk. To clarify, Cathay Life does not enter into derivative transactions for the purpose of increasing investment income; however, the derivatives not qualified for hedge accounting are measured at fair value through profit or loss.

(B) Hedging instrument against business risks and implementation are made preliminarily based on the risk tolerance levels. Cathay Life executes hedge and exercises authorized financial instruments to adjust the overall risk level to the tolerance levels based on the market dynamics, business strategies, the characteristics of products and risk management policies.

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

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

Credit and investment limits to a group of companies are set by Cathay Life. When such limits have been reached or breached as a result of any increase of the credit line or investment, Cathay Life shall not grant loan or make investment to such group in general. However, if there is any individual reason to require Cathay Life to undertake it, the expected investment or loan needs to be reviewed by the loan review or investment decision committee and approved by the risk management department of the Cathay Financial Holdings.

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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 2014		
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 1,524,914	Decrease (increase) 1,265,679
Expense	×1.05 (×0.95)	Decrease (increase) 1,878,291	Decrease (increase) 1,558,982
Surrender rates	×1.05 (×0.95)	Increase (decrease) 312,099	Increase (decrease) 259,042
Rate of return	+0.1%	Increase 2,766,049	Increase 2,295,821
Rate of return	-0.1%	Decrease 2,768,089	Decrease 2,297,514

	For the nine-month period ended 30 September 2013		
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 1,470,683	Decrease (increase) 1,220,667
Expense	×1.05 (×0.95)	Decrease (increase) 1,936,196	Decrease (increase) 1,607,043
Surrender rates	×1.05 (×0.95)	Increase (decrease) 240,101	Increase (decrease) 199,284
Rate of return	+0.1%	Increase 2,425,167	Increase 2,012,888
Rate of return	-0.1%	Decrease 2,426,957	Decrease 2,014,374

B. Cathay life (China)

	For the nine-month period ended 30 September 2014		
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.10 (×0.90)	Decrease (increase) 74,254	Decrease (increase) 55,690
Expense	×1.05 (×0.95)	Decrease (increase) 59,220	Decrease (increase) 44,415
Surrender rates	×1.10 (×0.90)	Increase (decrease) 23,627	Increase (decrease) 17,720
Rate of return	+0.25%	Increase 238,815	Increase 179,112
Rate of return	-0.25%	Decrease 271,241	Decrease 203,431

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For the nine-month period ended 30 September 2013			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.10 (×0.90)	Decrease (increase) 60,919	Decrease (increase) 45,689
Expense	×1.05 (×0.95)	Decrease (increase) 54,840	Decrease (increase) 41,130
Surrender rates	×1.10 (×0.90)	Increase (decrease) 19,356	Increase (decrease) 14,517
Rate of return	+0.25%	Increase 234,339	Increase 175,754
Rate of return	-0.25%	Decrease 212,091	Decrease 159,068

C. Cathay Life (Vietnam)

For the nine-month period ended 30 September 2014			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 85	Decrease (increase) 67
Expense	×1.05 (×0.95)	Decrease (increase) 6,999	Decrease (increase) 5,459
Surrender rates	×1.05 (×0.95)	Increase (decrease) 393	Increase (decrease) 306
Rate of return	+0.1%	Increase 2,643	Increase 2,062
Rate of return	-0.1%	Decrease 2,645	Decrease 2,063

For the nine-month period ended 30 September 2013			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 182	Decrease (increase) 137
Expense	×1.05 (×0.95)	Decrease (increase) 6,757	Decrease (increase) 5,068
Surrender rates	×1.05 (×0.95)	Increase (decrease) 478	Increase (decrease) 359
Rate of return	+0.1%	Increase 1,718	Increase 1,288
Rate of return	-0.1%	Decrease 1,719	Decrease 1,289

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- a. Changes in income before tax listed above refer to the effects of income before tax arising from the assumption for the nine-month periods ended 30 September 2014 and 2013. The influence on equities of Cathay Life, Cathay Life (China) and Cathay Life (Vietnam) is assumed that the income tax is calculated on pre-tax income at rates of 17%, 25% and 22% (25% for the nine-month period ended 30 September 2013) 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
- (a) 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.
- (b) 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.
- (c) 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.
- (d) 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							Expected future payment
	1	2	3	4	5	6	7	
2007Q4~2008Q3	12,783,636	15,205,962	15,380,662	15,435,648	15,496,567	15,521,291	15,536,549	-
2008Q4~2009Q3	14,093,398	16,952,010	17,187,343	17,269,392	17,320,234	17,351,529	17,368,850	17,321
2009Q4~2010Q3	13,987,020	17,033,181	17,304,931	17,391,259	17,463,014	17,492,593	17,509,544	46,530
2010Q4~2011Q3	14,706,765	18,104,960	18,434,572	18,531,539	18,601,159	18,633,026	18,651,090	119,551
2011Q4~2012Q3	14,695,504	17,851,461	18,153,246	18,234,013	18,295,997	18,325,110	18,342,069	188,823
2012Q4~2013Q3	13,727,342	16,978,803	17,227,915	17,297,430	17,345,636	17,369,377	17,384,159	405,356
2013Q4~2014Q3	13,913,613	16,834,219	17,079,093	17,146,469	17,192,559	17,215,760	17,230,585	3,316,972
	Expected future payment							\$4,094,553
	Less: Expected reported but not paid claim							124,957
	Add: Assumed reserve for incurred but not reported claim							51,759
	Reserve for unreported claim							4,021,355
	Add: Reported but not paid claim							473,276
	Claims reserve balance							<u>\$4,494,631</u>

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b. Retained business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2007Q4~2008Q3	12,923,173	15,371,182	15,531,936	15,584,070	15,645,478	15,688,086	15,696,252	-
2008Q4~2009Q3	13,703,500	16,263,245	16,464,843	16,536,400	16,600,487	16,618,545	16,636,182	17,637
2009Q4~2010Q3	12,206,250	14,619,750	14,806,435	14,890,078	14,954,420	14,984,423	15,001,653	47,233
2010Q4~2011Q3	12,833,346	15,529,777	15,781,050	15,862,684	15,933,043	15,965,352	15,983,706	121,022
2011Q4~2012Q3	12,918,735	15,474,165	15,741,792	15,823,489	15,886,191	15,915,734	15,932,976	191,184
2012Q4~2013Q3	12,421,360	15,479,345	15,732,353	15,802,819	15,851,758	15,875,938	15,891,008	411,663
2013Q4~2014Q3	13,961,731	16,916,408	17,165,316	17,233,676	17,280,525	17,304,181	17,319,304	3,357,573

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

Expected future payment	\$4,146,312
Less: Expected reported but not paid claim	124,957
Add: Reported but not paid claim	473,276
Retained claims reserve balance	<u>\$4,494,631</u>

B. Cathay Life (China)

a. Direct business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2007Q4~2008Q3	28	54	56	56	56	56	56	-
2008Q4~2009Q3	831	3,339	3,352	3,352	3,352	3,352	3,352	-
2009Q4~2010Q3	9,538	18,371	19,184	19,184	19,184	19,184	19,184	-
2010Q4~2011Q3	52,589	118,832	125,069	125,069	125,069	125,069	125,069	-
2011Q4~2012Q3	98,857	197,842	210,505	210,505	210,505	210,505	210,505	-
2012Q4~2013Q3	133,062	366,265	385,697	385,697	385,697	385,697	385,697	19,432
2013Q4~2014Q3	151,265	494,522	483,111	483,111	483,111	483,111	483,111	331,846

Expected future payment	\$351,278
Less: Expected reported but not paid claim	32,825
Add: Assumed reserve for incurred but not reported claim	-
Reserve for unreported claim	318,453
Add: Reported but not paid claim	72,239
Claims reserve balance	<u>\$390,692</u>

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b. Retained business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2007Q4~2008Q3	28	54	56	56	56	56	56	-
2008Q4~2009Q3	831	3,339	3,352	3,352	3,352	3,352	3,352	-
2009Q4~2010Q3	9,538	18,371	19,184	19,184	19,184	19,184	19,184	-
2010Q4~2011Q3	52,589	118,832	125,069	125,069	125,069	125,069	125,069	-
2011Q4~2012Q3	98,857	197,703	210,364	210,364	210,364	210,364	210,364	-
2012Q4~2013Q3	122,736	372,295	383,705	383,705	383,705	383,705	383,705	11,410
2013Q4~2014Q3	141,798	429,691	464,740	464,740	464,740	464,740	464,740	322,942

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

Expected future payment	\$334,352
Less: Expected reported but not paid claim	32,825
Add: Reported but not paid claim	<u>72,239</u>
Retained claims reserve balance	<u><u>\$373,766</u></u>

Cathay Life and Cathay Life (China) 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 Life (China). 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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C. Cathay life (Vietnam)

Direct business development trend (and retained business development trend)

Accident year	Development year				
	1	2	3	4	5
2009Q4~2010Q3	221	231	231	231	231
2010Q4~2011Q3	236	334	334	334	334
2011Q4~2012Q3	1,098	1,270	1,270	1,270	1,270
2012Q4~2013Q3	819	898	898	898	898
2013Q4~2014Q3	652	752	752	752	752

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

Cathay Life (Vietnam) recognizes claims reserve for reported claims (reported but not paid) and unreported claims (incurred but not reported). The estimation method of unreported claims is earned premium multiplied by the loss ratio based upon the past loss experiences instead of loss triangle method, which was approved by 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.

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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.

30 September 2014	Within 1 year	1 to 5 years	Over 5 years
Insurance contracts and financial instruments with discretionary participation features	\$(1,037)	\$1,394	\$112,744

Note: Separate account products are not included.

C. Market risk

When Cathay Life measures insurance liabilities, the discounted rate required by the regulator is applied. The regulator reviews the discount rate assumption which has been used for reserves periodically. However, the discount rate assumption does not move at the same time in the same direction with the market price and interest rate, and is only applied to new businesses. Thus, those possible variables in market risk to Cathay Life’s valid insurance 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.

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(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.

(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.

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(C) Chief Risk Officer

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

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

(D) Risk management department

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

Responsibility of risk management division:

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

(E) Business unit

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

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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.

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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.

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	2014	2013
Fire insurance	\$729,000	\$673,000
Marine insurance	\$729,000	\$673,000
Engineering insurance	\$729,000	\$673,000
Other property insurance	\$729,000	\$673,000
Automobile insurance	\$729,000	\$673,000
Health and injury insurance	\$729,000	\$673,000

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.

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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.

Receivables and payables of insurance contracts

A. Receivables of insurance contracts

Item	Premiums receivable (Note)			
	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Fire insurance	\$756,724	\$605,859	\$749,334	\$665,154
Marine insurance	246,217	266,869	273,734	369,048
Land and air insurance	794,475	852,082	700,570	748,157
Liability insurance	150,491	173,230	143,607	217,416
Bonding insurance	43,443	27,737	24,022	13,983
Other property insurance	408,327	427,980	412,203	345,181
Accident insurance	291,049	270,300	278,923	288,526
Health insurance	14,147	25,735	24,763	22,994
Compulsory automobile liability insurance	326,387	286,025	292,442	268,872
Total	3,031,260	2,935,817	2,899,598	2,939,331
Less: Allowance for bad debts	(75,199)	(64,162)	(72,594)	(69,978)
Net	\$2,956,061	\$2,871,655	\$2,827,004	\$2,869,353

Note: As of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, the receivables included overdue receivables amounted to \$911,353 thousand, \$484,663 thousand, \$896,863, thousand, and \$497,914 thousand, respectively, and the allowance for bad debts amounted to \$21,411 thousand, \$20,634 thousand, \$26,346 thousand, and \$31,767 thousand, respectively.

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

Item	Claims reported and paid off			
	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Fire insurance	\$11,776	\$22,767	\$16,566	\$241,267
Marine insurance	36,029	37,647	63,699	42,699
Land and air insurance	37,154	25,154	22,497	40,214
Liability insurance	17,526	21,545	11,463	13,506
Bonding insurance	(4)	(2)	-	8
Other property insurance	6,890	31,352	10,103	8,231
Accident insurance	19,687	15,040	15,785	23,435
Health insurance	-	-	-	-
Compulsory automobile liability insurance	108,314	179,208	156,674	144,232
Total	237,372	332,711	296,787	513,592
Less: Allowance for bad debts	-	-	-	-
Net	\$237,372	\$332,711	\$296,787	\$513,592

C. Payables of insurance contract

Item	2014.9.30		
	Commission payables	Other payables	Total
Fire insurance	\$26,458	\$15,861	\$42,319
Marine insurance	5,812	9,382	15,194
Land and air insurance	29,951	175,559	205,510
Liability insurance	9,992	10,987	20,979
Bonding insurance	3,914	392	4,306
Other property insurance	41,754	11,948	53,702
Accident insurance	5,999	77,853	83,852
Health insurance	3,131	2,506	5,637
Compulsory automobile liability insurance	108,300	-	108,300
Total	\$235,311	\$304,488	\$539,799

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Item	2013.12.31		
	Commission payables	Other payables	Total
Fire insurance	\$3,411	\$7,178	\$10,589
Marine insurance	2,394	3,529	5,923
Land and air insurance	5,524	91,621	97,145
Liability insurance	2,554	7,166	9,720
Bonding insurance	74	210	284
Other property insurance	44,466	6,082	50,548
Accident insurance	206	26,940	27,146
Health insurance	210	5,959	6,169
Compulsory automobile liability insurance	89,457	-	89,457
Total	\$148,296	\$148,685	\$296,981

Item	2013.9.30		
	Commission payables	Other payables	Total
Fire insurance	\$6,235	\$7,730	\$13,965
Marine insurance	2,633	4,620	7,253
Land and air insurance	7,096	97,360	104,456
Liability insurance	2,831	5,855	8,686
Bonding insurance	98	67	165
Other property insurance	37,340	8,230	45,570
Accident insurance	1,231	42,229	43,460
Health insurance	517	5,279	5,796
Compulsory automobile liability insurance	107,686	-	107,686
Total	\$165,667	\$171,370	\$337,037

Item	2013.1.1		
	Commission payables	Other payables	Total
Fire insurance	\$13,092	\$6,224	\$19,316
Marine insurance	3,280	8,177	11,457
Land and air insurance	2,965	73,378	76,343
Liability insurance	8,472	5,488	13,960
Bonding insurance	485	188	673
Other property insurance	7,917	9,154	17,071
Accident insurance	182	23,540	23,722
Health insurance	39	4,118	4,157
Compulsory automobile liability insurance	75,939	-	75,939
Total	\$112,371	\$130,267	\$242,638

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

Item	2014.9.30	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	\$59,519	\$216,431
Munich Re	-	185,151
Central Re	16,652	64,787
FP Marine	43,726	105,765
Marsh	78,915	20,170
Swiss Re	12,012	78,941
Willis	1,352	80,559
Wilson Re	27,938	165
Others	275,192	499,963
Total	515,306	1,251,932
Less: Allowance for bad debts	(14,097)	-
Net	\$501,209	\$1,251,932
	2013.12.31	
Item	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	\$56,061	\$211,063
Munich Re	35,266	-
Central Re	31,477	9,269
FP Marine	20,166	80,543
Marsh	-	76,301
Swiss Re	698	75,250
Willis	25,101	174,020
Wilson Re	4,675	108,591
Others	402,720	628,209
Total	576,164	1,363,246
Less: Allowance for bad debts	(14,624)	-
Net	\$561,540	\$1,363,246

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Item	2013.9.30	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	\$57,116	\$207,174
Munich Re	51,572	6,479
Central Re	10,314	79,565
FP Marine	22,944	73,834
Marsh	75,855	90,390
Swiss Re	26,633	79,291
Willis	4,657	108,615
Wilson Re	61,831	67,540
Others	1,960	68,978
Total	348,090	527,985
Less: Allowance for bad debts	660,972	1,309,851
Net	(3,765)	-
Item	\$657,207	\$1,309,851

Item	2013.1.1	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	\$54,422	\$197,276
Munich Re	76,332	68,251
Central Re	-	83,049
FP Marine	37,557	90,672
Marsh	531	83,848
Swiss Re	26,994	20,931
Willis	2,336	70,029
Wilson Re	252,010	591,045
Others	450,182	1,205,101
Total	(5,494)	-
Less: Allowance for bad debts	\$444,688	\$1,205,101

Notes: As of 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013, the due from reinsurers and ceding companies included overdue receivables amounted to \$40,971 thousand, \$46,239 thousand, \$37,653 thousand, and \$54,939 thousand, respectively, and the allowance for bad debts amounted to \$14,097 thousand, \$14,624 thousand, \$3,765 thousand, and \$5,494 thousand, respectively.

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Information of management achievements

A. Acquisition cost for insurance contracts

Item	2014.7.1~2014.9.30					
	Commission			Reinsurance		Total
	expense	Agency fee	Surcharge	commission expense	Other cost	
Fire insurance	\$28,011	\$(15)	\$8,372	\$2,582	\$20,323	\$59,273
Marine insurance	5,840	(112)	447	1,547	12,120	19,842
Land and air insurance	39,829	(935)	-	(4)	204,361	243,251
Liability insurance	10,470	(426)	5,056	96	17,458	32,654
Bonding insurance	5,531	-	23	-	662	6,216
Other property insurance	7,384	9	76,475	732	13,165	97,765
Accident insurance	14,897	5	-	(1)	101,554	116,455
Health insurance	10,543	(123)	-	-	6,101	16,521
Compulsory automobile liability insurance	-	-	105,005	-	-	105,005
Total	\$122,505	\$(1,597)	\$195,378	\$4,952	\$375,744	\$696,982

Item	2013.7.1~2013.9.30					
	Commission			Reinsurance		Total
	expense	Agency fee	Surcharge	commission expense	Other cost	
Fire insurance	\$(3,267)	\$3,581	\$6,920	\$1,104	\$25,886	\$34,224
Marine insurance	2,945	964	2,178	766	10,570	17,423
Land and air insurance	14,937	1,106	-	670	190,961	207,674
Liability insurance	5,161	569	11,837	24	15,883	33,474
Bonding insurance	737	8	73	-	350	1,168
Other property insurance	5,039	597	72,051	2,416	22,183	102,286
Accident insurance	7,521	782	-	3	96,199	104,505
Health insurance	4,066	405	-	-	93	4,564
Compulsory automobile liability insurance	-	-	121,565	-	3,029	124,594
Total	\$37,139	\$8,012	\$214,624	\$4,983	\$365,154	\$629,912

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2014.1.1~2014.9.30

Item	Commission			Reinsurance		Total
	expense	Agency fee	Surcharge	commission expense	Other cost	
Fire insurance	\$44,965	\$2,848	\$23,338	\$6,346	\$75,258	\$152,755
Marine insurance	12,639	536	2,202	2,224	34,591	52,192
Land and air insurance	84,628	622	-	403	698,338	783,991
Liability insurance	25,341	389	13,687	160	55,246	94,823
Bonding insurance	7,451	25	155	1	1,497	9,129
Other property insurance	13,498	889	204,650	2,600	53,308	274,945
Accident insurance	25,880	589	-	(1)	318,274	344,742
Health insurance	20,271	362	-	-	9,581	30,214
Compulsory automobile liability insurance	-	-	365,958	-	2,742	368,700
Total	\$234,673	\$6,260	\$609,990	\$11,733	\$1,248,835	\$2,111,491

2013.1.1~2013.9.30

Item	Commission			Reinsurance		Total
	expense	Agency fee	Surcharge	commission expense	Other cost	
Fire insurance	\$32,935	\$6,865	\$22,439	\$2,688	\$68,598	\$133,525
Marine insurance	8,567	2,179	5,217	2,340	38,400	56,703
Land and air insurance	45,815	2,715	-	1,677	582,442	632,649
Liability insurance	19,321	1,780	39,617	183	45,615	106,516
Bonding insurance	1,722	36	221	-	1,014	2,993
Other property insurance	11,883	1,407	154,151	6,395	58,948	232,784
Accident insurance	15,141	1,655	-	21	262,425	279,242
Health insurance	11,010	886	-	-	10,599	22,495
Compulsory automobile liability insurance	-	-	354,116	-	7,973	362,089
Total	\$146,394	\$17,523	\$575,761	\$13,304	\$1,076,014	\$1,828,996

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B. Disclosure for insurance cost benefit analysis

(A) Cost benefit analysis for direct underwriting

2014.7.1~2014.9.30						
Item	Net change for		Acquisition		Net change for claims reserve Net gain(loss)	
	Direct premium income	unearned premiums reserve	cost for insurance contract	Insurance claims paid		
Fire insurance	\$630,031	\$130,469	\$(56,691)	\$(172,366)	\$(100,466)	430,977
Marine insurance	154,485	31,572	(18,295)	(137,290)	48,716	79,188
Land and air insurance	1,641,626	(8,200)	(243,255)	(1,258,462)	(33,314)	98,395
Liability insurance	253,957	1,147	(32,558)	(133,656)	(84,301)	4,589
Bonding insurance	19,787	6,752	(6,216)	(981)	596	19,938
Other property insurance	619,226	10,088	(97,033)	(302,060)	(51,805)	178,416
Accident insurance	693,817	11,446	(116,456)	(311,808)	(38,543)	238,456
Health insurance	49,466	3,401	(16,521)	(27,551)	(3,192)	5,603
Compulsory automobile liability insurance	960,235	(28,506)	(105,005)	(498,975)	32,092	359,841
Total	<u>\$5,022,630</u>	<u>\$158,169</u>	<u>\$(692,030)</u>	<u>\$(2,843,149)</u>	<u>\$(230,217)</u>	<u>\$1,415,403</u>

2013.7.1~2013.9.30						
Item	Net change for		Acquisition		Net change for claims reserve Net gain(loss)	
	Direct premium income	unearned premiums reserve	cost for insurance contract	Insurance claims paid		
Fire insurance	\$678,863	\$(93,466)	\$(33,120)	\$(243,159)	\$83,447	\$392,565
Marine insurance	117,481	66,900	(16,657)	(135,204)	(50,336)	(17,816)
Land and air insurance	1,430,945	56,285	(207,004)	(871,767)	(42,643)	365,816
Liability insurance	250,501	19,617	(33,450)	(109,015)	9,316	136,969
Bonding insurance	14,509	3,500	(1,168)	(334)	983	17,490
Other property insurance	619,289	(56,447)	(99,870)	(223,941)	(93,169)	145,862
Accident insurance	614,691	37,226	(104,502)	(249,998)	(8,582)	288,835
Health insurance	45,699	36,696	(4,564)	(24,219)	7,109	60,721
Compulsory automobile liability insurance	902,970	(86,419)	(124,594)	(580,101)	100,721	212,577
Total	<u>\$4,674,948</u>	<u>\$(16,108)</u>	<u>\$(624,929)</u>	<u>\$(2,437,738)</u>	<u>\$6,846</u>	<u>\$1,603,019</u>

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2014.1.1~2014.9.30

Item	Net change for		Acquisition	Insurance claims paid	Net change for claims reserve	Net gain(loss)
	Direct premium income	unearned premiums reserve	cost for insurance contract			
Fire insurance	\$2,341,731	\$(38,009)	\$(146,409)	\$(380,607)	\$(621,529)	\$1,155,177
Marine insurance	471,550	10,407	(49,968)	(325,678)	54,384	160,695
Land and air insurance	4,891,086	(169,929)	(783,588)	(3,073,790)	(259,144)	604,635
Liability insurance	737,446	18,115	(94,663)	(355,979)	(200,079)	104,840
Bonding insurance	73,658	(4,396)	(9,128)	(10,672)	(1,830)	47,632
Other property insurance	1,670,697	89,739	(272,345)	(863,389)	(160,643)	464,059
Accident insurance	2,016,560	(51,788)	(344,743)	(767,871)	(74,086)	778,072
Health insurance	134,986	8,371	(30,214)	(72,698)	7,269	47,714
Compulsory automobile liability insurance	2,778,956	(63,000)	(368,700)	(1,601,275)	(1,050,167)	(304,186)
Total	\$15,116,670	\$(200,490)	\$(2,099,758)	\$(7,451,959)	\$(2,305,825)	\$3,058,638

2013.1.1~2013.9.30

Item	Net change for		Acquisition	Insurance claims paid	Net change for claims reserve	Net gain(loss)
	Direct premium income	unearned premiums reserve	cost for insurance contract			
Fire insurance	\$2,267,389	\$(37,547)	\$(130,837)	\$(842,559)	\$521,511	\$1,777,957
Marine insurance	491,504	80,473	(54,363)	(290,351)	(17,783)	209,480
Land and air insurance	4,373,830	(334,598)	(630,972)	(2,459,591)	(225,440)	723,229
Liability insurance	772,082	(5,587)	(106,333)	(310,894)	(68,167)	281,101
Bonding insurance	50,589	(1,881)	(2,993)	(5,088)	13,226	53,853
Other property insurance	1,562,642	(210,209)	(226,389)	(543,280)	(133,252)	449,512
Accident insurance	1,880,776	12,954	(279,221)	(677,829)	(69,366)	867,314
Health insurance	123,192	29,949	(22,495)	(91,033)	4,452	44,065
Compulsory automobile liability insurance	2,558,124	(259,898)	(362,089)	(1,542,011)	(69,973)	324,153
Total	\$14,080,128	\$(726,344)	\$(1,815,692)	\$(6,762,636)	\$(44,792)	\$4,730,664

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

Item	2014.7.1~2014.9.30					
	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	\$31,811	\$(3,700)	\$(2,582)	\$(143)	\$(2,343)	\$23,043
Marine insurance	23,864	995	(1,547)	(3,345)	(14,348)	5,619
Land and air insurance	4,833	(1,875)	4	(76,381)	214,867	141,448
Liability insurance	1,300	(754)	(96)	(12)	(229)	209
Bonding insurance	233	114	-	(71)	32	308
Other property insurance	4,805	5,599	(732)	(2,651)	(244)	6,777
Accident insurance	1,499	625	1	(283)	(152)	1,690
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	84,145	(5,573)	-	(59,095)	(5,638)	13,839
Total	\$152,490	\$(4,569)	\$(4,952)	\$(141,981)	\$191,945	\$192,933

Item	2013.7.1~2013.9.30					
	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	\$33,645	\$(1,302)	\$(1,104)	\$(915)	\$(50,437)	\$(20,113)
Marine insurance	10,768	2,693	(766)	(5,010)	(11,372)	(3,687)
Land and air insurance	9,118	(4,984)	(670)	(4,089)	355	(270)
Liability insurance	63	78	(24)	(73)	(28)	16
Bonding insurance	245	532	-	(158)	(1)	618
Other property insurance	13,043	(20,316)	(2,416)	(2,024)	2,131	(9,582)
Accident insurance	1,581	867	(3)	(8)	(2,223)	214
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	71,646	37	-	(77,901)	62	(6,156)
Total	\$140,109	\$(22,395)	\$(4,983)	\$(90,178)	\$(61,513)	\$(38,960)

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2014.1.1~2014.9.30

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	\$99,420	\$(20,532)	\$(6,346)	\$(1,270)	\$(40,149)	\$31,123
Marine insurance	30,996	(1,952)	(2,224)	(127,809)	104,377	3,388
Land and air insurance	10,078	891	(403)	(84,221)	7,384	(66,271)
Liability insurance	1,516	(508)	(160)	(19)	(329)	500
Bonding insurance	999	136	(1)	(177)	(14)	943
Other property insurance	19,795	6,536	(2,600)	(9,973)	(10,079)	3,679
Accident insurance	4,555	342	1	(327)	330	4,901
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	236,132	(11,406)	-	(206,700)	(163,056)	(145,030)
Total	\$403,491	\$(26,493)	\$(11,733)	\$(430,496)	\$(101,536)	\$(166,767)

2013.1.1~2013.9.30

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	\$75,855	\$(5,308)	\$(2,688)	\$(2,626)	\$(50,586)	\$14,647
Marine insurance	31,830	5,448	(2,340)	(54,958)	12,386	(7,634)
Land and air insurance	14,051	43	(1,677)	(8,669)	(4,407)	(659)
Liability insurance	469	116	(183)	(96)	27	333
Bonding insurance	870	488	-	(166)	22	1,214
Other property insurance	32,527	(14,751)	(6,395)	(11,097)	22	306
Accident insurance	4,488	1,704	(21)	(1,694)	1,193	5,670
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	210,238	(894)	-	(226,026)	(3,574)	(20,256)
Total	\$370,328	\$(13,154)	\$(13,304)	\$(305,332)	\$(44,917)	\$(6,379)

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

Item	2014.7.1~2014.9.30						
	Reinsurance expense	Net change for unearned premiums		Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
		reserve ceded					
Fire insurance	\$393,190	\$36,043	\$(37,256)	\$(61,453)	\$(55,242)	\$275,282	
Marine insurance	107,717	32,337	(9,994)	(89,133)	37,665	78,592	
Land and air insurance	79,037	12,282	(16,445)	(303,987)	205,076	(24,037)	
Liability insurance	86,663	(11,476)	(28,376)	(39,147)	(36,413)	(28,749)	
Bonding insurance	12,276	2,787	(2,467)	(293)	1,621	13,924	
Other property insurance	212,495	42,751	(58,258)	(49,884)	(29,971)	117,133	
Accident insurance	39,540	19,287	(9,956)	(70,519)	(18,787)	(40,435)	
Health insurance	(1,162)	306	404	-	75	(377)	
Compulsory automobile liability insurance	220,682	(4,182)	-	(164,547)	32,983	84,936	
Total	\$1,150,438	\$130,135	\$(162,348)	\$(778,963)	\$137,007	\$476,269	

Item	2013.7.1~2013.9.30						
	Reinsurance expense	Net change for unearned premiums		Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
		reserve ceded					
Fire insurance	\$353,029	\$115,306	\$(35,163)	\$(80,137)	\$(43,068)	\$309,967	
Marine insurance	92,104	63,749	(12,333)	(113,917)	(17,931)	11,672	
Land and air insurance	52,156	29,372	(11,267)	(33,773)	3,314	39,802	
Liability insurance	80,121	1,807	(21,220)	(35,841)	2,429	27,296	
Bonding insurance	3,555	3,712	(967)	1,223	763	8,286	
Other property insurance	121,485	68,710	(14,351)	(18,325)	(14,044)	143,475	
Accident insurance	29,483	34,369	(8,334)	(20,622)	(12,744)	22,152	
Health insurance	(8)	381	22	-	9,675	10,070	
Compulsory automobile liability insurance	213,431	(6,977)	-	(222,714)	53,680	37,420	
Total	\$945,356	\$310,429	\$(103,613)	\$(524,106)	\$(17,926)	\$610,140	

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Item	Reinsurance expense	Net change for unearned premiums		Claims recovered from reinsurers		Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
		reserve ceded	commission earned	reinsurers	from		
Fire insurance	\$1,475,215	\$(69,831)	\$(117,230)	\$(174,935)	\$(317,540)	\$795,679	
Marine insurance	338,862	12,097	(36,841)	(361,704)	143,315	95,729	
Land and air insurance	233,947	18,631	(64,012)	(341,620)	(847)	(153,901)	
Liability insurance	207,941	6,406	(58,587)	(122,813)	(51,540)	(18,593)	
Bonding insurance	47,165	(5,734)	(8,715)	(662)	(612)	31,442	
Other property insurance	634,743	(77,888)	(186,860)	(113,132)	(120,793)	136,070	
Accident insurance	155,960	(2,052)	(37,868)	(105,193)	(18,359)	(7,512)	
Health insurance	(60)	150	-	-	835	925	
Compulsory automobile liability insurance	649,925	(17,391)	-	(545,229)	(353,921)	(266,616)	
Total	\$3,743,698	\$(135,612)	\$(510,113)	\$(1,765,288)	\$(719,462)	\$613,223	

2013.1.1~2013.9.30

Item	Reinsurance expense	Net change for unearned premiums		Claims recovered from reinsurers		Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
		reserve ceded	commission earned	reinsurers	from		
Fire insurance	\$1,392,488	\$90,584	\$(108,964)	\$(289,102)	\$196,442	\$1,281,448	
Marine insurance	377,419	89,063	(50,644)	(285,312)	56,778	187,304	
Land and air insurance	166,993	42,379	(44,038)	(78,895)	(23,710)	62,729	
Liability insurance	248,063	3,907	(68,475)	(87,928)	(8,321)	87,246	
Bonding insurance	25,294	(3,985)	(5,288)	1,027	5,259	22,307	
Other property insurance	362,390	47,084	(51,971)	(49,409)	15,600	323,694	
Accident insurance	113,949	32,995	(33,337)	(47,790)	1,971	67,788	
Health insurance	427	963	(152)	(160)	656	1,734	
Compulsory automobile liability insurance	622,210	(26,028)	-	(597,126)	(5,825)	(6,769)	
Total	\$3,309,233	\$276,962	\$(362,869)	\$(1,434,695)	\$238,850	\$2,027,481	

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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	\$2,084,183	60.73	\$104,209	\$57,924
Marine insurance	443,858	63.35	22,193	5,997
Land and air insurance	4,866,182	74.50	243,309	177,760
Liability insurance	597,174	67.30	29,859	16,738
Bonding insurance	72,417	68.20	3,621	487
Other property insurance	489,779	61.45	24,489	11,825
Accident insurance	2,011,106	47.85	100,555	46,521
Health insurance	134,987	98.80	6,749	6,642
Compulsory automobile liability insurance	2,349,717	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.

B. Cathay Century (China)

Insurance type	Premium income	The impact to profit and loss when the expected loss ratio increases 5%	
		Before reinsurance	After reinsurance
Fire insurance	\$218,156	\$10,908	\$2,719
Marine insurance	23,284	1,164	720
Liability insurance	140,108	7,005	5,139
Bonding insurance	1,241	62	47
Other property insurance	1,180,020	59,001	36,955
Compulsory automobile liability insurance	429,238	21,462	21,462

According to the above chart, with every 5% increase in the ending loss rate of every insurance contract of Cathay Century (China), certain influence will be imposed upon revenue; however, the influence has been mitigated through the arrangement of reinsurance to obtain the effect of risk diversification.

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Concentration Risk

A. Cathay Century

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

a. Single insurance contract or few related contracts

For the nine-month periods ended 30 September 2014, 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 ended 30 September 2014, the loss rates of the rest insurance categories are still within reasonable range.

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

“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 periods ended 30 September 2014, 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 periods ended 30 September 2014, there is no catastrophe has taken place.

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

Since the 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 learn about the major risk factors to adjust the response in advance.

- 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	2014.7.1 ~ 2014.9.30			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$2,723,125	\$84,552	\$291,432	\$2,516,245
Fire insurance	551,057	29,693	335,505	245,245
Marine insurance	147,921	28,363	111,424	64,860
Engineering insurance	155,969	2,223	38,704	119,488
Health and injury insurance	404,522	1,361	35,897	369,986
Other insurance	288,644	4,010	91,233	201,421
Total	\$4,271,238	\$150,202	\$904,195	\$3,517,245

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Insurance type	2014.1.1 ~ 2014.9.30			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$8,050,915	\$238,049	\$861,641	\$7,427,323
Fire insurance	2,102,067	93,400	1,277,342	918,125
Marine insurance	453,004	39,131	347,693	144,442
Engineering insurance	395,809	11,794	142,353	265,250
Health and injury insurance	1,167,320	4,233	95,312	1,076,241
Other insurance	877,430	9,153	319,236	567,347
Total	\$13,046,545	\$395,760	\$3,043,577	\$10,398,728

- (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.

B. Cathay Century (China)

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

- a. The exposure of unanticipated change in trend

Cathay Century (China) reduces the impact of unexpected risk changes on daily operating activities by formulating intensive underwriting and claim policy, entering into proper reinsurance agreements and inspecting and analyzing claims data periodically.

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b. The correlation and cross effect between different risks

When significant incidents happened, Cathay Century (China) may face huge claim loss for the insured cases or the impairment loss of intangible or tangible assets. It may also create risks such as market risk, credit risk, and liquidity risk and so on. To ensure the management level and related departments can rapidly handle the significant incidents; Cathay Century (China) established “Notice for Significant Incidents Handling Process”. If necessary, the general manager or assigned personnel will hold the emergency response team to ensure rights and operation of Cathay Century (China) and protect the safety of policyholders’ property. No significant incident occurred for the nine-month periods ended 30 September 2014.

(B) Following tables summarized the concentration before and after reinsurance by types of insurance risk of Cathay Insurance (China):

Insurance type	2014.7.1 ~ 2014.9.30			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$573,077	\$23	\$151,531	\$421,569
Fire insurance	73,883	149	48,683	25,349
Marine insurance	7,315	-	2,839	4,476
Engineering insurance	9,346	(11)	4,995	4,340
Health and injury insurance	-	-	-	-
Other insurance	58,641	231	20,405	38,467
Total	\$722,262	\$392	\$228,453	\$494,201

Insurance type	2014.1.1 ~ 2014.9.30			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$1,576,673	\$1,324	\$432,616	\$1,145,381
Fire insurance	225,118	3,140	167,382	60,876
Marine insurance	23,284	90	8,964	14,410
Engineering insurance	16,581	(11)	9,146	7,424
Health and injury insurance	-	-	-	-
Other insurance	150,391	372	38,013	112,750
Total	\$1,992,047	\$4,915	\$656,121	\$1,340,841

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Claim development table

A. Cathay Century

Underwriting Year	2008.10.1- 2008.9.30		2009.10.1- 2009.9.30		2010.10.1- 2010.9.30		2011.10.1- 2011.9.30		2012.10.1- 2012.9.30		2013.10.1- 2013.9.30		Total
	-2008.9.30	2009.9.30	2010.9.30	2011.9.30	2012.9.30	2013.9.30	2014.9.30						
Estimate of cumulative claims incurred:													
At end of underwriting year	\$3,062,273	\$3,322,792	\$3,931,646	\$5,408,275	\$4,851,463	\$5,735,223	\$7,020,725						
One year later	4,080,849	4,039,173	4,872,374	5,667,748	5,613,239	5,894,046							
Two year later	4,184,209	4,142,479	4,895,061	5,701,952	5,746,960								
Three year later	4,048,332	4,178,118	5,180,738	5,754,805									
Four year later	4,058,322	4,340,338	5,209,418										
Five year later	4,423,457	4,355,842											
Six year later	4,227,504												
Estimate of cumulative claims incurred	4,227,504	4,355,842	5,209,418	5,754,805	5,746,960	5,894,046	7,020,725	\$38,209,300					
Cumulative payment to date	4,323,429	4,303,371	5,014,269	5,576,856	5,505,402	5,266,780	3,845,889	33,835,996					
Subtotal	(95,925)	52,471	195,149	177,949	241,558	627,266	3,174,836	4,373,304					
Reconciliation	-	-	-	-	-	-	90,053	90,053					
Recorded in balance sheet	\$(95,925)	\$52,471	\$195,149	\$177,949	\$241,558	\$627,266	\$3,264,889	\$4,463,357					

Note: The upper part of this chart is to explain the amount of claim for property insurance of each underwriting year estimated through time. It's excluded claim reserve of compulsory automobile liability insurance \$1,875,864 thousand and assumed reinsurance from the upper table (except compulsory automobile liability insurance) \$214,181 thousand.

B. Cathay Century (China)

	Accident year							Total
	2008.10.1- 2008.9.30	2009.10.1- 2009.9.30	2010.10.1- 2010.9.30	2011.10.1- 2011.9.30	2012.10.1- 2012.9.30	2013.10.1- 2013.9.30	2014.9.30	
Estimated accumulation amount of claim								
As to 2008/12/31	\$2,714							
As to 2009/12/31	2,586	\$157,440						
As to 2010/12/31	2,581	151,299	\$336,692					
As to 2011/12/31	2,610	148,252	333,489	\$362,338				
As to 2012/12/31	1,355	128,694	299,493	324,508	\$1,007,889			
As to 2013/12/31	1,355	128,694	299,518	341,545	846,675	\$1,473,773		
As to 2014/9/30	1,355	128,569	299,064	344,054	803,013	1,292,871	\$1,588,300	
Estimated accumulation of claim	1,355	128,569	299,064	344,054	803,013	1,292,871	1,588,300	\$4,457,226
Accumulated claim paid	1,355	128,558	298,366	329,643	748,419	1,036,782	648,717	3,191,840
Subtotal	-	11	698	14,411	54,594	256,089	939,583	1,265,386
Indirect claim expense, discount and risk margin								60,900
Recognized amount on balance sheet								\$1,326,286

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C. 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/QCBH for loss reserving method with incurred but not reported claims, which is calculated at a rate of 5% of its annual retained premiums.

35. 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 Life (China)	"
Cathay Life (Vietnam)	"
Cathay Insurance (Bermuda)	"
Cathay Securities Investment Consulting	"
Lin Yuan	"
Cathay Century (China)	"
Cathay Century (Vietnam)	"
Indovina Bank	"
Seaward Card	"
CUBC Bank	"
Cathay Futures	"
Taiwan Real-estate Management Corp.	Associate
Symphox Information	"
Tien-Tai Energy Corp.	"
Cathay Conning Asset Management Ltd.	"
Vietinbank	Other related parties
Cathay Dragon Fund etc.	"
Lin Yuan Property Management Co., Ltd.	"
Cathay General Hospital	"
Cathay Real Estate Development Co., Ltd.	"
San Ching Engineering Co., Ltd.	"
Cathay Healthcare Management Co., Ltd.	"
Cathay Hospitality Management Co., Ltd.	"
Culture and Charity Foundation of the CUB	"
Others	"

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(2) Significant transactions with related parties:

A. Cash and cash equivalent

(A) Call loans to banks

Name	Ending balance			
	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Other related parties				
Vietinbank	\$-	\$6,554,374	\$6,344,748	\$6,376,067

Name	Interest income			
	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Other related parties				
Vietinbank	\$-	\$98,037	\$28,198	\$213,929

(B) Due from commercial banks

Name	Ending balance			
	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Other related parties				
Vietinbank	\$7,109,089	\$16,175	\$7,741	\$5,722

Name	Interest income			
	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Other related parties				
Vietinbank	\$51,105	\$19	\$121,676	\$19

(C) Call loans from banks

Name	Ending balance			
	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Other related parties				
Vietinbank	\$-	\$3,844,124	\$4,795,493	\$2,797,772

Name	Interest expense			
	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Other related parties				
Vietinbank	\$-	\$27,601	\$70,906	\$173,507

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(D) Due to commercial banks

Name	Ending balance			
	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Other related parties				
Vietinbank	\$3,581,380	\$1,601	\$14,823	\$5,722

Name	Interest expense			
	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Other related parties				
Vietinbank	\$40,336	\$-	\$49,703	\$-

B. Financial assets at fair value through profit or loss

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Other related parties				
Cathay Dragon Fund etc.	\$2,827,707	\$2,038,855	\$2,009,533	\$2,319,889

C. Receivables

Name	2014.9.30	%	2013.12.31	%	2013.9.30	%	2013.1.1	%
Other related parties Cathay								
Dragon Fund etc.	\$86,186	0.07	\$84,454	0.05	\$76,894	0.05	\$76,453	0.07

D. Reinsurance assets

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Subsidiary				
Cathay Insurance (Bermuda)	\$23,630	\$43,145	\$26,058	\$-

E. Loans

Name	Ending balance			
	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Associates				
Taiwan Real-estate Management Corp.	\$55,000	\$60,000	\$60,000	\$65,000
Tien-Tai Energy Corp.	114,958	120,859	-	-
Other related parties				
Cathay Real Estate Development Co., Ltd.	770,000	100,000	610,000	-
Cathay General Hospital	2,807,180	3,025,691	3,097,743	3,313,519
Others	2,062,253	1,617,682	1,458,619	890,843
Total	\$5,809,391	\$4,924,232	\$5,226,362	\$4,269,362

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Name	Interest income			
	2014.7.1~	2013.7.1~	2014.1.1~	2013.1.1~
	2014.9.30	2013.9.30	2014.9.30	2013.9.30
Associates				
Taiwan Real-estate Management Corp.	\$277	\$290	\$839	\$884
Tien-Tai Energy Corp.	1,024	-	3,093	-
Other related parties				
Cathay Real Estate Development Co., Ltd.	436	3,351	1,257	9,049
Cathay General Hospital	15,936	17,506	48,967	58,031
Others	10,244	6,779	29,316	19,904
Total	<u>\$27,917</u>	<u>\$27,926</u>	<u>\$83,472</u>	<u>\$87,868</u>

F. Available-for-sale financial assets

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Other related parties				
Cathay Dragon Fund etc.	\$463,294	\$290,068	\$212,564	\$236,464
Cathay Healthcare Management Co., Ltd.	63,585	64,868	64,733	34,125
Total	<u>\$526,879</u>	<u>\$354,936</u>	<u>\$277,297</u>	<u>\$270,589</u>

G. Deposit

Name	Ending balance			
	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Associate				
Symphox Information	\$16,707	\$142,617	\$86,164	\$167,730
			(Note)	(Note)
Other related parties				
Cathay Real Estate Development Co., Ltd.	241,952	226,980	134,795	279,019
Cathay Dragon Fund etc.	179,269	1,970,907	1,794,041	3,258,081
Others	9,939,748	8,558,652	8,266,505	7,234,987
Total	<u>\$10,377,676</u>	<u>\$10,899,156</u>	<u>\$10,281,505</u>	<u>\$10,939,817</u>

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Name	Interest expense			
	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Associate				
Symphox Information	\$36	\$237	\$440	\$1,068
Other related parties				
Cathay Real Estate Development Co., Ltd.	28	33	93	145
Cathay Dragon Fund etc.	21	2,003	4,873	10,743
Others	25,996	18,280	76,718	70,808
Total	<u>\$26,081</u>	<u>\$20,553</u>	<u>\$82,124</u>	<u>\$82,764</u>

Note: As a subsidiary of the Group during the period.

H. Property transactions

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

Name	2014.1.1~2014.9.30	
	Item	Amount
Other related parties		
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	\$9,407
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	496,540
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	54,561
Total		<u>\$560,508</u>

Name	2013.1.1~2013.9.30	
	Item	Amount
Other related parties		
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	\$12,580
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	1,452,857
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	26,423
Total		<u>\$1,491,860</u>

The total amounts of contracted projects for real estate as of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, between Cathay Life and Lin Yuan Property Management Co., Ltd. were \$42,460 thousand, \$95,481 thousand, \$95,481 thousand and 3,408 thousand, respectively.

The total amounts of contracted projects for real estate as of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, between Cathay Life and San Ching Engineering Co., Ltd. were \$5,662,922 thousand, \$5,535,807 thousand, \$5,535,807 thousand and \$5,483,615 thousand, respectively.

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The total amounts of contracted projects for real estate as of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, between Cathay Life and Cathay Real Estate Development Co., Ltd. were \$49,306 thousand, \$49,306 thousand, \$49,306 thousand and \$49,306 thousand, respectively.

(B) Real estate rental income from Cathay Life:

Name	Rental income			
	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Subsidiary				
Cathay Securities Investment Consulting	\$2,210	\$2,211	\$6,633	\$6,593
Associate				
Symphox Information	7,813	4,081 (Note)	19,991	12,237 (Note)
Other related parties				
Cathay Real Estate Development Co., Ltd.	4,935	4,343	13,621	13,029
San Ching Engineering Co., Ltd.	1,420	1,404	4,193	4,421
Cathay General Hospital	10,946	10,611	99,831	97,715
Cathay Healthcare Management Co., Ltd.	12,317	8,587	35,383	25,776
Cathay Hospitality Management Co., Ltd.	34,834	9,283	100,053	11,358
Total	\$74,475	\$40,520	\$279,705	\$171,129

Name	Guarantee deposits received			
	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Associate				
Symphox Information	\$8,355	\$5,922	\$6,682 (Note)	\$3,942 (Note)
Other related party				
Cathay Real Estate Development Co., Ltd.	4,028	4,028	4,028	4,028
Cathay General Hospital	10,166	10,166	10,166	10,166
Cathay Healthcare Management Co., Ltd.	8,593	8,012	8,012	8,012
Total	\$31,142	\$28,128	\$28,888	\$26,148

Note: As a subsidiary of the Group during the period.

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

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(C) Real estate rental expense from Cathay Life and Cathay United Bank:

Name	Rental expense			
	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Other related party Cathay Real Estate Development Co., Ltd.	\$11,580	\$16,690	\$41,709	\$53,636

Name	Rental expense			
	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Other related party Cathay Real Estate Development Co., Ltd.	\$13,932	\$13,932	\$13,932	\$13,932

I. Guarantee deposits

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Other related parties Cathay Healthcare Management Co., Ltd.	\$3,599	\$2,446	\$2,446	\$-
Lin Yuan Property Management Co., Ltd.	5,000	5,000	5,000	5,000
Total	\$8,599	\$7,446	\$7,446	\$5,000

J. Futures traders' equity

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Other related party Cathay Dragon Fund etc.	\$159,303	\$153,195	\$166,506	\$166,848

K. Securities sold under agreements to repurchase

Name	Ending balance			
	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Other related party Others	\$58,068	\$-	\$-	\$60,081

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Name	Interest expense			
	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Other related party				
Others	\$85	\$-	\$135	\$121

L. Payables

Name	2014.9.30	%	2013.12.31	%	2013.9.30	%	2013.1.1	%
Subsidiaries								
Cathay Insurance								
(Bermuda)	\$-	-	\$14,109	0.04	\$14,109	0.02	\$-	-
Seaward Card	23,550	0.04	24,857	0.07	26,537	0.05	26,131	0.04
Associate								
Symphox Information	73,137	0.13	22,102	0.06	52,670	0.08	17,023	0.03
					(Note)		(Note)	
Cathay Conning Asset Management Ltd.								
Management Ltd.	3,168	0.01	-	-	-	-	-	-
Other related parties								
Lin Yuan Property Management Co., Ltd.								
Management Co., Ltd.	55,920	0.01	1,383	-	44,132	0.08	3,580	0.01
Vietinbank	289,142	0.49	119,800	0.32	118,680	0.20	407,904	0.68
Total	<u>\$444,917</u>		<u>\$182,251</u>		<u>\$256,128</u>		<u>\$454,638</u>	

Note: As a subsidiary of the Group during the period.

M. Net commission and handling fee

(A) Handling fee income

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Subsidiary				
Cathay Securities Investment Consulting				
	\$4,583	\$5,567	\$16,987	\$16,478

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(B) Reinsurance service expense

Name	2014.7.1~	2013.7.1~	2014.1.1~	2013.1.1~
	2014.9.30	2013.9.30	2014.9.30	2013.9.30
Subsidiary				
Cathay Insurance (Bermuda)	\$3,303	\$1,619	\$7,602	\$7,264

N. Net premiums from insurance business

(A) Insurance income

Name	2014.7.1~	2013.7.1~	2014.1.1~	2013.1.1~
	2014.9.30	2013.9.30	2014.9.30	2013.9.30
Other related parties				
Cathay Real Estate				
Development Co., Ltd.	\$4,612	\$4,333	\$6,647	\$6,504
Cathay General Hospital	12,703	12,809	33,836	33,873
San Ching Engineering Co., Ltd.	9,833	14	14,611	37
Others	45,852	28,618	104,635	87,911
Total	\$73,000	\$45,774	\$159,729	\$128,325

(B) Reinsurance income

Name	2014.7.1~	2013.7.1~	2014.1.1~	2013.1.1~
	2014.9.30	2013.9.30	2014.9.30	2013.9.30
Subsidiary				
Cathay Insurance (Bermuda)	\$59,714	\$30,087	\$99,535	\$100,169

On 1 July 2000, Cathay Insurance (Bermuda) engaged in the reinsurance business providing reinsurance for RGA Global Reinsurance Company and Central Reinsurance Corporation's accidental insurance. For the nine-month periods ended 30 September 2014 and 2013, Cathay Life assumed 90% of the reinsurance business from Cathay Insurance (Bermuda).

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(C) Reinsurance claims payment

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Subsidiary				
Cathay Insurance (Bermuda)	\$31,833	\$17,925	\$83,704	\$121,188

(D) Reinsurance commission expense

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Subsidiary				
Cathay Insurance (Bermuda)	\$1,984	\$1,019	\$3,229	\$2,604

O. Net other non-interest income

(A) Management fee income

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Other related party				
Cathay Dragon Fund etc.	\$261,550	\$239,198	\$760,324	\$747,673

(B) Other income

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Other related party				
Cathay General Hospital	\$922	\$910	\$3,689	\$3,640

(C) Rental Income

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Other related party				
Culture and Charity Foundation of the CUB	\$1,158	\$1,185	\$3,474	\$3,661

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P. Operating expenses

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Subsidiaries				
Cathay Securities Investment Consulting	\$-	\$2,730	\$672	\$15,409
Seaward Card	65,337	65,313	216,908	239,077
Associate				
Symphox Information	173,918	166,293 (Note)	553,456	524,742 (Note)
Cathay Conning Asset Management Ltd.	3,168	-	3,168	-
Other related parties				
Cathay Real Estate Development Co., Ltd.	5,377	5,747	16,554	17,549
Lin Yuan Property Management Co., Ltd.	181,911	51,562	548,809	486,575
Cathay Healthcare Management Co., Ltd.	7,061	3,283	18,930	9,656
Total	\$436,772	\$294,928	\$1,358,497	\$1,293,008

Note: As a subsidiary of the Group during the period.

Q. Key management personnel compensation

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Short-term employee benefits	\$108,431	\$100,559	\$394,266	\$360,480
Post-employment pension	3,088	3,677	13,592	11,121
Termination benefits	-	-	-	2,708
Total	\$111,519	\$104,236	\$407,858	\$374,309

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

(3) The Company

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

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A. Cash in bank

Name	Item	Ending balance			
		2014.9.30	2013.12.31	2013.9.30	2013.1.1
Subsidiary					
Cathay United Bank	Time deposit	\$-	\$-	\$118,793	\$87,408
	Cash in bank	10,375	3,982	1,076	5,981
	Total	<u>\$10,375</u>	<u>\$3,982</u>	<u>\$119,869</u>	<u>\$93,389</u>

Interest income from Cathay United Bank for the three-month and nine-month periods ended 30 September 2014 and 2013 were \$84 thousand, \$1,208 thousand, \$107 thousand and \$1,677 thousand, respectively.

B. Receivables

Name	Item	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Subsidiaries					
Cathay Life	Interest	\$4,138,129	\$3,458,995	\$3,230,129	\$2,550,995
Cathay Century	Receivables due to consolidated income tax and interest	120,235	212,790	157,222	172,887
Cathay Securities	Receivables due to consolidated income tax	-	-	-	111,308
Cathay Securities Investment Trust	Receivables due to consolidated income tax	61,206	58,705	51,070	19,154
Cathay Venture Inc.	Receivables due to consolidated income tax	14,651	-	2,108	-
	Total	<u>\$4,334,221</u>	<u>\$3,730,490</u>	<u>\$3,440,529</u>	<u>\$2,854,344</u>

C. Guarantee deposits paid

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Subsidiary				
Cathay Life	<u>\$8,046</u>	<u>\$8,505</u>	<u>\$8,282</u>	<u>\$6,604</u>

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D. Held-to-maturity financial asset

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Subsidiaries				
Cathay Life	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000
Cathay Century	1,000,000	1,000,000	1,000,000	1,000,000
Total	<u>\$31,000,000</u>	<u>\$31,000,000</u>	<u>\$31,000,000</u>	<u>\$31,000,000</u>

E. Payables

Name	Item	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Subsidiaries					
Cathay Life	Payable due to consolidated income tax	\$7,896,466	\$7,550,281	\$7,221,218	\$5,235,287
Cathay United Bank	Payable due to consolidated income tax	-	256,312	174,195	246,573
Cathay Securities	Payable due to consolidated income tax	-	6,495	9,856	-
Total		<u>\$7,896,466</u>	<u>\$7,813,088</u>	<u>\$7,405,269</u>	<u>\$5,481,860</u>

F. Interest income

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Subsidiaries				
Cathay Life	\$228,866	\$228,866	\$679,134	\$679,134
Cathay Century	4,688	4,688	13,912	13,912
Total	<u>\$233,554</u>	<u>\$233,554</u>	<u>\$693,046</u>	<u>\$693,046</u>

G. Operating expenses

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Subsidiary				
Cathay Life	\$9,326	\$8,240	\$26,918	\$23,807

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(4) Subsidiaries' significant transactions with related parties are follows:

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

A. Cathay Life and its subsidiaries

a. Cash in banks

Name	Item	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Subsidiaries					
Cathay United Bank	Time deposit	\$4,482	\$7,482	\$12,086,482	\$57,338,698
	Cash in bank	20,596,794	24,802,249	13,241,589	15,791,906
	Check deposit	957,364	747,053	433,956	954,116
	Security deposit	6	6	6	6
Indovina Bank	Time deposit	-	-	473	471
	Cash in bank	23,569	5,226	17,232	2,737
Total		<u>\$21,582,215</u>	<u>\$25,562,016</u>	<u>\$25,779,738</u>	<u>\$74,087,934</u>

Interest income from Cathay United Bank for the three-month and nine-month period ended 30 September 2014 and 2013, were \$5,319 thousand, \$35,216 thousand, \$16,437 thousand and \$315,469 thousand, respectively.

Interest income from Indovina Bank for the three-month and nine-month period ended 30 September 2014 and 2013 were \$65 thousand, \$411 thousand, \$150 thousand and \$3,468 thousand, respectively.

As of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, time deposit pledged were \$4,482 thousand, \$7,482 thousand, \$4,482 thousand and \$8,698 thousand, respectively.

b. Investments in debt securities with no active market

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Subsidiary				
Cathay United Bank	<u>\$3,000</u>	<u>\$3,000</u>	<u>\$3,000</u>	<u>\$3,000</u>

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c. Other receivables

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
The Company				
Cathay Financial Holding (Note)	\$7,896,466	\$7,550,281	\$7,221,218	\$5,235,287
Subsidiary				
Cathay Century	232,087	164,984	202,698	141,412
Total	<u>\$8,128,553</u>	<u>\$7,715,265</u>	<u>\$7,423,916</u>	<u>\$5,376,699</u>

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

d. Secured loans

Name	2014.1.1~2014.9.30			
	Maximum amount	Interest Income	Rate	Ending balance
Other related parties				
Cathay General Hospital	\$2,926,691	\$46,783	2.01%~2.55%	\$2,708,180
Others	833,196	10,567	1.34%~3.78%	768,176
Total		<u>\$57,350</u>		<u>\$3,476,356</u>

Name	2013.1.1~2013.9.30			
	Maximum amount	Interest Income	Rate	Ending balance
Other related parties				
Cathay General Hospital	\$3,210,519	\$55,817	2.43%~2.55%	\$2,998,743
Others	604,995	6,821	1.34%~3.88%	581,737
Total		<u>\$62,638</u>		<u>\$3,580,480</u>

e. Financial assets at fair value through profit or loss-beneficiary certificates

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Other related party				
Cathay Dragon Fund etc.	<u>\$2,799,661</u>	<u>\$2,008,405</u>	<u>\$2,009,533</u>	<u>\$2,319,889</u>

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f. Guarantee deposits paid

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Subsidiary				
Cathay Futures	<u>\$573,524</u>	<u>\$711,826</u>	<u>\$632,556</u>	<u>\$364,739</u>

The guarantee deposits are futures margins of Cathay Futures. The imputed interest income of guarantee deposit paid from Cathay Futures for the three-month and nine-month periods ended 30 September 2014 and 2013 were \$214 thousand, \$185 thousand, \$778 thousand and \$616 thousand, respectively.

g. Other payables

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
The Company				
Cathay Financial Holding (Note)	\$4,138,129	\$3,458,995	\$3,230,129	\$2,550,995
Subsidiary				
Cathay United Bank	490,864	-	-	-
Total	<u>\$4,628,993</u>	<u>\$3,458,995</u>	<u>\$3,230,129</u>	<u>\$2,550,995</u>

Note: Interest payable accrued from preferred stock liability.

h. Preferred stock liability

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
The Company				
Cathay Financial Holding	<u>\$30,000,000</u>	<u>\$30,000,000</u>	<u>\$30,000,000</u>	<u>\$30,000,000</u>

i. 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.

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Real estate contracted projects of Cathay Life:

Name	2014.1.1~2014.9.30	
	Item	Amount
Other related party San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	<u>\$496,540</u>

Name	2013.1.1~2013.9.30	
	Item	Amount
Other related party San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	<u>\$1,452,857</u>

The total amounts of contracted projects for real estate as of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, between Cathay Life and San Ching Engineering Co., Ltd. were \$5,662,922 thousand, \$5,535,807 thousand, \$5,535,807 thousand and \$5,483,615 thousand, respectively.

k. Rental income

Name	Item	2014.7.1~	2013.7.1~	2014.1.1~	2013.1.1~
		2014.9.30	2013.9.30	2014.9.30	2013.9.30
Subsidiary					
Cathay United Bank	Real-estate rental income	\$99,247	\$93,090	\$298,800	\$281,283
Other related party					
Cathay Hospitality Management	Real-estate rental income	34,834	9,283	100,053	11,358
Total		<u>\$134,081</u>	<u>\$102,373</u>	<u>\$398,853</u>	<u>\$292,641</u>

According to contracts, leasing periods are generally 3 years, and rentals are usually paid on a monthly basis.

l. Insurance income

Name	2014.7.1~	2013.7.1~	2014.1.1~	2013.1.1~
	2014.9.30	2013.9.30	2014.9.30	2013.9.30
Subsidiary				
Cathay United Bank	\$18,316	\$71,024	\$48,236	\$416,511
Other related party				
Others	45,852	28,618	104,635	87,911
Total	<u>\$64,168</u>	<u>\$99,642</u>	<u>\$152,871</u>	<u>\$504,422</u>

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m. Reinsurance income

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Subsidiary				
Cathay Insurance (Bermuda)	\$59,714	\$30,087	\$99,535	\$100,169

n. Reinsurance claim payments

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Subsidiary				
Cathay Insurance (Bermuda)	\$31,833	\$17,925	\$83,704	\$121,188

o. Handling fees income

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Subsidiary				
Cathay Securities Corporation	\$50,467	\$24,028	\$100,248	\$71,434

p. Miscellaneous income

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Subsidiary				
Cathay Century	\$408,330	\$321,815	\$1,169,536	\$949,969
Cathay United Bank	27,422	19,455	116,886	65,696
Total	\$435,752	\$341,270	\$1,286,422	\$1,015,665

Miscellaneous income is mainly generated from Cathay Life's integrated marketing activities.

q. Insurance expense

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Subsidiary				
Cathay Century	\$32,052	\$6,992	\$153,772	\$106,588

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The insurance expenses were related to insurance for property and equipment, cash, public accident, etc. Amounts of \$4,565 thousand, \$4,457 thousand, \$9,065 thousand and \$10,407 thousand paid by Cathay Life on behalf of its employees for fidelity bond insurance were included in the above insurance expenses for the three-month and nine-month periods ended 30 September 2014 and 2013, respectively.

r. Operating expenses

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Subsidiary				
Cathay United Bank	\$1,265,441	\$834,641	\$2,999,670	\$1,913,693
Other related party				
Lin Yuan Property Management Co., Ltd.	180,008	49,891	543,086	480,856
Total	\$1,445,449	\$884,532	\$3,542,756	\$2,394,549

s. Non-operating income and expenses

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
The Company				
Cathay Financial Holding	\$228,866	\$228,866	\$679,134	\$679,134

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

t. Other disclosures

As of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, the nominal amounts (in thousand) of the financial instruments transactions between Cathay Life and Cathay United Bank are summarized as below:

Item	2014.9.30	2013.12.31	2013.9.30	2013.1.1
CS contracts	USD 830,000	USD 1,045,000	USD1,035,000	USD 985,000

Cathay Life had entered a credit assignment agreement with Cathay United Bank in the amounts of \$307,050 thousand as of 30 September 2014.

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B. Cathay United Bank and its subsidiaries

a. Loans and deposits

Account/Name	Ending balance			
	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Loans				
Associate				
Tien-Tai Energy Corp.	\$114,958	\$120,859	\$-	\$-
Other related parties				
Cathay Real Estate Development Co., Ltd.				
	770,000	100,000	610,000	-
Cathay General Hospital	99,000	99,000	99,000	103,000
Others	1,256,030	890,965	843,063	385,830
Total	<u>\$2,239,988</u>	<u>\$1,210,824</u>	<u>\$1,552,063</u>	<u>\$488,830</u>

Account/Name	Ending balance			
	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Deposits				
The Company				
Cathay Financial Holding	\$10,375	\$3,982	\$119,869	\$93,389
Subsidiaries				
Cathay Life	21,561,646	25,559,790	25,678,870	73,919,996
Cathay Century	1,150,511	1,470,311	1,372,974	1,285,715
Cathay Securities	1,749,985	1,300,263	1,592,497	1,797,618
Cathay Futures	1,960,437	1,920,210	1,953,751	1,978,796
Cathay Securities Investment Trust				
	318,845	344,818	345,010	1,745,795
Cathay Venture	33,416	44,992	80,367	65,757
Cathay Life (Vietnam)	23,569	5,226	17,704	1,595
Cathay Century (Vietnam)	143,331	179,870	203,514	326,295
Associate				
Symphox Information	16,707	142,617	86,164	167,730
Other related parties				
Cathay Real Estate Development Co., Ltd.				
	241,952	226,980	134,795	279,019
Cathay Dragon Fund etc.	179,269	1,970,907	1,794,041	3,258,081
Others	9,939,748	8,558,652	8,266,505	7,234,987
Total	<u>\$37,329,791</u>	<u>\$41,728,618</u>	<u>\$41,646,061</u>	<u>\$92,154,773</u>

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Name	Interest income			
	2014.7.1~	2013.7.1~	2014.1.1~	2013.1.1~
	2014.9.30	2013.9.30	2014.9.30	2013.9.30
Loans				
Associate				
Tien-Tai Energy Corp.	\$1,024	\$-	\$3,093	\$-
Other related parties				
Cathay Real Estate Development Co., Ltd.				
	436	3,351	1,257	9,049
Cathay General Hospital	736	737	2,184	2,214
Others	6,411	3,991	18,229	12,589
Total	\$8,607	\$8,079	\$24,763	\$23,852

Name	Interest expense			
	2014.7.1~	2013.7.1~	2014.1.1~	2013.1.1~
	2014.9.30	2013.9.30	2014.9.30	2013.9.30
Deposits				
The Company				
Cathay Financial Holding	\$84	\$1,208	\$107	\$1,677
Subsidiaries				
Cathay Life	5,319	34,979	16,437	314,250
Cathay Century	2,215	2,172	7,388	6,909
Cathay Securities	1,340	2,015	3,846	6,868
Cathay Futures	5,978	6,193	17,793	19,803
Cathay Venture	51	206	251	646
Cathay Securities Investment Trust	1,094	1,296	2,883	6,439
Cathay Life (Vietnam)	65	414	150	3,619
Cathay Century (Vietnam)	3,065	6,032	8,824	22,465
Associate				
Symphox Information	36	237	440	1,068
Other related parties				
Cathay Real Estate Development Co., Ltd.				
	28	33	93	145
Cathay Dragon Fund etc.	21	2,003	4,873	10,743
Others	25,996	18,280	76,718	70,808
Total	\$45,292	\$75,068	\$139,803	\$465,440

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Account/Name	Ending balance			
	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Call loans to banks				
Other related party				
Vietinbank	\$-	\$6,554,374	\$6,344,748	\$6,376,067
Due from commercial banks				
Other related party				
Vietinbank	7,109,089	16,175	7,741	5,722
Call loans from banks				
Other related party				
Vietinbank	-	3,844,124	4,795,493	2,797,772
Due to commercial banks				
Other related party				
Vietinbank	3,581,380	1,601	14,823	5,722

Account/Name	Interest income			
	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Call loans to banks				
Other related party				
Vietinbank	\$-	\$98,037	\$28,198	\$213,929
Call loans from banks				
Other related party				
Vietinbank	51,105	19	121,676	19

Account/Name	Interest expense			
	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Call loans from banks				
Other related party				
Vietinbank	\$-	\$27,601	\$70,906	\$173,507
Due to commercial banks				
Other related party				
Vietinbank	40,336	-	49,703	-

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.

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b. Receivables due to consolidated income tax

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
The Company				
Cathay Financial Holding	\$-	\$256,312	\$174,195	\$246,573

c. Receivables due to commission of insurance agency

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Subsidiary				
Cathay Life	\$490,864	\$142,559	\$346,728	\$139,104

d. Dividends payable

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Other related party				
Vietinbank	\$289,142	\$119,800	\$118,680	\$407,904

e. Rental expense

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Subsidiary				
Cathay Life	\$99,247	\$93,090	\$298,800	\$281,283

f. Handling fees income

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Subsidiary				
Cathay Life	\$1,265,441	\$834,641	\$2,999,670	\$1,913,693

g. Insurance expenses

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Subsidiary				
Cathay Life	\$18,316	\$71,024	\$48,236	\$416,511

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h. Operating expenses

Name	2014.7.1~	2013.7.1~	2014.1.1~	2013.1.1~
	2014.9.30	2013.9.30	2014.9.30	2013.9.30
Subsidiary				
Seaward Card	\$41,439	\$47,943	\$149,507	\$165,333
Cathay Life	27,422	19,455	116,886	65,696
Associate				
Symphox Information	100,186	91,794	322,585	298,762
Total	\$169,047	\$159,192	\$588,978	\$529,791

C. Cathay Century and its subsidiaries

a. Cash in banks

Name	Item	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Subsidiaries					
Cathay United Bank	Time deposit	\$631,525	\$693,131	\$640,200	\$695,800
	Cash in bank	405,721	619,878	596,745	416,944
	Check deposit	113,265	157,302	136,029	172,971
Indovina Bank	Time deposit	130,355	175,808	199,311	322,229
	Cash in bank	12,976	4,062	4,203	4,066
	Total	\$1,293,842	\$1,650,181	\$1,576,488	\$1,612,010

Interest income from Cathay United Bank for the three-month and nine-month periods ended 30 September 2014 and 2013 were \$2,215 thousand, \$2,172 thousand, \$7,388 thousand and \$6,909 thousand, respectively.

Interest income from Indovina Bank for the three-month and nine-month periods ended 30 September 2014 and 2013 were \$3,064 thousand, \$6,032 thousand, \$8,823 thousand and \$22,465 thousand, respectively.

As of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, time deposit pledged were \$33,476 thousand, \$33,384 thousand, \$28,261 and \$33,231 thousand, respectively.

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b. Available-for-sale financial assets

Name	Item	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Other related party					
Cathay Dragon Fund etc.	Beneficiary certificates	\$305,083	\$146,836	\$62,762	\$67,557

c. Other payables

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
The Company				
Cathay Financial Holding	\$120,235	\$212,790	\$157,222	\$172,887
Subsidiary				
Cathay Life	232,087	164,984	202,698	141,412
Total	\$352,322	\$377,774	\$359,920	\$314,299

d. Preferred stock liability

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
The Company				
Cathay Financial Holding	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000

e. Insurance income

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Subsidiary				
Cathay Life	\$32,052	\$6,992	\$153,772	\$106,588

f. Operating expenses

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Subsidiary				
Cathay Life	\$408,330	\$321,815	\$1,169,536	\$949,969

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g. Other disclosure

As of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, the nominal amount (in thousand) of the derivative financial instruments transactions with Cathay United Bank are summarized as below:

Item	2014.9.30	2013.12.31	2013.9.30	2013.1.1
CS contracts	USD 47,200	USD 57,450	USD 67,250	USD 75,250
	EUR 750	EUR -	EUR -	EUR -
IRS	NTD 200,000	NTD 400,000	NTD 400,000	NTD 400,000

D. Cathay Securities and its subsidiaries

a. Cash in bank

Name	Item	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Subsidiary					
Cathay United Bank	Time deposits	\$1,221,900	\$1,291,900	\$1,291,900	\$1,492,300
	Cash in bank	864,297	331,493	623,544	662,848
	Check deposits	1	1	288	1
	Total	<u>\$2,086,198</u>	<u>\$1,623,394</u>	<u>\$1,915,732</u>	<u>\$2,155,149</u>

Interest income from Cathay United Bank for the three-month and nine-month period ended 30 September 2014 and 2013 were \$7,318 thousand, \$8,208 thousand, \$21,639 thousand and \$26,671 thousand, respectively.

As of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, time deposit pledged were \$900,000 thousand, \$1,000,000 thousand, \$1,000,000 thousand and \$1,000,000 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 2014, 31 December 2013, 30 September 2013 and 1 January 2013, the operating bonds were \$90,000 thousand, \$90,000 thousand, \$90,000 thousand and \$65,000 thousand, respectively.

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b. Customer's margin accounts

Name	Ending balance			
	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Subsidiary				
Cathay United Bank	\$1,624,224	\$1,597,079	\$1,630,516	\$1,621,265

c. Other payables

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
The Company				
Cathay Financial Holding	\$-	\$-	\$-	\$111,308

d. Futures trader's equity

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Subsidiary				
Cathay Life	\$573,524	\$711,826	\$632,556	\$364,739
Other related party				
Cathay Dragon Fund				
etc.	159,303	153,195	166,506	166,848
Total	\$732,827	\$865,021	\$799,062	\$531,587

E. Cathay Securities Investment Trust

a. Cash in bank, Operating deposit and Guarantee deposit

Name	Item	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Subsidiary					
Cathay United Bank	Time deposit (Note)	\$297,003	\$323,850	\$331,850	\$1,720,550
	Cash in bank	4,608	75	843	28
	Check deposits	17,234	20,893	12,317	25,217
	Total	\$318,845	\$344,818	\$345,010	\$1,745,795

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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 2014, 31 December 2013, 30 September 2013 and 1 January 2013, the operating bonds were \$50,000 thousand, \$50,000 thousand, \$50,000 thousand and \$50,000 thousand, respectively.

And in accordance with “Discretionary Investment Services Contract”, as of 30 September 2014, 31 December 2013, 30 September 2013, 1 January 2013, Cathay Securities Investment Trust reserved the performance bonds amounted to \$142,100 thousand, \$160,100 thousand, \$160,100 thousand and \$145,000 thousand, respectively.

Interest income from Cathay United Bank for the three-month and nine-month periods ended 30 September 2014 and 2013 were \$1,094 thousand, \$1,296 thousand, \$2,883 thousand and \$6,439 thousand, respectively.

d. Available-for-sale financial assets

Name	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Subsidiary				
Cathay Dragon Fund etc.	\$108,096	\$143,232	\$149,802	\$128,032

c. Management fee income

Name	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30	2014.1.1~ 2014.9.30	2013.1.1~ 2013.9.30
Subsidiary				
Cathay Life	\$46,513	\$33,455	\$129,065	\$97,779
Other related party				
Cathay Dragon Fund etc.	261,550	239,198	760,324	747,673
Total	\$308,063	\$272,653	\$889,389	\$845,452

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36. Pledged assets

As of 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013, the Group's pledged assets are summarized below:

Item	Guarantee purpose	Carrying amount			
		2014.9.30	2013.12.31	2013.9.30	2013.1.1
Time deposits	Correspondent deposit, collateral for the over-loaning of settlement accounts, loans, business reserves and guarantees	\$3,774,401	\$2,830,092	\$2,810,226	\$2,559,994
Guarantee deposits paid	Government bonds and court guarantees	10,363,037	10,553,803	10,580,741	10,277,450
Financial assets at fair value through profit or loss	Business reserves and guarantees, the operation of electronic gift certificate and customers' rights	-	-	47,345	45,103
Available-for-sale financial assets	Business reserves and guarantees	977,531	1,473,453	1,499,509	1,603,158
Held-to-maturity financial assets	Business reserves and guarantees	1,555,888	862,710	813,615	610,570
Investments in debt securities with no active market	Business reserves and guarantees	62,000,000	50,100,000	50,100,000	50,100,000
Other financial assets	Trust accounts	-	-	9,505	10
Total		<u>\$78,670,857</u>	<u>\$65,820,058</u>	<u>\$65,860,941</u>	<u>\$65,196,285</u>

37. 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 respectively. 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) Cathay Securities and its subsidiaries

As of 30 September 2014, Cathay Securities and its subsidiaries requested financial institutions issue letters of guarantees for security borrowing of \$200,000 thousand.

(3) As of 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013, Cathay United Bank and its subsidiaries had the following commitments and contingent liabilities, which were not reflected in the financial statements:

Item	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Trust and security held for safekeeping	\$512,655,659	\$438,098,386	\$415,075,509	\$337,334,621
Travelers checks for sale	490,146	559,217	475,676	462,167
Bills for collection	45,611,246	44,881,814	43,362,213	39,523,311
Book-entry for government bonds and depository for short-term marketable securities under management	511,876,500	573,257,300	571,833,500	564,494,500
Entrusted financial management business	5,926,650	3,190,719	3,625,881	2,385,838
Guarantees on duties and contracts	11,647,351	11,270,885	10,943,240	12,081,454
Unused commercial letters of credit	6,211,471	4,285,167	5,370,328	4,953,767
Irrevocable loan commitments	175,553,475	165,758,492	54,610,534	34,515,262
Credit card lines commitments	411,129,979	379,995,132	336,858,733	295,994,089
Stamp tax, securities and memorial currency consignments	-	1,006	1,006	1,006
Financial guarantee contracts	1,577,197	575,284	568,853	913,279

(4) According to the effective operating leases agreement (the longest lease term being 5 years), rentals for the next five years are as follows:

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Within 1 year	\$1,086,359	\$966,282	\$766,684	\$884,866
1 to 5 years	1,940,383	1,552,038	1,340,627	1,214,969
Over 5 year	138,492	71,450	60,764	118,602
	<u>\$3,165,234</u>	<u>\$2,589,770</u>	<u>\$2,168,075</u>	<u>\$2,218,437</u>

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38. Significant disaster losses:

None.

39. Subsequent events:

Resolved by the Company's board of directors on 12 November 2014, Cathay Securities and its subsidiaries volunteered to change the subsequent measurements of investment property from cost model to fair value model from 1 January 2014 to reflect the true value of properties, enhance the net value and improve their financial structures according to the revised Criteria Governing the Preparation of Financial Reports by Securities Firms.

Cathay Securities resolved at its board meeting to issue 50,000 thousand shares. The recapitalization record date was 28 October 2014. The number of shares issued increased to 470,000 thousand shares.

40. Other significant matters

(1) Financial instruments related information

The Group

A. Categories of financial instruments

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Financial assets				
Financial assets at fair value through profit or loss	\$202,941,797	\$244,023,246	\$226,245,360	\$146,746,672
Available-for-sale financial assets -net	1,301,619,201	1,357,106,776	1,321,363,863	1,302,743,262
Derivative financial assets for hedging	799,689	1,300,914	1,607,616	2,362,366
Held-to-maturity financial assets -net	75,387,965	54,970,153	51,384,448	24,380,985
Other financial assets - investments with no active market	1,460,159,213	1,305,675,228	1,357,046,326	1,242,279,799
Loans and receivables:				
Cash and cash equivalents (petty cash and cash on hand excluded)	494,472,137	317,204,356	293,683,408	300,170,090
Due from the Central Bank and call loans to banks	146,979,030	151,945,066	132,346,377	109,003,762
Securities purchased under agreements to resell	49,522,901	12,960,817	10,220,471	15,749,244
Receivables -net	125,765,347	169,590,966	137,403,067	109,911,278
Loans -net	1,791,938,582	1,667,391,682	1,586,501,443	1,521,712,123
Other financial assets	483,183,369	419,122,589	410,746,893	363,020,410
Guarantee deposits paid	99,547,431	83,128,253	78,525,773	66,270,817
Subtotal	3,191,408,797	2,821,343,729	2,649,427,432	2,485,837,724
Total	<u>\$6,232,316,662</u>	<u>\$5,784,420,046</u>	<u>\$5,607,075,045</u>	<u>\$5,204,350,808</u>

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	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Financial liabilities				
Financial liabilities at fair value through profit or loss	\$36,507,336	\$28,754,621	\$19,073,757	\$9,086,346
Derivative financial liabilities for hedging	13,397	5,148	-	-
Financial liabilities at amortized cost:				
Due to the Central Bank and call loans from banks	71,776,229	56,985,225	50,893,236	56,934,246
Bankers acceptances and funds borrowed	1,521,800	1,497,500	1,483,500	1,456,800
Securities sold under agreements to repurchase	62,636,760	60,931,600	58,193,040	22,046,517
Commercial paper payable -net	23,400,000	10,050,000	7,780,000	5,540,000
Payables	58,475,379	37,548,440	58,366,163	60,740,926
Deposits	1,667,763,366	1,585,031,001	1,558,339,204	1,458,392,976
Bonds payable	107,288,890	92,417,213	99,913,846	89,831,007
Other financial liabilities	516,660,371	413,414,217	396,720,427	348,229,937
Guarantee deposits received	3,618,700	3,167,092	3,051,599	3,139,941
Subtotal	2,513,141,495	2,261,042,288	2,234,741,015	2,046,312,350
Total	<u>\$2,549,662,228</u>	<u>\$2,289,802,057</u>	<u>\$2,253,814,772</u>	<u>\$2,055,398,696</u>

B. Fair value of financial instruments at amortized cost:

Other than those listed in the table below, the carrying amount of the Group's financial assets and liabilities measured at amortized cost approximate their fair value:

	Book value			
	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Financial assets				
Held-to-maturity financial assets -net	\$75,387,965	\$54,970,153	\$51,384,448	\$24,380,985
Investments with no active market	1,460,159,213	1,305,675,228	1,357,046,326	1,242,279,799
Total	<u>\$1,535,547,178</u>	<u>\$1,360,645,381</u>	<u>\$1,408,430,774</u>	<u>\$1,266,660,784</u>

	Fair value			
	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Financial assets				
Held-to-maturity financial assets -et	\$73,879,324	\$55,977,454	\$52,866,155	\$27,346,777
Investments with no active market	1,477,491,189	1,277,291,234	1,327,513,209	1,292,295,864
Total	<u>\$1,551,370,513</u>	<u>\$1,333,268,688</u>	<u>\$1,380,379,364</u>	<u>\$1,319,642,641</u>

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C. The methods and hypothesis for estimation of fair value measurement:

- a. For short-term financial instruments, their book value shown on consolidated balance statement was used to estimate the fair value. Due to the upcoming expiration, the fair values of short-term financial instruments are reasonable to be estimated based on book values. Such method mentioned above is applicable to Cash and cash equivalents, Receivables, Securities sold under agreements to repurchase (resell), Payables, Deposits, Remittances and Call loans to or from Banks.
- b. If there are active markets for financial assets or liabilities at fair value through profit and loss, available-for-sale financial assets, held-to-maturity financial assets, bonds investments without active market and derivative financial assets for hedging, such offer prices are regarded as fair value. If offer prices in active market are not available, valuation method is adopted alternatively. The basis of parameter used in valuation method are derived from available data in market, such as yield curve, exchange rate and reference to the condition and character of financial instruments, including credit rating, duration of bonds, currency and other condition and character similar to current fair value of financial instruments which results in consistency between valuation method and hypothesis of financial instruments valuation with market involvement.
- c. Discounts, loans and deposits are interest bearing financial instruments, resulting in the approximation between book value and current fair value. The book value of overdue receivables is derived from expected collectible amount less allowance of bad debts. As result, the book value is regarded as fair value.
- d. The fair value of bonds payables are calculated from the discounted value of expected cash flows, equaling its book value.
- e. The book values of guarantee deposits paid and guarantee deposits received are regarded as their fair value due to insignificant difference between amount received and paid in the future.

D. Financial instruments related information

To provide information of disclosure, the Group adopted the fair value levels reflecting the importance of inputs during measurement and classified the measurements of fair values into the following levels:

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1st level: The offer prices in active market (without adjustments) were the basis of fair value measurement.

2nd level: The fair value measurement was derived from direct use of price or observable inputs concluded from price indirectly.

3rd level: Unobservable inputs were the basis of fair value measurement and observable inputs that require significant adjustments based on unobservable parameters.

a. The fair values of financial assets or liabilities determined by quoted market price are classified as level 1 or pricing models are classified as level 2 and 3 are summarized as following:

Financial instruments measured at fair value item	2014.9.30				2013.12.31			
	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:								
Stocks	\$13,986,203	\$13,986,203	\$-	\$-	\$15,213,250	\$15,213,250	\$-	\$-
Bonds	29,063,809	11,779,518	17,284,291	-	16,042,556	10,011,547	6,031,009	-
Others	139,716,267	39,972,554	99,743,713	-	198,454,918	42,353,577	156,101,341	-
Available-for-sale financial assets:								
Stocks	438,397,095	421,490,985	16,906,110	-	437,387,787	424,158,056	13,229,731	-
Bonds	696,397,258	36,247,390	660,149,868	-	783,310,158	26,135,059	757,175,099	-
Others	166,824,848	126,844,444	20,711,390	19,269,014	136,408,831	100,186,287	23,119,841	13,102,703
Liabilities								
Financial liabilities at fair value through profit or loss	1,779,053	1,779,053	-	-	1,463,948	966,947	497,001	-
Derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss	20,175,518	426,934	19,748,584	-	14,312,522	418,957	13,893,565	-
Other financial assets:								
Derivatives financial assets for hedging	799,689	-	799,689	-	1,300,914	10,022	1,290,892	-
Liabilities								
Financial liabilities at fair value through profit or loss	34,728,283	669,017	34,059,266	-	27,290,673	368,464	26,922,209	-
Other financial liabilities:								
Derivatives financial liabilities for hedging	13,397	-	13,397	-	5,148	-	5,148	-

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Financial instruments measured at fair value item	2013.9.30				2013.1.1			
	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:								
Stocks	\$16,129,629	\$16,129,629	\$-	\$-	\$14,896,788	\$14,896,788	\$-	\$-
Bonds	21,301,565	7,107,280	14,194,285	-	7,721,892	2,866,200	4,855,692	-
Others	175,057,622	39,517,379	135,540,243	-	114,073,343	36,619,578	77,453,765	-
Available-for-sale financial assets:								
Stocks	390,703,097	378,386,865	12,316,232	-	295,434,057	285,026,021	10,408,036	-
Bonds	796,539,252	39,019,659	757,519,593	-	891,487,105	56,266,713	835,220,392	-
Others	134,121,514	99,889,770	23,777,234	10,454,510	115,822,100	88,229,855	19,951,630	7,640,615
Liabilities								
Financial liabilities at fair value through profit or loss	1,569,645	1,569,645	-	-	1,503,682	1,503,682	-	-
Derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss	13,756,544	287,953	13,468,591	-	10,054,649	648,848	9,405,801	-
Other financial assets:								
Derivatives financial assets for hedging	1,607,616	-	1,607,616	-	2,362,366	17,134	2,345,232	-
Liabilities								
Financial liabilities at fair value through profit or loss	17,504,112	520,476	16,983,636	-	7,582,664	203,241	7,379,423	-

b. Statements of changes in financial assets measured at fair value classified as 3rd level are summarized as follows:

(A) The statement of changes in financial assets whose fair value measurement was attributed to 3rd level.

2014.1.1~2014.9.30

Item	Beginning balance	Total gains and losses recognized		Increase		Decrease		Ending balance
		Amount recognized in profit or loss	Amount recognized in OCI	Acquisition or issues	Transfer into 3 rd level	Disposal or settlements	Transfer out of 3 rd level	
Available-for-sale financial assets	\$13,102,703	\$577,534	\$983,252	\$7,440,982	\$-	\$(2,835,457)	\$-	\$19,269,014

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2013.1.1~2013.9.30

Item	Beginning balance	Total gains and losses recognized		Increase		Decrease		Ending balance
		Amount recognized in profit or loss	Amount recognized in OCI	Acquisition or issues	Transfer into 3 rd level	Disposal or settlements	Transfer out of 3 rd level	
Available-for-sale financial assets	\$7,640,615	\$83,070	\$600,912	\$4,674,981	\$-	\$(2,545,068)	\$-	\$10,454,510

(B) The transition between 1st level and 2nd level:

During current year, the transition of financial assets and liabilities between 1st level and 2nd level did not occur in the Group.

(2) Management on financial risks

Cathay Life and its subsidiaries

A. Credit risk analysis

a. Sources of credit risk

Credit risks from financial transactions include issuer credit risk, counterparty risk and underlying assets credit risk:

- (A) Issuer credit risk represents a risk that Cathay Life may suffer financial losses for holding debt instruments or bank savings because the issuers (guarantors) or banks are not able to repay due to default, bankruptcy, liquidation or any other similar circumstances.
- (B) Counterparty credit risk refers to the risk that the counterparty will not meet its obligations to perform or pay as and when due and, as a result, Cathay Life will bear financial losses.
- (C) Underlying asset credit risk means the risk that Cathay Life may suffer losses arising from deterioration of the credit quality and/or credit rating, increase of credit risk premium or breach of any contract terms of any underlying assets to certain financial instruments.

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b. Concentration risk

Regional distribution of credit risk exposure for financial assets of Cathay Life:

30 September 2014

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$178,792,102	\$58,875	\$4,986,966	\$89,014,677	\$140,994,871	\$413,847,491
Financial assets at fair value through profit or loss	6,168,316	1,477,065	2,702,897	2,288,091	-	12,636,369
Available-for-sale financial assets	357,360,233	30,424,080	68,549,107	138,022,935	40,132,362	634,488,717
Derivative financial assets for hedging	61,661	-	64,037	20,569	-	146,267
Bond investments for which no active market exists	59,457,091	79,238,065	233,735,291	428,138,264	287,027,117	1,087,595,828
Held-to-maturity financial assets	19,989,553	-	-	-	-	19,989,553
Other financial assets	35,700,000	-	3,500,000	-	-	39,200,000
Total	\$657,528,956	\$111,198,085	\$313,538,298	\$657,484,536	\$468,154,350	\$2,207,904,225
Proportion	29.8%	5.0%	14.2%	29.8%	21.2%	100.0%

31 December 2013

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$134,624,532	\$4,943,631	\$-	\$23,319,137	\$117,149,519	\$280,036,819
Financial assets at fair value through profit or loss	16,908,980	410,534	1,501,611	1,506,966	-	20,328,091
Available-for-sale financial assets	440,630,404	16,945,885	68,005,787	171,005,291	30,862,036	727,449,403
Derivative financial assets for hedging	158,096	-	233,862	61,755	-	453,713
Bond investments for which no active market exists	42,484,287	65,885,399	245,015,385	407,120,305	259,636,340	1,020,141,716
Other financial assets	37,400,000	-	3,500,000	-	-	40,900,000
Total	\$672,206,299	\$88,185,449	\$318,256,645	\$603,013,454	\$407,647,895	\$2,089,309,742
Proportion	32.2%	4.2%	15.2%	28.9%	19.5%	100.0%

30 September 2013

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$160,662,827	\$-	\$-	\$45,914,778	\$70,937,222	\$277,514,827
Financial assets at fair value through profit or loss	16,418,379	430,790	3,067,253	2,165,142	-	22,081,564
Available-for-sale financial assets	451,291,059	16,307,479	67,437,034	179,059,884	28,277,036	742,372,492
Derivative financial assets for hedging	150,772	18,211	321,701	79,329	-	570,013
Bond investments for which no active market exists	40,284,287	56,432,715	243,311,221	364,283,722	254,383,479	958,695,424
Other financial assets	35,900,000	-	3,500,000	-	-	39,400,000
Total	\$704,707,324	\$73,189,195	\$317,637,209	\$591,502,855	\$353,597,737	\$2,040,634,320
Proportion	34.5%	3.6%	15.6%	29.0%	17.3%	100.0%

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1 January 2013

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets	Total
					and others	
Cash and cash equivalents	\$258,608,542	\$584,173	\$-	\$58,326,827	\$45,054,311	\$362,573,853
Financial assets at fair value through profit or loss	21,526,712	539,836	2,428,269	1,266,554	-	25,761,371
Available-for-sale financial assets	459,194,110	17,971,724	101,366,905	224,125,202	37,659,604	840,317,545
Derivative financial assets for hedging	292,518	33,903	661,251	154,422	-	1,142,094
Bond investments for which no active market exists	46,944,287	45,480,295	198,308,459	288,690,084	235,030,705	814,453,830
Other financial assets	19,000,000	-	4,500,000	-	-	23,500,000
Total	\$805,566,169	\$64,609,931	\$307,264,884	\$572,563,089	\$317,744,620	\$2,067,748,693
Proportion	39.0%	3.1%	14.8%	27.7%	15.4%	100.0%

c. Credit Quality

Classification of credit quality for financial assets of Cathay Life:

30 September 2014

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$413,847,491	\$-	\$-	\$-	\$-	\$413,847,491
Financial assets at fair value through profit or loss	10,479,460	2,156,909	-	-	-	12,636,369
Available-for-sale financial assets	632,613,078	1,875,639	-	735,000	(735,000)	634,488,717
Derivative financial assets for hedging	146,267	-	-	-	-	146,267
Bond investments for which no active market exists	1,081,830,667	5,765,161	-	395,668	(395,668)	1,087,595,828
Held-to-maturity financial assets	19,989,553	-	-	-	-	19,989,553
Other financial assets	39,200,000	-	-	-	-	39,200,000
Total	\$2,198,106,516	\$9,797,709	\$-	\$1,130,668	\$(1,130,668)	\$2,207,904,225
Proportion	99.6%	0.4%	-	0.1%	(0.1)%	100.0%

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Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$280,036,819	\$-	\$-	\$-	\$-	\$280,036,819
Financial assets at fair value through profit or loss	18,737,079	1,591,012	-	-	-	20,328,091
Available-for-sale financial assets	720,271,652	7,146,940	-	765,811	(735,000)	727,449,403
Derivative financial assets for hedging	453,713	-	-	-	-	453,713
Bond investments for which no active market exists	1,018,771,685	1,370,031	-	389,350	(389,350)	1,020,141,716
Other financial assets	40,900,000	-	-	-	-	40,900,000
Total	\$2,079,170,948	\$10,107,983	\$-	\$1,155,161	\$(1,124,350)	\$2,089,309,742
Proportion	99.5%	0.5%	-	0.1%	(0.1)%	100.0%

30 September 2013

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$277,512,757	\$2,070	\$-	\$-	\$-	\$277,514,827
Financial assets at fair value through profit or loss	20,994,981	1,086,583	-	-	-	22,081,564
Available-for-sale financial assets	735,625,193	6,661,028	-	821,271	(735,000)	742,372,492
Derivative financial assets for hedging	570,013	-	-	-	-	570,013
Bond investments for which no active market exists	956,572,786	2,122,638	-	385,710	(385,710)	958,695,424
Other financial assets	39,400,000	-	-	-	-	39,400,000
Total	\$2,030,675,730	\$9,872,319	\$-	\$1,206,981	\$(1,120,710)	\$2,040,634,320
Proportion	99.5%	0.5%	-	0.1%	(0.1)%	100.0%

1 January 2013

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$362,571,784	\$2,069	\$-	\$-	\$-	\$362,573,853
Financial assets at fair value through profit or loss	25,123,049	638,322	-	-	-	25,761,371
Available-for-sale financial assets	828,187,237	12,024,780	-	840,528	(735,000)	840,317,545
Derivative financial assets for hedging	1,142,094	-	-	-	-	1,142,094
Bond investments for which no active market exists	809,745,213	4,708,617	-	378,768	(378,768)	814,453,830
Other financial assets	23,500,000	-	-	-	-	23,500,000
Total	\$2,050,269,377	\$17,373,788	\$-	\$1,219,296	\$(1,113,768)	\$2,067,748,693
Proportion	99.2%	0.8%	-	0.1%	(0.1)%	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:

30 September 2014

Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$362,635,079	\$54,961,335	\$92,179,381	\$509,775,795
Overdue receivables	60,580	87,687	17,075	165,342
Total	\$362,695,659	\$55,049,022	\$92,196,456	\$509,941,137
Proportion	71%	11%	18%	100%

31 December 2013

Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$318,886,288	\$53,103,848	\$88,704,401	\$460,694,537
Overdue receivables	35,422	402,651	28,555	466,628
Total	\$318,921,710	\$53,506,499	\$88,732,956	\$461,161,165
Proportion	69%	12%	19%	100%

30 September 2013

Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$301,764,015	\$49,896,205	\$86,877,182	\$438,537,402
Overdue receivables	32,184	407,174	43,798	483,156
Total	\$301,796,199	\$50,303,379	\$86,920,980	\$439,020,558
Proportion	69%	11%	20%	100%

1 January 2013

Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$213,209,485	\$42,689,731	\$80,842,510	\$336,741,726
Overdue receivables	60,188	425,950	72,737	558,875
Total	\$213,269,673	\$43,115,681	\$80,915,247	\$337,300,601
Proportion	63%	13%	24%	100%

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e. Secured loans and overdue receivables

30 September 2014

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	\$237,997,729	\$165,563,637	\$46,339,822	\$171,703	\$4,282,096	\$454,354,987	\$2,638,515	\$451,716,472
Corporate finance	46,153,929	3,878,324	1,164,584	-	4,389,313	55,586,150	1,479,322	54,106,828
Total	\$284,151,658	\$169,441,961	\$47,504,406	\$171,703	\$8,671,409	\$509,941,137	\$4,117,837	\$505,823,300

31 December 2013

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	\$213,530,264	\$148,542,793	\$41,575,836	\$123,468	\$4,465,378	\$408,237,739	\$2,084,777	\$406,152,962
Corporate finance	41,397,033	3,346,512	2,264,486	-	5,915,395	52,923,426	1,753,713	51,169,713
Total	\$254,927,297	\$151,889,305	\$43,840,322	\$123,468	\$10,380,773	\$461,161,165	\$3,838,490	\$457,322,675

30 September 2013

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	\$202,939,223	\$141,175,112	\$39,513,686	\$128,972	\$3,833,764	\$387,590,757	\$1,908,052	\$385,682,705
Corporate finance	40,160,876	3,454,571	1,648,632	-	6,165,722	51,429,801	1,739,647	49,690,154
Total	\$243,100,099	\$144,629,683	\$41,162,318	\$128,972	\$9,999,486	\$439,020,558	\$3,647,699	\$435,372,859

1 January 2013

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	\$160,007,455	\$111,309,534	\$31,154,571	\$183,942	\$2,199,549	\$304,855,051	\$1,225,852	\$303,629,199
Corporate finance	15,399,631	7,254,616	2,541,775	-	7,249,528	32,445,550	1,481,761	30,963,789
Total	\$175,407,086	\$118,564,150	\$33,696,346	\$183,942	\$9,449,077	\$337,300,601	\$2,707,613	\$334,592,988

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
30 September 2014	\$89,443	\$82,260	\$171,703
31 December 2013	109,251	14,217	123,468
30 September 2013	111,323	17,649	128,972
1 January 2013	157,700	26,242	183,942

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B. Liquidity risk analysis

a. Sources of liquidity risk

Liquidity risks of the financial instruments are classified to “funding liquidity risk” and “market liquidity risk.” “Funding liquidity risk” represents that Cathay Life is not able to obtain sufficient funds at a reasonable funding cost to meet the demands within reasonable time. “Market liquidity risk” represents the risk that Cathay Life sells at loss to meet the demand for cash.

b. Liquidity risk management

Cathay Life assesses the characteristics of business, monitors short-term cash flows, and constructs the completed mechanism of liquidity risk management. Furthermore, Cathay Life manages market liquidity risk cautiously by considering market trading volumes and adequacy of holding positions with symmetric.

Cathay Life uses cash flow model and stress testing to assess cash flow risk based on actual management needs or special situation. Also, for abnormal and urgent financing needs, Cathay Life makes an emergency management operating procedure to deal with significant liquidity risks.

c. Maturity analysis of non-derivative financial liabilities:

The analysis of cash outflows to Cathay Life 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.

30 September 2014	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	\$209,198	\$-	\$-	\$-	\$-	\$209,198
Payables	28,334,476	4,138,129	136	-	-	32,472,741
Preferred stock liability	-	228,866	15,897,931	15,543,328	-	31,670,125

31 December 2013	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	\$15,566,483	\$3,458,995	\$198	\$-	\$-	\$19,025,676
Payables	-	-	908,000	31,441,259	-	32,349,259

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30 September 2013	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	\$293,692	\$-	\$-	\$-	\$-	\$293,692
Payables	37,926,768	3,230,129	196	-	-	41,157,093
Preferred stock liability	-	228,866	908,000	26,361,254	5,080,005	32,578,125

1 January 2013	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	\$297,268	\$-	\$-	\$-	\$-	\$297,268
Payables	35,522,453	-	2,551,202	-	-	38,073,655
Preferred stock liability	-	-	908,000	27,176,254	5,173,005	33,257,259

d. Maturity analysis of derivative financial liability:

30 September 2014	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$4,443	\$(23,766)	\$(28,986)	\$19,582	\$59,822	\$31,095
Forward	3,481,059	94,272	-	-	-	3,575,331
CS	12,141,198	2,015,091	-	-	-	14,156,289

31 December 2013	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$21,501	\$9,505	\$(10,901)	\$34,514	\$-	\$54,619
Forward	5,002,896	78,514	-	-	-	5,081,410
CS	10,599,472	1,026,096	853,795	-	-	12,479,363

30 September 2013	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$(31,484)	\$(38,734)	\$(108,475)	\$(355,822)	\$(682,410)	\$(1,216,925)
Forward	3,585,876	46,250	-	-	-	3,632,126
CS	4,941,531	408,530	1,229,031	-	-	6,579,092

1 January 2013	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$29,350	\$24,891	\$42,985	\$9,010	\$-	\$106,236
Forward	1,844,950	-	-	-	-	1,844,950
CS	4,047,504	2,333,184	370,735	-	-	6,751,423

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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 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 uses one-week 95% and 99% VaR to measure market risk.

(B) Stress testing

Cathay Life measures and evaluates potential risks of the occurrence of extreme and abnormal events regularly in addition to Value at Risk models.

Cathay Life 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.

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:

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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
2014.1.1~2014.9.30

Risk Factors	Changes (+/-)	Gain(loss)
Equity risk (Stock index)	-10%	\$(46,262,447)
Interest rate risk (Yield curve)	+20bps	(7,361,518)
Exchange risk (Foreign exchange rate)	USD weakens against NTD by \$1	(19,794,802)
Commodity risk (Price)	-10%	-

Table of Stress Testing
2013.1.1~2013.9.30

Risk Factors	Changes (+/-)	Gain(loss)
Equity risk (Stock index)	-10%	\$(42,331,504)
Interest rate risk (Yield curve)	+20bps	(8,979,472)
Exchange risk (Foreign exchange rate)	USD weakens against NTD by \$1	(15,687,403)
Commodity risk (Price)	-10%	-

Note1: Impacts of credit spread changes are not included

Note2: effects of hedging are included

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(C) Sensitivity Analysis

Summarization of Sensitivity Analysis
2014.1.1~2014.9.30
US\$

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$3,287,986	\$2,736,760
	CNY/CNH appreciates 1%	2,381,583	135,986
	HKD appreciates 1%	39,807	438,116
	EUR appreciates 1%	307,416	124,735
	GBP appreciates 1%	203,346	43,440
Interest rate risk	Yield curve (USD) parallelly shifts up 1 bp	33,837	(90,653)
	Yield curve (AUD) parallelly shifts up 1 bp	(815)	(399)
	Yield curve (EUR) parallelly shifts up 1 bp	(2,307)	(7,929)
	Yield curve (NTD) parallelly shifts up 1 bp	(5,143)	(258,019)
	Equity price risk	Equity price increases 1%	182,438

Summarization of Sensitivity Analysis
2013.1.1~2014.9.30
US\$

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$2,454,417	\$2,200,035
	CNY/CNH appreciates 1%	1,311,156	69,856
	HKD appreciates 1%	11,416	402,241
	EUR appreciates 1%	284,759	119,942
	GBP appreciates 1%	258,202	44,378
Interest rate risk	Yield curve (USD) parallel shift+1bp	32,026	(165,646)
	Yield curve (AUD) parallel shift+1bp	-	(873)
	Yield curve (EUR) parallel shift+1bp	-	(3,336)
	Yield curve (NTD) parallel shift+1bp	4,237	(280,957)
Equity price risk	Equity price increases 1%	143,015	4,090,136

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.

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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 choose its investment target by studying the credibility and financial position of the securities issuers, their sovereign risk and the trend of interest rates. According to the operating strategy and the circumstances of the market, Cathay United Bank sets the transaction limit and stop-loss limit (including the limits of dealing room, traders, and investment...etc.) of the trading book that are reported to the executive management or the board of directors for approval.

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c. Method of measurement

- (A) The assumption and calculation of VaR: see VaR section.
- (B) Cathay United Bank measures the investment portfolio's interest risk exposure monthly.

Interest risk management of banking book

The main objective of interest risk management of Cathay United Banking book is to enhance the interest risk management, increase the operating efficiency of the fund and strengthen the business operation.

a. Strategy

Interest risk management enhances Cathay United Bank's ability take responsive actions to measure, to manage and avoid the risk that the fluctuation of interest rate may cause on the profit and the economic value of assets/liabilities.

b. Management procedure

When undertaking the operations relating to interest rate instruments, Cathay United Bank identifies the repricing risk of interest rate, yield curve risk, basis risk and options risk characteristics. In additional, Cathay United Bank also measures the potential impact of interest rate changes on the profit and economic value of Cathay United Bank. Cathay United Bank analyzes and monitors the interest risk limits and each target of interest risk management monthly. The results of analysis and monitoring are regularly reported to not only the risk management committee but also the board of directors.

If any risk management targets is found to exceed the limit during the monitoring process, it will be reported to the risk management committee and a solution should be proposed.

c. Method of measurement

The interest rate risk of Cathay United Bank mainly measures the repricing risk that is caused by the difference between maturity date and repricing date of the assets, liabilities, and off balance sheet items in banking book. To stabilize long-term profitability and ensure business growth, Cathay United Bank sets the monitoring indicators of interest sensitivity in major terms and implements stress test. Each interest risk indicator and the result of stress test are reported to the executive management regularly for review.

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Foreign exchange risk management

a. Definition of foreign exchange risk

Foreign exchange risk is the gain/loss caused by two currencies exchange in different times. Cathay United Bank's foreign exchange risk arises from the derivative instruments, such as spot exchange, forward exchange and foreign exchange option...etc. Cathay United Bank's foreign exchange transactions are implemented daily to offset clients' position. Thus, Cathay United Bank suffers little foreign exchange risk.

b. Policy, procedure and measurement methodology of foreign exchange risk management

In order to control foreign exchange risk, Cathay United Bank sets the limits of transaction and stop-loss limits for the dealing room and traders. Meanwhile, Cathay United Bank also sets the maximum annual loss limit to control the loss within the tolerable extent. Foreign exchange risk is controlled based on VaR. The assumption and calculation of VaR is described in VaR section.

For foreign exchange risk, Cathay United Bank sets the scenario at 3% fluctuation of interest rate of major currencies to execute the stress test quarterly, and reports to the risk management committee.

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.

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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.

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.

2014.9.30			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	\$484,835	\$655,843	\$311,553
Foreign exchange	161,061	337,424	112,986
Equity Securities price	255,835	353,880	150,959

2013.12.31			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	\$555,070	\$772,357	\$311,553
Foreign exchange	148,142	154,844	144,266
Equity Securities price	231,969	352,855	133,386

2013.9.30			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	\$583,087	\$772,357	\$457,036
Foreign exchange	148,352	154,844	144,266
Equity Securities price	219,457	352,855	133,386

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2013.1.1			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	\$611,347	\$876,417	\$457,036
Foreign exchange	156,656	162,280	146,608
Equity Securities price	124,933	165,277	60,704

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.

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	2014.09.30	2013.12.31
Stock Market	Major Stock Exchanges +15%	\$1,312,640	\$1,211,069
	Major Stock Exchanges +15%	(1,312,640)	(1,211,069)
Interest Rate/ Bond Market	Major Interest Rate + 100bp	(5,608,630)	(4,564,436)
	Major Interest Rate - 100bp	5,522,130	4,796,889
Foreign Exchange Market	Major Currencies + 3%	2,461,923	1,703,503
	Major Currencies - 3%	(2,461,922)	(1,703,201)
Composite	Major Stock Exchanges -15%	(4,459,347)	(4,072,002)
	Major Interest Rate + 100bp		
	Major Currencies +3%		

Stress Test			
Market/ Product	Scenarios	2013.09.30	2013.01.01
Stock Market	Major Stock Exchanges 15%	\$1,355,043	\$1,025,960
	Major Stock Exchanges 15%	(1,355,043)	(1,025,960)
Interest Rate/ Bond Market	Major Interest Rate + 100bp	(4,620,512)	(2,821,676)
	Major Interest Rate - 100bp	4,861,799	2,496,083
Foreign Exchange Market	Major Currencies + 3%	1,755,973	1,450,437
	Major Currencies - 3%	(1,755,777)	(1,365,947)
Composite	Major Stock Exchanges -15%	(4,219,582)	(2,397,199)
	Major Interest Rate + 100bp		
	Major Currencies +3%		

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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 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.

Market risk factor sensitivity of Cathay United Bank

		2014.09.30	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	\$614,782	\$1,188
	HKD+1%	3,144	-
	JPY+1%	121	2,433
	AUD+1%	28,003	-
	CNY+1%	155,309	25,817
	NTD+1%	(801,359)	(29,438)
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	(580)	(27,584)
	Yield curves (HKD) parallel shift+1bp	-	(6)
	Yield curves (AUD) parallel shift+1bp	-	(1,210)
	Yield curves (CNY) parallel shift+1bp	24	(5,984)
	Yield curves (NTD) parallel shift+1bp	(6,252)	(15,298)
Equity securities price factor sensitivity (Equity Delta)	Equity securities price parallel shift+1bp	-	87,505

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		2013.12.31	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity		\$463,690	\$1,294
(FX Delta)	USD+1%		
	HKD+1%	123,647	-
	JPY+1%	-	3,736
	AUD+1%	16,696	-
	CNY+1%	4,261	-
	NTD+1%	(594,806)	(6,258)
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	(249)	(27,121)
	Yield curves (HKD) parallel shift+1bp	-	(29)
	Yield curves (AUD) parallel shift+1bp	-	(923)
	Yield curves (CNY) parallel shift+1bp	-	(637)
	Yield curves (NTD) parallel shift+1bp	(5,171)	(12,667)
Equity securities price factor sensitivity	Equity securities price parallel	-	80,738
(Equity Delta)	shift+1bp		
		2013.09.30	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity		\$435,032	\$12
(FX Delta)	USD+1%		
	HKD+1%	115,314	-
	JPY+1%	-	1,614
	AUD+1%	16,580	-
	CNY+1%	3,921	-
	NTD+1%	(571,734)	(2,405)
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	(269)	(29,642)
	Yield curves (HKD) parallel shift+1bp	-	(36)
	Yield curves (AUD) parallel shift+1bp	-	(617)
	Yield curves (CNY) parallel shift+1bp	-	(526)
	Yield curves (NTD) parallel shift+1bp	(3,145)	(13,167)
Equity securities price factor sensitivity		2,094	88,242
(Equity Delta)	Equity securities price parallel shift+1bp		

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		2013.01.01	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity		\$411,904	\$5,220
(FX Delta)			
	USD+1%		
	HKD+1%	3,042	-
	JPY+1%	1	-
	NTD+1%	(458,563)	(5,769)
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	(349)	(18,027)
	Yield curves (HKD) parallel shift+1bp	-	(30)
	Yield curves (JPY) parallel shift+1bp	-	(1)
	Yield curves (NTD) parallel shift+1bp	(771)	(8,373)
Equity securities price factor sensitivity	Equity securities price parallel	-	68,397
(Equity Delta)	shift+1bp		

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.

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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.

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 judgement 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.

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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.

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.

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(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	
	2014.09.30	2013.12.31
Irrevocable loan commitments	\$175,298,046	\$165,615,358
Credit card commitments	458,728,110	424,006,617
Unused commercial letters of credit	4,834,696	3,202,955
Guarantees on duties and contracts	11,647,351	11,270,885
Total	\$650,508,203	\$604,095,815

Off balance sheet items	Maximum exposure to credit risk	
	2013.09.30	2013.01.01
Irrevocable loan commitments	\$54,457,780	\$34,415,264
Credit card commitments	373,279,533	328,719,949
Unused commercial letters of credit	4,132,696	4,281,218
Guarantees on duties and contracts	10,943,240	12,081,454
Total	\$442,813,249	\$379,497,885

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(B) Indovina Bank

Off balance sheet items	Maximum exposure to credit risk	
	2014.09.30	2013.12.31
Finance guarantee contracts	\$1,561,354	\$535,478
Unused commercial letters of credit	1,373,761	1,080,247
Total	\$2,935,115	\$1,615,725

Off balance sheet items	Maximum exposure to credit risk	
	2013.09.30	2013.01.01
Finance guarantee contracts	\$560,694	\$852,596
Unused commercial letters of credit	1,222,438	652,199
Total	\$1,783,132	\$1,504,795

(C) CUBC Bank

Off balance sheet items	Maximum exposure to credit risk	
	2014.09.30	2013.12.31
Finance guarantee contracts	\$15,843	\$39,806
Irrevocable loan commitments	255,429	143,134
Credit card commitments	247,830	201,715
Unused commercial letters of credit	3,014	1,965
Total	\$522,116	\$386,620

Off balance sheet items	Maximum exposure to credit risk	
	2013.09.30	2013.01.01
Finance guarantee contracts	\$8,159	\$60,683
Irrevocable loan commitments	152,754	99,998
Credit card commitments	196,530	199,925
Unused commercial letters of credit	15,194	20,350
Total	\$372,637	\$380,956

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.

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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 and collateral are listed below:

Item	2014.09.30		2013.12.31	
	amount	%	amount	%
Industry type				
Manufacturing	\$110,477,493	9.64	\$108,789,196	10.28
Financial institutions and insurance	38,791,297	3.39	28,292,338	2.67
Leasing and real estate	90,961,073	7.94	83,652,734	7.91
Individuals	533,499,379	46.56	477,139,793	45.10
Others	372,049,783	32.47	360,081,097	34.04
Total	\$1,145,779,025	100.00	\$1,057,955,158	100.00

Item	2013.09.30		2013.01.01	
	amount	%	amount	%
Industry type				
Manufacturing	\$106,813,701	10.69	\$125,610,955	12.20
Financial institutions and insurance	30,918,493	3.10	29,912,516	2.90
Leasing and real estate	82,560,100	8.26	83,834,530	8.14
Individuals	476,690,324	47.72	492,107,196	47.77
Others	301,969,312	30.23	298,671,240	28.99
Total	\$998,951,930	100.00	\$1,030,136,437	100.00

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Item	2014.09.30		2013.12.31	
	amount	%	amount	%
Geographic Region				
Domestic	\$950,068,732	82.92	\$898,556,006	84.93
Asia	87,137,825	7.60	68,771,004	6.50
America	24,508,268	2.14	23,009,706	2.18
Others	84,064,200	7.34	67,618,442	6.39
Total	\$1,145,779,025	100.00	\$1,057,955,158	100.00

Item	2013.09.30		2013.01.01	
	amount	%	amount	%
Geographic Region				
Domestic	\$842,336,479	84.32	\$876,857,476	85.12
Asia	74,589,395	7.47	69,497,214	6.75
America	22,594,150	2.26	22,560,687	2.19
Others	59,431,906	5.95	61,221,060	5.94
Total	\$998,951,930	100.00	\$1,030,136,437	100.00

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

2014.09.30	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	
Receivables										
Credit card business	\$36,291,186	\$7,829,314	\$2,970,379	\$47,090,879	\$126,403	\$139,979	\$47,357,261	\$115,044	\$1,493,337	\$45,748,880
Others	23,449,958	2,458,272	249,650	26,157,880	3,392	38,580	26,199,852	10,820	192,426	25,996,606
Discounts and loans	665,494,336	381,681,831	40,685,491	1,087,861,658	444,901	22,126,370	1,110,432,929	4,274,933	11,507,056	1,094,650,940

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2013.12.31	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	
Receivables										
Credit card business	\$30,215,292	\$7,679,461	\$3,204,791	\$41,099,544	\$130,931	\$151,472	\$41,381,947	\$125,544	\$1,609,517	\$39,646,886
Others	78,545,653	2,093,766	50,342	80,689,761	4,113	58,573	80,752,447	18,918	328,925	80,404,604
Discounts and loans	673,932,410	280,367,699	46,809,038	1,001,109,147	540,461	25,477,428	1,027,127,036	4,267,369	10,119,032	1,012,740,635

2013.09.30	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	
Receivables										
Credit card business	\$29,378,917	\$6,112,437	\$2,896,035	\$38,387,389	\$121,600	\$138,904	\$38,647,893	\$115,354	\$1,621,185	\$36,911,354
Others	41,559,307	3,987,286	146,522	45,693,115	4,283	58,395	45,755,793	19,860	179,918	45,556,015
Discounts and loans	645,469,851	253,284,068	40,986,824	939,740,743	614,158	28,418,339	968,773,240	4,891,798	9,601,773	954,279,669

2013.01.01	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	
Receivables										
Credit card business	\$26,857,133	\$6,221,934	\$2,874,072	\$35,953,139	\$111,701	\$127,992	\$36,192,832	\$108,337	\$1,798,623	\$34,285,872
Others	15,398,473	1,046,175	47,366	16,492,014	5,871	49,694	16,547,579	7,801	91,694	16,448,084
Discounts and loans	670,693,846	255,821,555	44,369,776	970,885,177	816,751	26,753,925	998,455,853	3,838,785	9,198,147	985,418,921

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(B) The credit quality analysis on neither past due nor impaired discounts and loans

2014.09.30	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	\$218,382,044	\$49,863,127	\$9,437,702	\$277,682,873
Unsecured personal loans	12,105,565	8,804,197	2,597,249	23,507,011
Other	199,418,301	41,007,957	5,795,844	246,222,102
Corporate banking				
Secured	34,546,364	165,478,628	14,501,327	214,526,319
Unsecured	201,042,062	116,527,922	8,353,369	325,923,353
Total	\$665,494,336	\$381,681,831	\$40,685,491	\$1,087,861,658
2013.12.31	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	\$195,160,827	\$55,381,641	\$9,553,020	\$260,095,488
Unsecured personal loans	8,689,745	4,770,432	1,242,249	14,702,426
Other	158,450,771	40,060,781	6,522,148	205,033,700
Corporate banking				
Secured	97,204,460	85,057,423	23,265,825	205,527,708
Unsecured	214,426,607	95,097,422	6,225,796	315,749,825
Total	\$673,932,410	\$280,367,699	\$46,809,038	\$1,001,109,147
2013.09.30	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	\$204,598,781	\$47,219,583	\$8,821,848	\$260,640,212
Unsecured personal loans	7,914,511	3,699,980	1,158,094	12,772,585
Other	115,927,862	36,281,144	6,220,931	158,429,937
Corporate banking				
Secured	116,730,478	76,092,223	19,948,463	212,771,164
Unsecured	200,298,219	89,991,138	4,837,488	295,126,845
Total	\$645,469,851	\$253,284,068	\$40,986,824	\$939,740,743
2013.01.01	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	\$210,365,875	\$57,522,974	\$11,752,064	\$279,640,913
Unsecured personal loans	5,023,910	2,625,973	1,097,468	8,747,351
Other	142,126,809	38,303,966	7,442,926	187,873,701
Corporate banking				
Secured	119,997,846	78,926,054	17,549,751	216,473,651
Unsecured	193,179,406	78,442,588	6,527,567	278,149,561
Total	\$670,693,846	\$255,821,555	\$44,369,776	\$970,885,177

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(C) Credit quality analysis on securities investment

2014.09.30	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 and non-credit rating	Subtotal (A)					
Available-for-sale financial assets								
Bonds	\$54,188,618	\$1,225,578	\$55,414,196	\$-	\$-	\$55,414,196	\$-	\$55,414,196
Stocks	492,148	11,658,231	12,150,379	-	163,785	12,314,164	163,785	12,150,379
Others	52,557	409,877	462,434	-	-	462,434	-	462,434
Held-to-maturity financial assets								
Bonds	49,769,286	605,094	50,374,380	-	-	50,374,380	-	50,374,380
Investments in debt securities with no active market								
Bonds	7,998,964	162,719	8,161,683	-	1,314,374	9,476,057	1,314,374	8,161,683
Preferred Stocks	-	549,730	549,730	-	-	549,730	-	549,730
Others	357,543,656	-	357,543,656	-	-	357,543,656	-	357,543,656

2013.12.31	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 and non-credit rating	Subtotal (A)					
Available-for-sale financial assets								
Bonds	\$49,647,356	\$2,239,679	\$51,887,035	\$-	\$-	\$51,887,035	\$-	\$51,887,035
Stocks	4,545,008	9,663,348	14,208,356	-	163,785	14,372,141	163,785	14,208,356
Others	100,148	851,026	951,174	-	-	951,174	-	951,174
Held-to-maturity financial assets								
Bonds	50,117,106	594,572	50,711,678	-	-	50,711,678	-	50,711,678
Investments in debt securities with no active market								
Bonds	7,060,075	362,208	7,422,283	-	1,294,912	8,717,195	1,294,912	7,422,283
Preferred Stocks	-	549,730	549,730	-	-	549,730	-	549,730
Others	272,300,000	-	272,300,000	-	-	272,300,000	-	272,300,000

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2013.09.30	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 and non-credit rating	Subtotal (A)					
Available-for-sale financial assets								
Bonds	\$47,154,525	\$2,435,489	\$49,590,014	\$-	\$-	\$49,590,014	\$-	\$49,590,014
Stocks	5,306,299	8,526,913	13,833,212	-	189,052	14,022,264	189,052	13,833,212
Others	165,611	227,065	392,676	-	-	392,676	-	392,676
Held-to-maturity financial assets								
Bonds	47,719,346	588,736	48,308,082	-	-	48,308,082	-	48,308,082
Investments in debt securities with no active market								
Bonds	7,085,995	469,790	7,555,785	-	1,195,733	8,751,518	1,195,733	7,555,785
Preferred Stocks	-	549,730	549,730	-	-	549,730	-	549,730
Others	385,000,000	-	385,000,000	-	-	385,000,000	-	385,000,000

2013.01.01	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 and non-credit rating	Subtotal (A)					
Available-for-sale financial assets								
Bonds	\$48,134,737	\$2,029,777	\$50,164,514	\$-	\$-	\$50,164,514	\$-	\$50,164,514
Stocks	4,542,271	6,709,298	11,251,569	-	438,311	11,689,880	438,311	11,251,569
Others	-	1,770,324	1,770,324	-	-	1,770,324	-	1,770,324
Held-to-maturity financial assets								
Bonds	19,965,414	577,456	20,542,870	-	-	20,542,870	-	20,542,870
Investments in debt securities with no active market								
Bonds	12,637,782	756,057	13,393,839	-	1,273,827	14,667,666	1,273,733	13,393,933
Preferred Stocks	-	549,730	549,730	-	-	549,730	-	549,730
Others	410,100,000	-	410,100,000	-	-	410,100,000	-	410,100,000

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(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.

<u>2014.09.30</u>	<u>Less than 30 days</u>	<u>31 - 60 days</u>	<u>Total</u>
Receivables			
Credit card business	\$76,903	\$49,500	\$126,403
Others	2,062	1,330	3,392
Discounts and loans			
Consumer banking			
Residential mortgage loans	178,248	58,103	236,351
Unsecured personal loans	22,816	13,867	36,683
Others	91,752	46,599	138,351
Corporate banking			
Secured	274	33,125	33,399
Unsecured	117	-	117
<u>2013.12.31</u>	<u>Less than 30 days</u>	<u>31 - 60 days</u>	<u>Total</u>
Receivables			
Credit card business	\$70,578	\$60,353	\$130,931
Others	2,263	1,850	4,113
Discounts and loans			
Consumer banking			
Residential mortgage loans	191,508	65,998	257,506
Unsecured personal loans	19,377	9,937	29,314
Others	142,730	70,097	212,827
Corporate banking			
Secured	-	40,814	40,814

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<u>2013.09.30</u>	<u>Less than 30 days</u>	<u>31 - 60 days</u>	<u>Total</u>
Receivables			
Credit card business	\$65,874	\$55,726	\$121,600
Others	3,242	1,041	4,283
Discounts and loans			
Consumer banking			
Residential mortgage loans	235,874	64,783	300,657
Unsecured personal loans	7,973	3,711	11,684
Others	157,787	52,306	210,093
Corporate banking			
Secured	71,834	-	71,834
Unsecured	19,890	-	19,890
<u>2013.01.01</u>	<u>Less than 30 days</u>	<u>31 - 60 days</u>	<u>Total</u>
Receivables			
Credit card business	\$67,641	\$44,060	\$111,701
Others	4,123	1,748	5,871
Discounts and loans			
Consumer banking			
Residential mortgage loans	375,157	92,963	468,120
Unsecured personal loans	6,895	3,132	10,027
Others	239,662	94,270	333,932
Corporate banking			
Secured	3,216	-	3,216
Unsecured	1,456	-	1,456

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 Finance 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.

2014.09.30	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$37,553,909	\$18,981,296	\$10,596,820	\$19,105	\$67,151,130
Funds borrowed from Central Bank and other banks	1,522,193	-	-	-	1,522,193
Financial liabilities at fair value through profit or loss	-	-	-	946,850	946,850
Securities sold under agreements to repurchase	57,813,221	2,383,085	-	-	60,196,306
Payables	10,244,771	1,878,166	3,692,659	438,613	16,254,209
Deposits and remittances	263,191,202	702,739,350	628,666,905	78,866,872	1,673,464,329
Financial debentures payable	22,736	9,308	2,412,513	64,935,107	67,379,664
Other capital outflow at maturity	34,595,711	27,197,391	7,225,550	4,035,103	73,053,755

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2013.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$29,171,990	\$9,424,870	\$7,667,625	\$4,516,515	\$50,781,000
Funds borrowed from Central Bank and other banks	1,497,640	-	-	-	1,497,640
Financial liabilities at fair value through profit or loss	-	-	500,298	-	500,298
Securities sold under agreements to repurchase	56,051,595	2,640,870	2,677	-	58,695,142
Payables	8,272,115	1,057,094	1,030,517	2,061,034	12,420,760
Deposits and remittances	265,034,724	655,147,509	615,056,779	62,792,426	1,598,031,438
Financial debentures payable	-	-	-	52,064,160	52,064,160
Other capital outflow at maturity	16,425,665	13,555,552	4,233,144	2,053,266	36,267,627

2013.09.30	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$26,514,316	\$8,709,281	\$4,560,994	\$4,562,118	\$44,346,709
Funds borrowed from Central Bank and other banks	1,483,593	-	-	-	1,483,593
Financial liabilities at fair value through profit or loss	53,021,448	2,886,521	-	-	55,907,969
Securities sold under agreements to repurchase	4,891,412	1,076,867	3,612,055	2,148,466	11,728,800
Payables	310,440,413	645,092,376	552,495,586	63,582,048	1,571,610,423
Deposits and remittances	-	-	-	52,021,103	52,021,103
Financial debentures payable	11,024,461	12,240,746	3,547,804	1,789,857	28,602,868

2013.01.01	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$25,883,672	\$12,422,707	\$13,630,818	\$109,750	\$52,046,947
Funds borrowed from Central Bank and other banks	-	1,456,954	-	-	1,456,954
Financial liabilities at fair value through profit or loss	17,597,555	2,777,732	-	-	20,375,287
Securities sold under agreements to repurchase	14,818,499	951,629	1,032,113	2,064,225	18,866,466
Payables	360,040,039	590,081,222	515,784,166	56,739,824	1,522,645,251
Deposits and remittances	-	-	-	41,699,146	41,699,146
Financial debentures payable	3,722,458	4,336,869	-	9,393,224	17,452,551

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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: swaptions, 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:

2014.09.30	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	\$155,510	\$15,351	\$(40,568)	\$(1,121,281)	\$(990,988)
- Interest rate derivative instruments	10,289	22,857	40,784	7,592,555	7,666,485
Total	\$165,799	\$38,208	\$216	\$6,471,274	\$6,675,497

2013.12.31	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	\$315,261	\$471,071	\$(53,722)	\$2,722	\$735,332
- Interest rate derivative instruments	434	20,450	55,428	3,745,737	3,822,049
Total	\$315,695	\$491,521	\$1,706	\$3,748,459	\$4,557,381

2013.09.30	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	\$133,969	\$455,095	\$223,584	\$496	\$813,144
- Interest rate derivative instruments	163	10,674	59,669	2,959,410	3,029,916
Total	\$134,132	\$465,769	\$283,253	\$2,959,906	\$3,843,060

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2013.01.01	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	\$57,407	\$127,037	\$103,663	\$(1,353)	\$286,754
- Interest rate derivative instruments	11,759	50,023	37,435	1,240,323	1,339,540
Total	\$69,166	\$177,060	\$141,098	\$1,238,970	\$1,626,294

(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. Maturity analysis of gross settled derivative financial liabilities was as follows:

2014.09.30	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	\$(2,753,780)	\$(1,865,702)	\$22,566	\$692,911	\$(3,904,005)
-Cash inflow	125,679	714,411	660,310	113,689	1,614,089
- Interest rate derivative instruments					
-Cash outflow	(35,029)	(217,125)	(27,569)	(306,407)	(586,130)
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(2,788,809)	(2,082,827)	(5,003)	386,504	(4,490,135)
Cash inflow subtotal	125,679	714,411	660,310	113,689	1,614,089
Net cash flow	\$(2,663,130)	\$(1,368,416)	\$655,307	\$500,193	\$(2,876,046)

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2013.12.31	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	\$(1,971,525)	\$(1,549,325)	\$(329,735)	\$21,208	\$(3,829,377)
-Cash inflow	72,633	80,445	75,659	13,976	242,713
- Interest rate derivative instruments					
-Cash outflow	55,641	173,683	68,360	109,897	407,581
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(1,915,884)	(1,375,642)	(261,375)	131,105	(3,421,796)
Cash inflow subtotal	72,633	80,445	75,659	13,976	242,713
Net cash flow	\$(1,843,251)	\$(1,295,197)	\$(185,716)	\$145,081	\$(3,179,083)

2013.09.30	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	\$(893,266)	\$(1,080,673)	\$172,071	\$8,430	\$(1,793,438)
-Cash inflow	58,073	94,971	192,036	188,420	533,500
- Interest rate derivative instruments					
-Cash outflow	(1,308)	(93,849)	(142,337)	(59,548)	(297,042)
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(894,574)	(1,174,522)	29,734	(51,118)	(2,090,480)
Cash inflow subtotal	58,073	94,971	192,036	188,420	533,500
Net cash flow	\$(836,501)	\$(1,079,551)	\$221,770	\$137,302	\$(1,556,980)

2013.01.01	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
-Cash outflow	\$(1,029,082)	\$(1,271,583)	\$(273,293)	\$(242,322)	\$(2,816,280)
-Cash inflow	77,581	223,841	180,734	19,235	501,391
- Interest rate derivative instruments					
-Cash outflow	-	(19,228)	(35,377)	(178,560)	(233,165)
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(1,029,082)	(1,290,811)	(308,670)	(420,882)	(3,049,445)
Cash inflow subtotal	77,581	223,841	180,734	19,235	501,391
Net cash flow	\$(951,501)	\$(1,066,970)	\$(127,936)	\$(401,647)	\$(2,548,054)

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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 lessor/lessee in an irrevocable operating lease agreement and the minimum lease payments are shown as follows:

2014.09.30	Not later than		Later than	Total
	1 year	1~5 year	5 year	
Irrevocable commitments	\$171,100,926	\$203,552,175	\$259,373,055	\$634,026,156
Financial guarantee contracts	14,366,931	2,096,719	18,397	16,482,047
Leasing commitments				
Non-cancellable operating lease payments	697,361	1,087,961	95,279	1,880,601
Total	<u>\$186,165,218</u>	<u>\$206,736,855</u>	<u>\$259,486,731</u>	<u>\$652,388,804</u>

2013.12.31	Not later than		Later than	Total
	1 year	1~5 year	5 year	
Irrevocable commitments	\$209,239,328	\$125,932,919	\$254,449,728	\$589,621,975
Financial guarantee contracts	13,695,430	763,290	15,120	14,473,840
Leasing commitments				
Non-cancellable operating lease payments	597,184	740,153	63,081	1,400,418
Total	<u>\$223,531,942</u>	<u>\$127,436,362</u>	<u>\$254,527,929</u>	<u>\$605,496,233</u>

2013.09.30	Not later than		Later than	Total
	1 year	1~5 year	5 year	
Irrevocable commitments	\$49,497,658	\$92,944,172	\$285,295,483	\$427,737,313
Financial guarantee contracts	14,285,974	777,847	12,115	15,075,936
Leasing commitments				
Non-cancellable operating lease payments	407,362	532,968	44,237	984,567
Irrevocable commitments	168,764	176,726	-	345,490
Total	<u>\$64,359,758</u>	<u>\$94,431,713</u>	<u>\$285,351,835</u>	<u>\$444,143,306</u>

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2013.01.01	Not later than		Later than	Total
	1 year	1~5 year	5 year	
Irrevocable commitments	\$58,419,184	\$136,578,962	\$168,137,067	\$363,135,213
Financial guarantee contracts	15,532,327	821,920	8,425	16,362,672
Leasing commitments				
Non-cancellable operating lease payments	553,733	553,135	-	1,106,868
Total	\$74,505,244	\$137,954,017	\$168,145,492	\$380,604,753

Cathay Century and its subsidiaries

Non-derivative financial instruments Cathay Century and its subsidiaries held to adjust operating cash flow including cash and equivalents and investments. Cathay Century and its subsidiaries held other financial assets and liabilities, including note receivable, premiums receivable & claim payable, due to reinsurers and ceding companies, reinsurance premiums receivables & payable and secured loans.

In addition, Cathay Century and its subsidiaries holds derivative financial instruments, including futures options contracts, forward contracts and swaps to avoid share price risk, foreign exchange risk and interest rate risk. Cathay Century and its subsidiaries do not engage in derivatives transactions for trading purposes.

The primary risk of Cathay Century and its subsidiaries' financial instruments are to market risk, credit risk and liquidity risk. The risk management policies approved by board of directors are as follows:

A. Market risk

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.

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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.

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.

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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					
	2014.9.30					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$4,548,540	\$434	\$4,390	\$863,761	\$3,344,453	\$8,761,578
Financial assets at fair value through profit or loss	1,302,620	-	-	-	51,293	1,353,913
Available-for-sale financial assets	6,693,504	-	96,802	53,080	1,469,255	8,312,641
Derivative financial assets for hedging	3,639	-	-	-	-	3,639
Bond investments with no active market exists	850,000	-	326,772	504,416	1,433,430	3,114,618
Held-to-maturity investments	-	-	-	1,287,424	290,260	1,577,684
Total	\$13,398,303	\$434	\$427,964	\$2,708,681	\$6,588,691	\$23,124,073
Each area percentage	57.94%	0.00%	1.85%	11.72%	28.49%	100.00%

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Financial assets	The amount of credit risk exposure - by area					
	2013.12.31					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$4,415,469	\$10	\$7,946	\$990,830	\$2,771,566	\$8,185,821
Financial assets at fair value through profit or loss	1,172,111	-	-	-	139,914	1,312,025
Available-for-sale financial assets	5,927,566	-	-	25,117	1,282,219	7,234,902
Derivative financial assets for hedging	10,022	-	-	-	-	10,022
Bond investments with no active market exists	850,000	-	321,383	300,039	582,318	2,053,740
Held-to-maturity investments	-	-	-	1,668,787	287,150	1,955,937
Total	\$12,375,168	\$10	\$329,329	\$2,984,773	\$5,063,167	\$20,752,447
Each area percentage	59.63%	0.00%	1.59%	14.38%	24.40%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	2013.9.30					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$4,080,376	\$10	\$9,405	\$903,226	\$2,565,270	\$7,558,287
Financial assets at fair value through profit or loss	1,040,568	-	-	-	113,616	1,154,184
Available-for-sale financial assets	5,299,158	-	-	1,258,247	1,479,122	8,036,527
Derivative financial assets for hedging	10,589	-	-	-	-	10,589
Bond investments with no active market exists	700,000	-	318,321	297,507	430,176	1,746,004
Held-to-maturity investments	-	-	-	1,865,390	251,877	2,117,267
Total	\$11,130,691	\$10	\$327,726	\$4,324,370	\$4,840,061	\$20,622,858
Each area percentage	53.97%	0.00%	1.59%	20.97%	23.47%	100.00%

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Financial assets	The amount of credit risk exposure - by area					
	2013.1.1					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$4,843,007	\$54	\$14,840	\$110,172	\$701,186	\$5,669,259
Financial assets at fair value through profit or loss	385,460	-	-	-	51,813	437,273
Available-for-sale financial assets	4,863,917	-	-	284,143	3,256,432	8,404,492
Derivative financial assets for hedging	17,134	-	-	-	-	17,134
Bond investments with no active market exists	900,000	-	-	-	423,270	1,323,270
Held-to-maturity investments	-	-	-	2,512,011	-	2,512,011
Total	\$11,009,518	\$54	\$14,840	\$2,906,326	\$4,432,701	\$18,363,439
Each area percentage	59.95%	0.00%	0.08%	15.83%	24.14%	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				
	2014.9.30				
	Normal assets		Past due but not impaired	Impaired	Total
Investment level	Non-investme nt level				
Cash and cash equivalents	\$8,761,578	\$-	\$-	\$-	\$8,761,578
Financial assets at fair value through profit or loss	1,353,913	-	-	-	1,353,913
Available-for-sale financial assets	8,312,641	-	-	-	8,312,641
Derivative financial assets for hedging	3,639	-	-	-	3,639
Bond investments with no active market exists	3,114,618	-	-	-	3,114,618
Held-to-maturity investments	1,577,684	-	-	-	1,577,684
Total	\$23,124,073	\$-	\$-	\$-	\$23,124,073

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Financial assets	Credit quality of financial assets				
	2013.12.31				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$8,185,821	\$-	\$-	\$-	\$8,185,821
Financial assets at fair value through profit or loss	1,312,025	-	-	-	1,312,025
Available-for-sale financial assets	7,234,902	-	-	-	7,234,902
Derivative financial assets for hedging	10,022	-	-	-	10,022
Bond investments with no active market exists	2,053,740	-	-	-	2,053,740
Held-to-maturity investments	1,955,937	-	-	-	1,955,937
Total	\$20,752,447	\$-	\$-	\$-	\$20,752,447

Financial assets	Credit quality of financial assets				
	2013.9.30				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$7,558,287	\$-	\$-	\$-	\$7,558,287
Financial assets at fair value through profit or loss	1,154,184	-	-	-	1,154,184
Available-for-sale financial assets	8,036,527	-	-	-	8,036,527
Derivative financial assets for hedging	10,589	-	-	-	10,589
Bond investments with no active market exists	1,746,004	-	-	-	1,746,004
Held-to-maturity investments	2,117,267	-	-	-	2,117,267
Total	\$20,622,858	\$-	\$-	\$-	\$20,622,858

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Financial assets	Credit quality of financial assets				
	2013.1.1				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$5,669,259	\$-	\$-	\$-	\$5,669,259
Financial assets at fair value through profit or loss	437,273	-	-	-	437,273
Available-for-sale financial assets	8,404,492	-	-	-	8,404,492
Derivative financial assets for hedging	17,134	-	-	-	17,134
Bond investments with no active market exists	1,323,270	-	-	-	1,323,270
Held-to-maturity investments	2,512,011	-	-	-	2,512,011
Total	\$18,363,439	\$-	\$-	\$-	\$18,363,439

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	2014.9.30							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$156,695	\$-	\$-	\$-	\$121,270	\$277,965	\$1,690	\$276,275
Corporate Finance	60,000	-	-	-	161,016	221,016	80,769	140,247
Total	\$216,695	\$-	\$-	\$-	\$282,286	\$498,981	\$82,459	\$416,522

Secured loans	2013.12.31							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$124,583	\$-	\$-	\$-	\$127,966	\$252,549	\$1,563	\$250,986
Corporate Finance	60,000	-	-	-	192,596	252,596	81,061	171,535
Total	\$184,583	\$-	\$-	\$-	\$320,562	\$505,145	\$82,624	\$422,521

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Secured loans	2013.9.30							
	Neither past due nor impaired			Past due but	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal	not impaired				
Consumer Finance	\$128,354	\$-	\$-	\$-	\$123,367	\$251,721	\$1,559	\$250,162
Corporate Finance	60,000	-	-	-	217,987	277,987	81,461	196,526
Total	\$188,354	\$-	\$-	\$-	\$341,354	\$529,708	\$83,020	\$446,688

Secured loans	2013.1.1							
	Neither past due nor impaired			Past due but	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal	not impaired				
Consumer Finance	\$142,885	\$-	\$-	\$-	\$120,628	\$263,513	\$1,618	\$261,895
Corporate Finance	60,000	-	-	-	271,730	331,730	71,545	260,185
Total	\$202,885	\$-	\$-	\$-	\$392,358	\$595,243	\$73,163	\$522,080

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, the Company and Subsidiary adapt and implement the internal control regulations and sheets. Cathay Century and its subsidiaries establish the information systems to accommodate the aforementioned policies.

D. Liquidity risk

a. Definition and resource of liquidity risk

Liquidity risk includes capital liquidity and market liquidity risk. Capital liquidity happens when Cathay Century and its subsidiaries cannot to raise sufficiently capital on reasonable terms and reasonable cost of capital leading to cash flow gap. Market liquidity risk when happens Cathay Century and its subsidiaries raise the necessary capital but sell assets at below market price leading Cathay Century and its subsidiaries taking the risk of loss.

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b. Liquidity risk management

Cathay Century and its subsidiaries established a capital liquidity management mechanism based on the business features and monitoring short-term cash flow. Considering the trading volume and holding position, Cathay Century and its subsidiaries carefully manage the market liquidity risk. Moreover, Cathay Century and its subsidiaries have drawn up a plan for capital requirements with respect to abnormal and emergency conditions to deal with significant liquidity risk.

Depending on the actual management need or special situation, Cathay Century and its subsidiaries uses models to assess cash flow risk, such as cash flow model or stress testing model.

Stress testing analysis is used to test changes of capital liquidity in the event of extreme in order to ensure liquidity. Stress scenarios, including significant market volatility, a variety of credit events, non-anticipated events of the financial market liquidity crunch and any other scenario which may trigger liquidity pressures is used to assess Cathay Century and its subsidiaries' overall capital supply, demand and changes in cash flow gap.

In the event of cash flow gap, the 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	2014.9.30						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,517,566	\$1,251,932	\$1,232,777	\$11,838	\$5,936	\$1,381	\$-
Financial liabilities at fair value through profit or loss	55,051	55,051	33,023	20,525	1,503	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	1,000,000	-

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Liabilities	2013.12.31						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,622,538	\$1,363,246	\$1,334,100	\$21,223	\$7,181	\$742	\$-
Financial liabilities at fair value through profit or loss	28,352	28,352	-	28,352	-	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	-	1,000,000

Liabilities	2013.9.30						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,292,718	\$1,309,851	\$1,271,335	\$30,751	\$6,148	\$1,617	\$-
Financial liabilities at fair value through profit or loss	34,195	34,195	40,485	(6,290)	-	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	-	1,000,000

Liabilities	2013.1.1						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,223,005	\$1,205,101	\$1,182,771	\$16,771	\$3,852	\$1,707	\$-
Preferred stock liability	1,000,000	1,000,000	-	-	-	-	1,000,000

E. Market risk analysis

Market risk is the risk of potential revenue and portfolio value reduction due to the fluctuations of market risk factors, such as exchange rates, commodity prices, interest rates, credit spreads, and stock prices.

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

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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

(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.

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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

2014.9.30	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$(245,486)
Interest rate risk (Yield curve)	20bp	(70,493)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(110,874)

2014.9.30		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	\$-	\$150
	CNY appreciate 1 %	17,706	981
	HKD appreciate 1 %	-	173
	NTD appreciate 1 %	(32,066)	(3,262)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(1,823)	(133)
	Yield curve (CNY) flat rises 1bp	(52)	(73)
	Yield curve (NTD) flat rises 1bp	(131)	(1,313)
Equity securities price sensitivity	Increase 1% in equity price	-	24,549

2013.9.30	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$(167,197)
Interest rate risk (Yield curve)	20bp	(73,775)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(77,176)

2013.9.30		Profit and loss	Equity
Foreign currency risk sensitivity	CNY appreciate 1 %	\$7,160	\$1,419
	HKD appreciate 1 %	-	103
	NTD appreciate 1 %	(9,303)	(4,914)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(1,690)	(141)
	Yield curve (CNY) flat rises 1bp	-	(84)
	Yield curve (NTD) flat rises 1bp	(101)	(1,673)
Equity securities price sensitivity	Increase 1% in equity price	-	16,720

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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 and its subsidiaries use “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.

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• 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, Auditor General, finance executive, accounting executive, 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.

ƒ 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.

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† 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.

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.

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(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).

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.

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(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 Cathay Securities 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 and its subsidiaries 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.

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(B) Credit risk analysis

Anticipated credit risks due to conducted financial transactions are included the credit risks from issuers, counterparties, and underlying assets:

- 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 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.

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Cash Flows Analysis of Financial Liabilities

Financial Liabilities	Payment Terms				Total
	Less than 1 month	1 to 3 months	3 to 6 months	More than 6 months	
Notes payables	\$5,070,000	\$-	\$-	\$-	\$5,070,000
Financial liabilities at fair value through profit or loss -current	1,501,052	-	-	-	1,501,052
Liabilities for bonds with repurchase agreements	2,250,000	-	-	-	2,250,000
Deposits for securities borrowed	22,876	45,752	68,628	274,519	411,775
Futures trader's equity	1,740,565	-	-	-	1,740,565
Account payables	2,179,708	-	-	2,867,982	5,047,690
Others	-	-	-	16,376	16,376
Total	\$12,764,201	\$45,752	\$68,628	\$3,158,877	\$16,037,458
% to the total	79.59%	0.29%	0.43%	19.70%	100%

Short-term loans, note payables and repurchase bonds are fund procurement instruments and matured within three months.

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Cash Flow Gap

Financial Assets	Received Terms				Total
	Less than 1 month	1 to 3 months	3 to 6 months	More than 6 months	
Cash and cash equivalents	\$1,082,186	\$-	\$-	\$-	\$1,082,186
Financial assets at fair value through profit or loss -current					
Operations Security	6,492,318	-	-	-	6,492,318
Open-end Funds	-	-	-	397,194	397,194
Call option-futures	53,614	-	-	-	53,614
Futures trading margin	-	-	-	29,165	29,165
Available for sale financial assets	398,512	-	-	236,006	634,518
Other current assets-time deposit	-	-	-	900,000	900,000
Client margin accounts	1,741,229	-	-	-	1,741,229
Account Receivables	5,927,740	2,530	3,795	15,809	5,949,874
Securities financing receivables	155,006	310,012	465,018	1,860,070	2,790,106
Others	-	-	-	725,456	725,456
Subtotal	15,850,605	312,542	468,813	4,163,700	20,795,660
Residual cash	\$3,086,404	\$266,790	\$400,185	\$1,004,823	\$4,758,202

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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
- ƒ Balance sheet adjustment: (i) sales of securities (ii) retrieve short-term capital invested in currency market.

(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:

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- Price value of basis point: 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

2014.1.1~2014.9.30	NT\$ (in thousands)
Period Ended	21,521
Average	16,724
Lowest	7,135
Highest	29,064

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.

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- 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 in-time, 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.

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Table of Stress Test

<u>Risk Simples</u>	<u>Price Risk</u>	<u>Changes (+/-)</u>	<u>Changes in profit and loss</u>
Equity Risk	Stock index	-10%	\$(157,482)
Interest Risk	Yield Curve	+100bps	(94,014)
Exchange Risk	Exchange Rate	+3%	(319)
Produce Risk	Price	-10%	-

- (3) Exchange rates used to translate material financial assets and liabilities denominated in foreign currencies are disclosed as follows:

	2014.9.30			2013.12.31		
	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NT\$</u>	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NT\$</u>
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	49,277,562	30.4360	1,499,811,877	\$46,017,762	29.9500	\$1,378,231,972
CNY	71,841,200	4.9382	354,766,214	38,940,825	4.9436	192,507,862
<u>Non-Monetary Items</u>						
USD	5,611,494	30.4360	170,791,431	4,346,951	29.9500	130,191,182
<u>Financial Liabilities</u>						
<u>Monetary Items</u>						
USD	7,197,115	30.4360	219,051,392	7,367,326	29.9500	220,651,414

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	2013.9.30			2013.1.1		
	Foreign	Exchange	NT\$	Foreign	Exchange	NT\$
	Currency	Rate		Currency	Rate	
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	\$47,723,224	29.6700	\$1,415,948,056	\$45,105,812	29.1360	\$1,314,202,938
CNY	26,091,419	4.8497	126,535,555	19,422,188	4.6797	90,890,013
<u>Non-Monetary Items</u>						
USD	4,275,037	29.6700	126,840,348	3,188,552	29.1360	92,901,651
<u>Financial Liabilities</u>						
<u>Monetary Items</u>						
USD	7,134,919	29.6700	211,693,047	6,087,435	29.1360	177,363,506

(4) Discretionary account management for Cathay Life

Item	2014.9.30		2013.12.31	
	Carrying amount	Fair value	Carrying amount	Fair value
Listed stocks	\$124,010,613	\$124,010,613	\$129,828,751	\$129,828,751
Overseas stocks	49,855,932	49,855,932	55,726,731	55,726,731
Repurchase bonds	13,848,000	13,848,000	2,088,200	2,088,200
Cash in banks	21,738,344	21,738,344	22,994,358	22,994,358
Beneficiary certificates	5,881,690	5,881,690	18,109,871	18,109,871
Futures and options	687,225	687,225	911,776	911,776
Corporate bonds	727,602	727,602	837,194	837,194
Total	\$216,749,406	\$216,749,406	\$230,496,881	\$230,496,881

Item	2013.9.30		2013.1.1	
	Carrying amount	Fair value	Carrying amount	Fair value
Listed stocks	\$123,047,925	\$123,047,925	\$100,690,134	\$100,690,134
Overseas stocks	44,699,635	44,699,635	28,173,078	28,173,078
Repurchase bonds	3,140,000	3,140,000	6,336,804	6,336,804
Cash in banks	27,341,927	27,341,927	38,106,426	38,106,426
Beneficiary certificates	18,450,626	18,450,626	29,184,078	29,184,078
Futures and options	862,047	862,047	1,482,600	1,482,600
Corporate bonds	842,003	842,003	690,768	690,768
Total	\$218,384,163	\$218,384,163	\$204,663,888	\$204,663,888

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As of 30 September 2014, Cathay Life entered into discretionary account management contracts in the amounts of \$132,000,000 thousand, US\$1,470,000 thousand, and HK\$1,550,000 thousand. As of 31 December 2013, Cathay Life entered into discretionary account management contracts in the amounts of \$143,000,000 thousand, US\$1,990,000 thousand and HK\$2,000,000 thousand. As of 30 September 2013, Cathay Life entered into discretionary account management contracts in the amounts of \$143,000,000 thousand, US\$1,990,000 thousand, and HK\$2,000,000 thousand. As of 1 January 2013, the amount is \$140,000,000 thousand, US\$2,090,000 thousand and HK\$2,000,000 thousand.

(5) 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.

(6) Business or trading activities within Subsidiaries:

A. Business or trading behaviors

Please refer Note 35 (business with stakeholders) 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 the branches and 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 Financial Supervisory Commission, Executive Yuan, the Company has stipulated “Cathay Financial Holding Subsidiaries Cross-selling Activities Acts” and “Non-disclosure Confidential Agreement of Cathay Financial Holding Subsidiaries Cross-utilization of Customer’s Personal Data” to cross-utilize customer’s 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. Since 13 September 2010, all the business units of Cathay United Bank (165 branches) may engage in cross-selling activities for insurance business and securities business (except for 3 mini-branches). On 2 September 2011, Cathay Life has been approved by the competent authorities to engage in cross-selling activities for banking, property and casualty insurance businesses in all its business and service units (186 locations). In the future, the Group will continue to apply for approval to expand its cross-selling businesses.

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.

(7) Material contracts: None.

(8) Changes in accounting policy

To improve the reliability and relevance of financial reporting, enhance financial disclosure transparency, be in line with the international conventions, and increase net value and risk tolerance, the Group volunteered to change the subsequent measurements of investment property from cost model to fair value model since 1 January 2014. Items and amounts of retrospective adjustments are summarized below:

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Effects on the balance sheet items

	2013.12.31	2013.9.30	2013.1.1
Increase in investment property-net	\$100,131,068	\$83,559,885	\$78,757,926
Increase in property and equipment -net	247,507	-	-
Increase in assets held for sale -net	13,471	-	-
Increase in deferred tax assets	23,525	18,317	19,610
Increase in deferred tax liabilities	6,165,422	5,423,222	3,535,386
Increase in retained earnings	84,242,411	78,154,980	75,242,150
Increase in other equity	10,007,738	-	-

Effects on the statements of comprehensive income items

	2014.7.1~ 2014.9.30	2013.7.1~ 2013.9.30
Increase in operating revenue	\$(60,716)	\$(18,957)
Decrease in operating expenses	-	380,550
Depreciation expense recorded for renting investment property, which is considered owner-occupied property, to related parties	(121,412)	-
Increase (decrease) in income tax expense	32,340	(61,471)
Increase (decrease) in net income	(149,788)	300,122
Increase in other comprehensive income	-	-
Increase in earnings per share	(0.01)	0.02

	2014.1.1~ 2014.9.30	2013.1.1~ 2013.12.31	2013.1.1~ 2013.9.30
Increase in operating revenue	\$16,460,839	\$9,252,429	\$3,607,880
Decrease in operating expenses	-	1,575,875	1,194,080
Depreciation expense recorded for renting investment property, which is considered owner-occupied property, to related parties	(363,966)	-	-
Decrease in income tax expense	(2,495,487)	(1,828,043)	(1,889,129)
Increase in net income	13,601,386	9,000,261	2,912,831
Increase in other comprehensive income	827,609	10,007,738	-
Increase in earnings per share	1.08	0.74	0.23

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(9) Information regarding investment in Mainland China:

- A. On 25 December 2002 and 24 July 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Life to remit US\$22,850 thousand and US\$27,150 thousand, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from US\$50,000 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 2014, Cathay Life's remittances to the subsidiary totaled approximately CNY¥200,000 thousand and US\$78,210 thousand.
- B. On 17 October 2007, the Investment Commission of the Ministry of Economic Affairs (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 2014, 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, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Life to remit CNY¥300,000 (US\$47,000) thousands and CNY¥500,000 (US\$80,000) thousands, 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) thousands to increase the share capital. As of 30 September 2014, Cathay Life's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately CNY¥1,500,000 thousands.
- D. On 31 December 2006, Investment Commission of the Ministry of Economic Affairs (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 has received approved from the China Insurance Regulatory Commission on 8 October 2007 to form a joint venture general insurance company. 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. And the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Century to remit CNY¥200,000 thousand as the equity capital on 28 May 2013. As of 30 September 2014, Cathay Century's remittances to this company totaled approximately US\$60,560 thousand.
- E. The Investment Commission, MOEA approved Cathay United Bank to remit to China CNY¥400,000 (US\$60,067) thousands. 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\$59,768) thousands. The remaining amount of US\$299 thousands was repatriated by Shanghai Branch, Cathay United Bank on 5 November 2010. The investment amounts were revised by Cathay United Bank by reporting to the Investment Commission of the Ministry of Economic Affairs (MOEAIC) in 18 January 2011 and were approved on 24 January 2011. In addition, the Investment Commission, MOEA further approved Cathay United Bank to remit CNY¥600,000 (US\$95,024) thousands 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\$94,929) thousands. The remaining amount of US\$95 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 the Investment Commission of the Ministry of Economic Affairs (MOEAIC) on 20 March 2012 and were approved on 26 March 2012. The Investment Commission, MOEA approved Cathay United Bank's Shanghai Branch to increase the working capital of CNY¥100,000 (US\$16,400) thousands on 27 February 2014. According to the Investment Commission of the Ministry of Economic Affairs (MOEAIC), further approved working capital of Cathay United Bank's Qingdao Branch was CNY¥600,000 (US\$94,310) thousands on 21 January 2014.

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- F. On 9 January 2012 the Investment Commission of the Ministry of Economic Affairs (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. COBS 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 2014, Cathay Securities Investment Trust remittances to CDBS Cathay Asset Management totaled approximately CNY¥66,600 thousand.
- G. On 5 March 2014, the Investment Commission of the Ministry of Economic Affairs (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) thousands.

(10) 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, reinsurance and other insurance.

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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.

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.

2014.7.1~2014.9.30

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$6,487,725	\$24,692,597	\$134,595	\$24,302	\$(289,628)	\$31,049,591
Net income other than interest	2,204,143	82,418,403	1,891,858	359,554	390,351	87,264,309
Total income	8,691,868	107,111,000	2,026,453	383,856	100,723	118,313,900
Bad debt expenses and Provision for premiums reserve	(617,402)	(128,158)	(1,567)	-	-	(747,127)
The net change of insurance liabilities	-	(85,271,556)	(290,650)	-	-	(85,562,206)
Operating expenses	(5,895,877)	(7,328,643)	(976,396)	(321,774)	(487,685)	(15,010,375)
Income (loss) from continuing operations before income taxes	2,178,589	14,382,643	757,840	62,082	(386,962)	16,994,192
Income taxes (expense) benefit	(789,512)	(1,619,596)	(52,667)	4,643	(394,148)	(2,851,280)
Consolidated net income	1,389,077	12,763,047	705,173	66,725	(781,110)	14,142,912

2013.7.1~2013.9.30

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$5,578,409	\$23,282,934	\$107,268	\$28,524	\$(281,492)	\$28,715,643
Net income other than interest	(7,753,798)	34,791,760	946,722	167,392	30,698,499	58,850,575
Total income	(2,175,389)	58,074,694	1,053,990	195,916	30,417,007	87,566,218
Bad debt expenses and Provision for premiums reserve	(223,650)	(514,311)	(7,125)	-	-	(745,086)
The net change of insurance liabilities	-	(61,850,882)	(116,674)	-	-	(61,967,556)
Operating expenses	(4,744,241)	(6,171,726)	(940,833)	(250,589)	(958,183)	(13,065,572)
Income (loss) from continuing operations before income taxes	(7,143,280)	(10,462,225)	(10,642)	(54,673)	29,458,824	11,788,004
Income taxes (expense) benefit	(552,539)	575,991	(48,692)	451	30,305	5,516
Consolidated net income	(7,695,819)	(9,886,234)	(59,334)	(54,222)	29,489,129	11,793,520

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Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$19,099,932	\$73,840,435	\$378,934	\$74,921	\$(857,340)	\$92,536,882
Net income other than interest	11,941,219	173,089,632	5,472,702	1,149,205	1,236,257	192,889,015
Total income	31,041,151	246,930,067	5,851,636	1,224,126	378,917	285,425,897
Bad debt expenses and Provision for premiums reserve	(744,974)	(430,821)	(13,973)	-	-	(1,189,768)
The net change of insurance liabilities	-	(191,589,031)	(1,030,991)	-	-	(192,620,022)
Operating expenses	(16,042,172)	(20,317,089)	(2,938,060)	(892,121)	(1,087,256)	(41,276,698)
Income (loss) from continuing operations before income taxes	14,254,005	34,593,126	1,868,612	332,005	(708,339)	50,339,409
Income taxes (expense) benefit	(2,358,839)	(2,475,778)	(97,491)	(24,008)	(638,532)	(5,594,648)
Consolidated net income	11,895,166	32,117,348	1,771,121	307,997	(1,346,871)	44,744,761

2013.1.1~2013.9.30

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$16,680,411	\$69,169,973	\$279,720	\$78,949	\$(841,358)	\$85,367,695
Net income other than interest	(2,739,406)	142,211,164	3,905,047	688,170	30,181,181	174,246,156
Total income	13,941,005	211,381,137	4,184,767	767,119	29,339,823	259,613,851
Bad debt expenses and Provision for premiums reserve	(189,554)	(1,086,828)	(8,862)	-	-	(1,285,244)
The net change of insurance liabilities	-	(187,228,212)	(362,157)	-	-	(187,590,369)
Operating expenses	(13,087,745)	(19,744,770)	(2,688,306)	(703,128)	(1,735,943)	(37,959,892)
Income (loss) from continuing operations before income taxes	663,706	3,321,327	1,125,442	63,991	27,603,880	32,778,346
Income taxes (expense) benefit	(1,745,196)	(1,840,186)	(153,389)	(5,652)	603	(3,743,820)
Consolidated net income	(1,081,490)	1,481,141	972,053	58,339	27,604,483	29,034,526

Remarks:

- (1) No sales from a certain external customer reached more than 10% of the gross revenue of the Group.
- (2) The profit or loss from the operating segments is measured by profit and loss before tax without allocating tax expense to the reportable segments, and is regarded as the fundamental of the determination of resources allocation and assessment of performance.

44.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 2014, 31 December 2013, 30 September 2013 and 1 January 2013

(30 September 2014 and 2013 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in thousands of New Taiwan Dollars)

	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Assets				
Cash and cash equivalents	\$3,581,052	\$3,464,767	\$3,284,767	\$6,482,973
Available-for-sale financial assets -net	669,379	556,865	557,200	529,796
Securities purchased under agreements to resell	359,312	465,060	489,169	658,625
Receivables -net	4,346,070	3,731,473	3,442,420	2,858,180
Current income tax assets	6,571,777	5,584,675	4,905,513	3,596,184
Held-to-maturity financial assets -net	31,000,000	31,000,000	31,000,000	31,000,000
Investments accounted for using the equity method -net	417,298,660	384,108,973	347,404,759	328,085,643
Other financial assets -net	-	-	962,000	-
Property and equipment -net	6,655	6,245	5,504	4,739
Intangible assets -net	23,936	-	-	-
Deferred tax assets -net	1,184,259	1,265,131	1,390,869	967,668
Other assets -net	89,565	170,126	163,765	161,978
Total assets	\$465,130,665	\$430,353,315	\$393,605,966	\$374,345,786
Liabilities & Equity				
Liabilities				
Financial liabilities at fair value through profit or loss	\$-	\$-	\$1,565,112	\$549,745
Commercial paper payable -net	18,330,000	5,960,000	4,040,000	-
Payables	10,619,215	8,340,650	8,743,767	5,940,873
Current income tax liabilities	176,336	37,003	163,357	-
Bonds payable	40,000,000	40,000,000	47,493,258	47,312,376
Provisions	663,188	671,562	657,732	864,469
Deferred tax liabilities	-	1	12,448	35,202
Other liabilities	9,861	14,237	2,374	3,422
Total liabilities	69,798,600	55,023,453	62,678,048	54,706,087
Equity				
Capital stock				
Common stock	125,632,102	119,649,621	112,183,851	108,653,851
Stock dividends to be distributed	-	-	7,465,770	-
Capital surplus	88,782,304	89,063,184	87,889,556	78,508,148
Retained earnings				
Legal reserve	19,784,401	16,922,773	16,922,773	15,222,599
Special reserve	82,305,614	82,314,780	82,314,780	82,314,780
Undistributed earnings	55,258,722	37,287,956	28,274,221	16,296,275
Other equity	23,568,922	30,091,548	3,056,839	25,823,918
Treasury stock	-	-	(7,179,872)	(7,179,872)
Total equity	395,332,065	375,329,862	330,927,918	319,639,699
Total liabilities and equity	\$465,130,665	\$430,353,315	\$393,605,966	\$374,345,786

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 2014 and 2013, and nine-month periods ended 30 September 2014 and 2013

(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)

	<u>2014.7.1~2014.9.30</u>	<u>2013.7.1~2013.9.30</u>	<u>2014.1.1~2014.9.30</u>	<u>2013.1.1~2013.9.30</u>
Income				
Gains on investment-equity method	\$14,725,972	\$12,332,456	\$45,735,670	\$30,634,370
Other operating income	260,583	259,817	734,190	783,216
	<u>14,986,555</u>	<u>12,592,273</u>	<u>46,469,860</u>	<u>31,417,586</u>
Expenses and loss				
Operating expenses	(202,500)	(341,006)	(476,241)	(613,375)
Other expenses and losses	(414,104)	(577,345)	(1,013,301)	(2,068,868)
	<u>(616,604)</u>	<u>(918,351)</u>	<u>(1,489,542)</u>	<u>(2,682,243)</u>
Profit before income tax from continuing operations	14,369,951	11,673,922	44,980,318	28,735,343
Income tax benefit (expense)	(337,745)	53,998	(494,884)	66,959
Profit after income tax from continuing operations	14,032,206	11,727,920	44,485,434	28,802,302
Net Income	<u>\$14,032,206</u>	<u>\$11,727,920</u>	<u>\$44,485,434</u>	<u>\$28,802,302</u>
Other comprehensive income				
Unrealized gains from available-for-sale financial assets	\$33,631	\$(6,781)	\$112,514	\$48,840
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(24,452,892)	(8,322,044)	(6,619,069)	(22,808,072)
Income tax relating to the components of other comprehensive income	(4,885)	1,839	(15,568)	(7,847)
Other comprehensive income, net of tax	<u>(24,424,146)</u>	<u>(8,326,986)</u>	<u>(6,522,123)</u>	<u>(22,767,079)</u>
Total comprehensive income	<u>\$ (10,391,940)</u>	<u>\$ 3,400,934</u>	<u>\$ 37,963,311</u>	<u>\$ 6,035,223</u>
Earnings per share (expressed in dollars)				
Basic earnings per share:				
Net income	<u>\$1.12</u>	<u>\$0.97</u>	<u>\$3.54</u>	<u>\$2.40</u>
Diluted earning per share:				
Net income	<u>\$1.12</u>	<u>\$0.97</u>	<u>\$3.54</u>	<u>\$2.40</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 2014 and 2013

(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												
	Capital stock		Retained earnings				Other equity						
	Common stock	Stock dividends to be distributed	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of a foreign	Unrealized gains from available-for-sale financial assets	Gains on cash flow hedges	Revaluation surplus	Others	Treasury stock	Total
Balance on 1 January 2013 (adjusted)	\$108,653,851	\$-	\$78,508,148	\$15,222,599	\$82,314,780	\$16,296,275	\$(1,082,097)	\$25,930,563	\$976,682	\$-	\$(1,230)	\$(7,179,872)	\$319,639,699
Appropriations and distribution for 2012 (Note1)													
Legal reserve	-	-	-	1,700,174	-	(1,700,174)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(7,465,770)	-	-	-	-	-	-	(7,465,770)
Stock dividend	-	7,465,770	-	-	-	(7,465,770)	-	-	-	-	-	-	-
Net income for the nine-month period ended 30 September 2013 (adjusted)	-	-	-	-	-	28,802,302	-	-	-	-	-	-	28,802,302
Other comprehensive income for the nine-month period ended 30 September 2013	-	-	-	-	-	-	258,648	(22,533,978)	(491,749)	-	-	-	(22,767,079)
Comprehensive income for the nine-month period ended 30 September 2013 (adjusted)	-	-	-	-	-	28,802,302	258,648	(22,533,978)	(491,749)	-	-	-	6,035,223
Increase in cash capital	3,530,000		9,178,000										12,708,000
Value difference between price of subsidiary stock paid and book value						(192,642)							(192,642)
Share-based payment transaction	-	-	203,408	-	-	-	-	-	-	-	-	-	203,408
Balance on 30 September 2013 (adjusted)	<u>\$112,183,851</u>	<u>\$7,465,770</u>	<u>\$87,889,556</u>	<u>\$16,922,773</u>	<u>\$82,314,780</u>	<u>\$28,274,221</u>	<u>\$(823,449)</u>	<u>\$3,396,585</u>	<u>\$484,933</u>	<u>\$-</u>	<u>\$(1,230)</u>	<u>\$(7,179,872)</u>	<u>\$330,927,918</u>
Balance on 1 January 2014 (adjusted)	\$119,649,621	\$-	\$89,063,184	\$16,922,773	\$82,314,780	\$37,287,956	\$(528,034)	\$20,230,491	\$382,306	\$10,007,738	\$(953)	\$-	\$375,329,862
Appropriations and distribution for 2013 (Note2)													
Legal reserve	-	-	-	2,861,628	-	(2,861,628)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(17,947,443)	-	-	-	-	-	-	(17,947,443)
Stock dividend	5,982,481	-	-	-	-	(5,982,481)	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	(9,166)	9,166	-	-	-	-	-	-	-
Other additional paid-in capital													
Share of changes in net assets of associates and joint ventures accounted for using the equity method	-	-	(13,665)	-	-	-	-	-	-	-	-	-	(13,665)
The capital reserve set aside for the first-time adoption of TIFRS	-	-	(267,215)	-	-	267,215	-	-	-	-	-	-	-
Net income for the nine-month period ended 30 September 2014	-	-	-	-	-	44,485,434	-	-	-	-	-	-	44,485,434
Other comprehensive income for the nine-month period ended 30 September 2014	-	-	-	-	-	-	(118,017)	(6,963,330)	(268,385)	827,609	-	-	(6,522,123)
Comprehensive income for the nine-month period ended 30 September 2014	-	-	-	-	-	44,485,434	(118,017)	(6,963,330)	(268,385)	827,609	-	-	37,963,311
Others						503				(503)			
Balance on 30 September 2014	<u>\$125,632,102</u>	<u>\$-</u>	<u>\$88,782,304</u>	<u>\$19,784,401</u>	<u>\$82,305,614</u>	<u>\$55,258,722</u>	<u>\$(646,051)</u>	<u>\$13,267,161</u>	<u>\$113,921</u>	<u>\$10,834,844</u>	<u>\$(953)</u>	<u>\$-</u>	<u>\$395,332,065</u>

Note 1 : As of 31 December 2012, directors' remuneration \$5,400 thousand and employees' bonuses \$1,494 thousand have been deducted from current year's Statements of Comprehensive Income.

Note 2 : As of 31 December 2013, directors' remuneration \$3,300 thousand and employees' bonuses \$2,394 thousand have been deducted from current year's Statements of Comprehensive Income.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Statements of cash flows

For the nine-month periods ended 30 September 2014 and 2013

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

(Expressed in thousands of New Taiwan Dollars)

Items	2014.1.1~2014.9.30	2013.1.1~2013.9.30
Cash flows from operating activities		
Profit before income tax from continuing operations	\$44,980,318	\$28,735,343
Adjustments :		
Income and other adjustments with no cash flow effects		
Depreciation	1,062	980
Amortization	2,660	-
Interest expense	912,231	918,533
Interest income	(731,799)	(759,860)
Unrealized foreign exchange loss on bonds payable	-	133,787
Share of gain of associates and joint ventures accounted for using the equity method	(45,735,670)	(30,634,370)
Loss on disposal of property and equipment	328	133
Effects of exchange rate changes	4	(1,847)
Others	-	203,408
Changes in operating assets and liabilities		
Decrease in available-for-sale financial assets	-	21,436
Decrease in accounts receivable	78,372	88,260
Increase in other financial assets	-	(962,000)
Decrease (Increase) in other assets	80,101	(110)
Increase in financial liabilities at fair value through profit or loss	-	1,015,366
Increase in payables	1,418,427	1,941,609
Decrease in provisions	(8,374)	(206,737)
(Decrease) Increase in other liabilities	(4,376)	100
Cash generated from operations		
Interest received	38,831	87,360
Interest paid	(52,094)	(11,300)
Income taxes (paid) received	(1,277,349)	(1,532,815)
Net cash flows used in operating activities	(297,328)	(962,724)
Cash flows from investing activities		
Acquisition of investments accounted for using the equity method	-	(89,010)
Acquisition of property and equipment	(1,800)	(1,877)
Acquisition of intangible assets	(26,596)	-
Decrease (increase) in other assets	459	(1,677)
Dividends received	5,913,249	405,535
Net cash from in investing activities	5,885,312	312,971
Cash flows from financing activities		
Increase in commercial paper payable	12,370,000	4,040,000
Payment of cash dividends	(17,947,443)	(7,465,770)
Increase in cash capital	-	12,708,000
Exercise of employee stock options	-	-
Acquisition of subsidiary	-	(12,001,986)
Net cash flows from financing activities	(5,577,443)	(2,719,756)
Effects of exchange rate changes on cash and cash equivalents	(4)	1,847
Increase (decrease) in cash and cash equivalents	10,537	(3,367,662)
Cash and cash equivalents at the beginning of periods	3,929,827	7,141,598
Cash and cash equivalents at the end of periods	\$3,940,364	\$3,773,936
The components of cash and cash equivalents		
Cash and cash equivalents presented in balance sheet	\$3,581,052	\$3,284,767
Bills sold under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7	359,312	489,169
Cash and cash equivalents at the end of periods	\$3,940,364	\$3,773,936

English Translation of Financial Statements Originally Issued in Chinese

45. The major subsidiaries' condensed balance sheets and statements of income

Cathay Life Insurance Co., Ltd.

Condensed Balance Sheet

As of 30 September 2014 and 2013 and as of 31 December and 1 January 2013

(Expressed in thousands of New Taiwan Dollars)

Items	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Assets				
Cash and cash equivalents	\$414,070,061	\$280,220,355	\$277,729,682	\$362,775,487
Receivables	50,311,673	47,362,820	54,218,399	57,308,138
Financial asset at fair value through profit or loss	60,407,929	73,022,597	73,031,416	72,429,213
Available-for-sale financial assets	1,211,806,072	1,272,046,334	1,238,696,313	1,221,734,264
Derivative financial assets for hedging	146,267	453,713	570,013	1,142,094
Investments accounted for using the equity method	32,313,091	9,039,485	8,913,963	7,144,025
Investment in debt securities with no active market	1,087,595,828	1,020,141,716	958,695,424	814,453,830
Held-to-maturity financial assets	19,989,553	-	-	-
Other financial assets	39,200,000	40,900,000	39,400,000	23,500,000
Investment property	397,872,815	363,191,672	325,050,194	312,615,668
Loans	675,778,716	635,816,106	613,660,429	518,169,293
Reinsurance contract assets	260,703	327,397	3,951,902	9,162,513
Property and equipment	26,115,741	35,862,947	44,461,509	44,800,678
Intangible assets	105,846	102,258	142,796	147,816
Deferred tax assets	10,789,600	12,221,216	13,435,350	16,106,670
Other assets	17,397,851	17,185,550	16,770,826	15,417,746
Separate account product assets	442,384,623	375,890,055	366,798,454	329,200,798
Total assets	\$4,486,546,369	\$4,183,784,221	\$4,035,526,670	\$3,806,108,233
Liabilities				
Payables	\$31,778,307	\$18,300,775	\$40,574,981	\$37,262,033
Financial liability at fair value through profit or loss	16,299,230	16,148,024	8,750,413	2,079,457
Derivative financial liabilities for hedging	13,397	5,148	-	-
Preferred stock liability	30,000,000	30,000,000	30,000,000	30,000,000
Insurance liability	3,573,066,817	3,375,731,754	3,267,721,066	3,078,719,365
Reserve for insurance contract				
with feature of financial instruments	50,450,080	52,911,209	53,779,983	56,461,371
Foreign exchange volatility reserve	13,173,058	10,482,181	8,544,887	4,270,856
Liability reserve	3,762,972	3,919,223	3,922,423	3,812,483
Deferred tax liability	23,421,497	21,254,376	19,359,587	20,217,430
Other liability	10,205,975	8,576,689	5,585,024	11,301,227
Separate account product liabilities	442,384,623	375,890,055	366,798,454	329,200,798
Total liabilities	4,194,555,956	3,913,219,434	3,805,036,818	3,573,325,020
Stockholders' equity				
Capital stock	53,065,274	53,065,274	53,065,274	53,065,274
Capital surplus	13,029,142	13,038,791	13,009,649	13,009,649
Retained earnings	215,370,432	169,837,067	162,621,869	142,238,530
Others	10,525,565	34,623,655	1,793,060	24,469,760
Total stockholders' equity	291,990,413	270,564,787	230,489,852	232,783,213
Total liabilities and stockholders' equity	\$4,486,546,369	\$4,183,784,221	\$4,035,526,670	\$3,806,108,233

Cathay Life Insurance Co., Ltd.

Condensed Statement of Comprehensive Income

For the three-month periods ended 30 September 2014 and 2013, and for the nine-month periods ended 30 September 2014 and 2013

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

Items	2014.7.1~2014.9.30	2013.7.1~2013.9.30	2014.1.1~2014.9.30	2013.1.1~2013.9.30
Operating income	\$188,421,319	\$161,619,937	\$565,640,234	\$466,849,797
Operating costs	(173,416,464)	(150,678,259)	(524,343,442)	(434,209,310)
Operating expenses	(3,890,132)	(3,728,135)	(10,522,714)	(10,234,691)
Operating profit	11,114,723	7,213,543	30,774,078	22,405,796
Non-operating income and expenses	230,221	337,706	1,129,780	842,587
Profit from continuing operations before income tax	11,344,944	7,551,249	31,903,858	23,248,383
Income tax (expense) profit	(1,612,693)	559,797	(2,646,247)	(2,865,044)
Profit from continuing operations after income tax	9,732,251	8,111,046	29,257,611	20,383,339
Net income	9,732,251	8,111,046	29,257,611	20,383,339
Other comprehensive income (loss)	(24,791,538)	(8,329,021)	(7,822,336)	(22,676,700)
Total comprehensive income (loss)	\$(15,059,287)	\$(217,975)	\$21,435,275	\$(2,293,361)
Primary earnings per share	\$1.83	\$1.53	\$5.51	\$3.84

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Condensed Balance Sheet

As of 30 September 2014 and 2013 and as of 31 December and 1 January 2013

(Expressed in thousands of New Taiwan Dollars)

Items	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Assets				
Cash and cash equivalents	\$7,838,551	\$6,998,187	\$6,316,514	\$5,025,506
Receivables	3,285,505	3,540,497	3,144,488	3,160,638
Financial asset at fair value through profit or loss	1,302,619	1,172,111	1,040,569	385,460
Available-for-sale financial assets	7,296,753	6,391,927	7,250,897	7,750,552
Derivative financial assets for hedging	3,639	10,022	10,589	17,134
Investments accounted for using the equity method	1,178,863	825,721	975,588	679,562
Investment in debt securities with no active market	2,376,191	1,897,332	1,592,306	1,172,459
Held-to-maturity financial assets	1,287,423	1,668,787	1,865,390	2,512,011
Loans	416,522	422,521	446,688	522,080
Reinsurance contract assets	4,683,053	4,388,987	4,526,624	5,118,300
Property and equipment	165,812	202,393	78,696	101,738
Intangible assets	8,938	10,110	12,088	21,323
Deferred tax assets	65,041	77,223	78,337	80,750
Other assets	673,975	655,369	676,783	780,458
Total assets	\$30,582,885	\$28,261,187	\$28,015,557	\$27,327,971
Liabilities				
Payables	\$2,191,842	\$2,333,838	\$2,119,325	\$2,098,220
Financial liability at fair value through profit or loss	55,051	28,352	34,195	-
Preferred stock liability	1,000,000	1,000,000	1,000,000	1,000,000
Insurance liability	20,649,704	19,159,600	19,116,298	19,080,300
Liability reserve	235,740	236,272	248,378	247,950
Deferred tax liability	8,666	24,404	12,646	17,949
Other liability	528,664	317,734	529,724	366,509
Total liabilities	24,669,667	23,100,200	23,060,566	22,810,928
Stockholders' equity				
Capital stock	2,721,879	2,721,879	2,721,879	2,522,950
Capital surplus	-	1,929	1,929	1,929
Retained earnings	3,153,834	2,532,547	2,384,766	1,956,035
Others	37,505	(95,368)	(153,583)	36,129
Total stockholders' equity	5,913,218	5,160,987	4,954,991	4,517,043
Total liabilities and stockholders' equity	\$30,582,885	\$28,261,187	\$28,015,557	\$27,327,971

Cathay Century Insurance Co., Ltd.

Condensed Statement of Comprehensive Income

For the three-month periods ended 30 September 2014 and 2013, and for the nine-month periods ended 30 September 2014 and 2013

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

Items	2014.7.1~2014.9.30	2013.7.1~2013.9.30	2014.1.1~2014.9.30	2013.1.1~2013.9.30
Operating income	\$3,847,324	\$3,250,812	\$10,817,277	\$9,508,785
Operating costs	(2,338,687)	(1,908,175)	(6,627,659)	(5,627,088)
Operating expenses	(1,142,948)	(1,048,595)	(3,456,503)	(3,088,928)
Operating profit	365,689	294,042	733,115	792,769
Non-operating expenses	(4,933)	(5,504)	(14,337)	(11,720)
Profit from continuing operations before income tax	360,756	288,538	718,778	781,049
Income tax expense	(52,667)	(48,693)	(97,491)	(153,389)
Profit from continuing operations after income tax	308,089	239,845	621,287	627,660
Net income	308,089	239,845	621,287	627,660
Other comprehensive income (loss)	178,138	(84,662)	132,873	(189,712)
Total comprehensive income	\$486,227	\$155,183	\$754,160	\$437,948
Primary earnings per share	\$1.13	\$0.88	\$2.28	\$2.31

English Translation of Financial Statements Originally Issued in Chinese

Cathay Lujiazui Life Insurance Co., Ltd.

Condensed Balance Sheet

As of 30 September 2014 and 2013 and as of 31 December and 1 January 2013

(Expressed in thousands of New Taiwan Dollars)

Items	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Assets				
Cash and cash equivalents	\$1,285,440	\$1,352,570	\$2,005,463	\$1,792,193
Receivables	360,365	264,320	523,002	399,447
Financial asset at fair value through profit or loss	957,138	870,101	261,903	370,475
Available-for-sale financial assets	4,237,734	2,442,558	3,933,359	4,652,993
Investment in debt securities with no active market	3,196,697	3,208,260	3,087,382	2,450,786
Held-to-maturity financial assets	1,791,892	1,619,138	-	-
Loans	36,166	36,277	31,592	32,347
Reinsurance contract assets	207,756	356,060	90,263	7,683
Property and equipment	110,259	131,182	134,079	128,242
Intangible assets	68,293	81,713	84,439	94,237
Other assets	1,875,982	1,226,970	1,216,699	1,195,782
Separate account product assets	330,494	362,681	352,053	356,448
Total assets	\$14,458,216	\$11,951,830	\$11,720,234	\$11,480,633
Liabilities				
Short-term debt	\$209,198	\$-	\$293,692	\$297,268
Payables	537,417	916,486	578,872	714,954
Reserve for insurance contract				
with feature of financial instruments	4,695,802	4,685,239	4,496,745	4,889,501
Insurance liability	4,855,169	4,467,636	4,348,555	3,634,056
Other liability	24,541	37,277	23,804	19,354
Separate account product liabilities	330,494	362,681	352,053	356,448
Total liabilities	10,652,621	10,469,319	10,093,721	9,911,581
Stockholders' equity				
Capital stock	7,067,795	5,134,155	5,134,155	5,134,155
Retained earnings	(3,787,969)	(3,999,590)	(3,824,913)	(3,916,879)
Others	525,769	347,946	317,271	351,776
Total stockholders' equity	3,805,595	1,482,511	1,626,513	1,569,052
Total liabilities and stockholders' equity	\$14,458,216	\$11,951,830	\$11,720,234	\$11,480,633

Cathay Lujiazui Life Insurance Co., Ltd.

Condensed Statement of Comprehensive Income

For the three-month periods ended 30 September 2014 and 2013, and for the nine-month periods ended 30 September 2014 and 2013

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

Items	2014.7.1~2014.9.30	2013.7.1~2013.9.30	2014.1.1~2014.9.30	2013.1.1~2013.9.30
Operating income	\$869,012	\$661,810	\$2,348,144	\$2,187,578
Operating costs	(512,805)	(427,576)	(1,482,287)	(1,488,726)
Operating expenses	(244,049)	(239,691)	(652,668)	(606,817)
Operating profit (loss)	112,158	(5,457)	213,189	92,035
Non-operating expenses	(543)	1,552	(1,568)	(69)
Profit (loss) from continuing operations before income tax	111,615	(3,905)	211,621	91,966
Income tax expense	-	-	-	-
Profit from continuing operations after income tax	111,615	(3,905)	211,621	91,966
Net income (loss)	111,615	(3,905)	211,621	91,966
Other comprehensive income (loss)	141,565	(93,724)	177,823	(34,505)
Total comprehensive income (loss)	\$253,180	\$(97,629)	\$389,444	\$57,461
Primary earnings per share	Note	Note	Note	Note

Note: Cathay Life Insurance Company (China) 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 2014 and 2013 and as of 31 December and 1 January 2013

(Expressed in thousands of New Taiwan Dollars)

Items	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Assets				
Cash and cash equivalents	\$301,360	\$289,253	\$342,274	\$615,771
Receivables	146,078	202,001	133,598	79,948
Available-for-sale financial assets	3,592,675	2,863,231	2,720,590	932,943
Loans	11,931	11,456	12,366	9,305
Property and equipment	21,846	6,096	7,451	18,322
Intangible assets	72	119	143	5,742
Other assets	42,757	47,203	50,210	43,714
Total assets	\$4,116,719	\$3,419,359	\$3,266,632	\$1,705,745
Liabilities				
Payables	\$41,690	\$11,837	\$11,865	\$14,581
Insurance liability	422,635	380,516	349,181	305,830
Total liabilities	464,325	392,353	361,046	320,411
Stockholders' equity				
Capital stock	3,424,930	3,424,930	3,424,930	1,940,080
Retained earnings	159,918	38,869	2,755	(81,404)
Others	67,546	(436,793)	(522,099)	(473,342)
Total stockholders' equity	3,652,394	3,027,006	2,905,586	1,385,334
Total liabilities and stockholders' equity	\$4,116,719	\$3,419,359	\$3,266,632	\$1,705,745

Cathay Life Insurance Company (Vietnam)

Condensed Statement of Comprehensive Income

For the three-month periods ended 30 September 2014 and 2013, and for the nine-month periods ended 30 September 2014 and 2013

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

Items	2014.7.1~2014.9.30	2013.7.1~2013.9.30	2014.1.1~2014.9.30	2013.1.1~2013.9.30
Operating income	\$131,557	\$112,056	\$366,556	\$277,932
Operating costs	(25,736)	(29,108)	(73,548)	(67,404)
Operating expenses	(43,021)	(41,931)	(122,901)	(125,987)
Operating profit	62,800	41,017	170,107	84,541
Non-operating income and expenses	141	135	(2,207)	(381)
Profit from continuing operations before income tax	62,941	41,152	167,900	84,160
Income tax expense	(13,818)	-	(46,851)	-
Profit from continuing operations after income tax	49,123	41,152	121,049	84,160
Net income	49,123	41,152	121,049	84,160
Other comprehensive (loss) income	439,780	(87,753)	504,339	(48,757)
Total comprehensive (loss) income	\$488,903	\$(46,601)	\$625,388	\$35,403
Primary earnings per share	Note	Note	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 2014 and 2013 and as of 31 December and 1 January 2013

(Expressed in thousands of New Taiwan Dollars)

Items	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Assets				
Current assets	\$185,393	\$204,339	\$375,193	\$411,418
Investment property	6,673,652	3,011,107	-	-
Property and equipment	656,387	669,348	3,347,933	3,276,008
Other non-current assets	-	-	265	-
Total assets	<u>\$7,515,432</u>	<u>\$3,884,794</u>	<u>\$3,723,391</u>	<u>\$3,687,426</u>
Liabilities				
Current liability	\$682	\$5,559	\$-	\$5,377
Deferred tax liability	82,773	27,256	-	-
Other liability	60,799	13,588	10,188	-
Total liabilities	<u>144,254</u>	<u>46,403</u>	<u>10,188</u>	<u>5,377</u>
Stockholders' equity				
Capital stock	7,223,435	3,773,774	3,773,774	3,773,774
Retained earnings	(58,099)	(112,323)	(161,125)	(57,489)
Others	205,842	176,940	100,554	(34,236)
Total stockholders' equity	<u>7,371,178</u>	<u>3,838,391</u>	<u>3,713,203</u>	<u>3,682,049</u>
Total liabilities and stockholders' equity	<u>\$7,515,432</u>	<u>\$3,884,794</u>	<u>\$3,723,391</u>	<u>\$3,687,426</u>

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

Condensed Statement of Comprehensive Income

For the three-month periods ended 30 September 2014 and 2013, and for the nine-month periods ended 30 September 2014 and 2013

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

Items	2014.7.1~2014.9.30	2013.7.1~2013.9.30	2014.1.1~2014.9.30	2013.1.1~2013.9.30
Operating income	\$38,287	\$2,725	\$206,535	\$2,725
Operating expenses	(20,373)	(31,396)	(66,103)	(99,249)
Operating income (loss)	17,914	(28,671)	140,432	(96,524)
Non-operating income and expenses	74	75	(31,224)	(7,112)
Profit (loss) from continuing operations before income tax	17,988	(28,596)	109,208	(103,636)
Income tax expense	(11,437)	-	(54,985)	-
Profit from continuing operations after income tax	6,551	(28,596)	54,223	(103,636)
Net income (loss)	6,551	(28,596)	54,223	(103,636)
Other comprehensive (loss) income	202,593	(46,921)	28,902	134,790
Total comprehensive (loss) income	<u>\$209,144</u>	<u>\$(75,517)</u>	<u>\$83,125</u>	<u>\$31,154</u>
Primary earnings per share	<u>Note</u>	<u>Note</u>	<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 Insurance Co., Ltd (China)

Condensed Balance Sheet

As of 30 September 2014 and 2013 and as of 31 December and 1 January 2013

(Expressed in thousands of New Taiwan Dollars)

Items	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Assets				
Cash and cash equivalents	\$914,543	\$1,101,188	\$1,135,034	\$405,943
Receivables	194,281	141,935	153,916	141,039
Financial asset at fair value through profit or loss	51,293	139,915	113,616	51,813
Available-for-sale financial assets	1,015,889	842,974	785,629	653,940
Investment in debt securities with no active market	627,627	74,208	72,698	70,112
Reinsurance contract assets	584,085	493,754	378,394	308,462
Property and equipment	68,468	74,974	66,274	44,380
Intangible assets	20,082	18,176	16,474	6,998
Other assets	1,070,887	661,007	649,631	403,365
Total assets	\$4,547,155	\$3,548,131	\$3,371,666	\$2,086,052
Liabilities				
Payables	\$298,430	\$268,756	\$156,109	\$119,446
Insurance liability	2,587,287	2,465,042	2,094,965	1,292,161
Other liability	106,607	114,110	116,692	73,865
Total liabilities	2,992,324	2,847,908	2,367,766	1,485,472
Stockholders' equity				
Capital stock	3,707,999	2,717,129	2,717,129	1,745,942
Retained earnings	(2,318,685)	(2,158,102)	(1,847,033)	(1,265,328)
Others	165,517	141,196	133,804	119,966
Total stockholders' equity	1,554,831	700,223	1,003,900	600,580
Total liabilities and stockholders' equity	\$4,547,155	\$3,548,131	\$3,371,666	\$2,086,052

Cathay Insurance Co., Ltd (China)

Condensed Statement of Comprehensive Income

For the three-month periods ended 30 September 2014 and 2013, and for the nine-month periods ended 30 September 2014 and 2013

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

Items	2014.7.1~2014.9.30	2013.7.1~2013.9.30	2014.1.1~2014.9.30	2013.1.1~2013.9.30
Operating income	\$630,440	\$488,295	\$1,896,044	\$1,192,299
Operating costs	(489,127)	(480,391)	(1,319,041)	(1,117,679)
Operating expenses	(283,876)	(257,096)	(782,453)	(674,443)
Operating loss	(142,563)	(249,192)	(205,450)	(599,823)
Non-operating income and loss	3,552	1,065	44,867	18,118
Loss from continuing operations before income tax	(139,011)	(248,127)	(160,583)	(581,705)
Income tax expense	-	-	-	-
Profit from continuing operations after income tax	(139,011)	(248,127)	(160,583)	(581,705)
Net loss	(139,011)	(248,127)	(160,583)	(581,705)
Other comprehensive income (loss)	50,268	6,620	24,321	13,838
Total comprehensive (loss) income	\$(88,743)	\$(241,507)	\$(136,262)	\$(567,867)
Primary earnings per share	Note	Note	Note	Note

Note : Cathay Century (China) 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 2014 and 2013 and as of 31 December and 1 January 2013

(Expressed in thousands of New Taiwan Dollars)

Items	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Assets				
Cash and cash equivalents	\$24,543	\$95,397	\$120,255	\$245,601
Receivables	57,531	43,082	41,270	34,975
Investment in debt securities with no active market	110,800	82,200	81,000	80,700
Held-to-maturity financial assets	290,260	287,150	251,877	-
Reinsurance contract assets	525,428	174,485	100,620	42,774
Property and equipment	16,786	25,998	28,701	38,271
Intangible assets	1,175	745	2,879	7,434
Other assets	43,910	24,860	21,903	16,766
Total assets	\$1,070,433	\$733,917	\$648,505	\$466,521
Liabilities				
Payables	\$33,991	\$28,970	\$27,354	\$19,796
Liability reserve	633,854	228,948	147,015	68,138
Deferred tax liability	1	1	357	356
Other liability	1,140	1,218	1,041	449
Total liabilities	668,986	259,137	175,767	88,739
Stockholders' equity				
Capital stock	645,585	645,585	645,585	517,502
Retained earnings	(145,841)	(67,778)	(62,917)	(34,576)
Others	(98,297)	(103,027)	(109,930)	(105,144)
Total stockholders' equity	401,447	474,780	472,738	377,782
Total liabilities and stockholders' equity	\$1,070,433	\$733,917	\$648,505	\$466,521

Cathay Insurance Co., Ltd (Vietnam)

Condensed Statement of Comprehensive Income

For the three-month periods ended 30 September 2014 and 2013, and for the nine-month periods ended 30 September 2014 and 2013

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

Items	2014.7.1~2014.9.30	2013.7.1~2013.9.30	2014.1.1~2014.9.30	2013.1.1~2013.9.30
Operating income	\$27,377	\$29,123	\$84,057	\$68,360
Operating costs	(5,559)	(9,166)	(102,878)	(32,242)
Operating expenses	(20,007)	(23,834)	(59,300)	(64,368)
Operating income (loss)	1,811	(3,877)	(78,121)	(28,250)
Non-operating income and expenses	121	(2)	58	(91)
Loss from continuing operations before income tax	1,932	(3,879)	(78,063)	(28,341)
Income tax expense	-	-	-	-
Profit from continuing operations after income tax	1,932	(3,879)	(78,063)	(28,341)
Net income (loss)	1,932	(3,879)	(78,063)	(28,341)
Other comprehensive (loss) income	7,055	(11,807)	4,730	(4,786)
Total comprehensive (loss) income	\$8,987	\$(15,686)	\$(73,333)	\$(33,127)
Primary earnings per share	Note	Note	Note	Note

Note : Cathay Century (Vietnam) is a limited company, there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank Co., Ltd.

Condensed Balance Sheet

As of 30 September 2014 and 2013 and as of 31 December and 1 January 2013

(Expressed in thousands of New Taiwan Dollars)

Items	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Assets				
Cash and cash equivalents	\$119,272,535	\$66,775,540	\$46,588,772	\$33,496,114
Due from the Central Bank and call loans to banks	135,685,170	140,479,847	120,325,240	98,844,688
Financial assets at fair value through profit or loss	133,733,091	162,997,211	145,751,942	67,796,967
Derivative financial assets for hedging	649,783	837,179	1,027,014	1,203,138
Securities purchased under agreements to resell	28,135,430	7,645,763	4,425,564	-
Receivables-net	71,738,164	120,044,971	82,461,240	50,728,353
Assets held for sale -net	-	81,950	-	-
Discounts and loans-net	1,095,558,501	1,013,723,116	955,300,935	986,516,412
Available-for-sale financial assets	68,027,009	67,046,565	63,815,902	63,186,407
Held-to-maturity financial assets	50,374,380	50,711,678	48,308,082	20,542,870
Investments accounted for using the equity method	7,138,089	5,836,126	5,659,178	5,038,973
Other financial assets-net	4,248	22,154	6,903	13,619
Investment in debt securities with no active market-net	366,255,069	280,272,013	393,105,515	424,043,663
Property and equipment-net	22,205,146	22,240,641	22,029,857	21,896,653
Investment property-net	4,295,732	4,479,508	4,491,254	4,439,924
Intangible assets-net	7,025,581	7,045,413	7,071,327	7,164,320
Deferred tax assets	1,159,558	1,456,529	1,521,297	1,550,746
Other assets-net	14,872,019	7,143,444	5,393,090	4,542,369
Total assets	\$2,126,129,505	\$1,958,839,648	\$1,907,283,112	\$1,791,005,216
Liabilities				
Due to the Central Bank and call loans from banks	\$66,897,440	\$50,630,112	\$44,157,385	\$51,891,103
Funds borrowed from the Central Bank and other banks	1,521,800	1,497,500	1,483,500	1,456,800
Financial liabilities at fair value through profit or loss	19,250,262	11,271,187	6,902,171	4,967,738
Securities sold under agreements to repurchase	60,177,562	58,681,600	55,899,348	20,369,249
Payables	19,453,230	14,795,810	14,636,990	21,225,349
Deposits and remittances	1,671,266,795	1,596,302,557	1,569,490,591	1,520,735,366
Financial debentures payable	67,288,890	52,417,213	52,420,588	42,518,631
Other financial liabilities	72,840,621	36,145,158	28,509,455	17,426,191
Liability reserve	2,119,680	2,035,564	2,008,396	2,009,384
Deferred tax liability	770,482	618,631	614,830	634,704
Other liability	4,397,200	4,719,433	4,286,404	4,114,007
Total liabilities	1,985,983,962	1,829,114,765	1,780,409,658	1,687,348,522
Stockholders' equity				
Capital stock	67,112,762	64,668,494	64,668,494	52,277,026
Capital surplus	23,969,412	23,971,498	23,971,498	15,213,292
Retained earnings	46,888,631	39,956,742	37,077,011	34,763,003
Others	2,174,738	1,128,149	1,156,451	1,403,373
Total stockholders' equity	140,145,543	129,724,883	126,873,454	103,656,694
Total liabilities and stockholders' equity	\$2,126,129,505	\$1,958,839,648	\$1,907,283,112	\$1,791,005,216

Cathay United Bank Co., Ltd.

Condensed Statement of Comprehensive Income

For the three-month periods ended 30 September 2014 and 2013, and for the nine-month periods ended 30 September 2014 and 2013

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

Items	2014.7.1~2014.9.30	2013.7.1~2013.9.30	2014.1.1~2014.9.30	2013.1.1~2013.9.30
Interest income	\$9,738,243	\$8,337,838	\$28,558,542	\$24,438,632
Interest expenses	(3,542,458)	(3,095,019)	(10,281,945)	(8,916,333)
Operating profit	6,195,785	5,242,819	18,276,597	15,522,299
Non-interest income	5,600,053	4,186,923	15,803,543	11,693,911
Net income	11,795,838	9,429,742	34,080,140	27,216,210
Bad debt expense and reserve for loss on guarantees	(551,236)	(218,511)	(622,636)	(256,114)
Operating expenses	(5,936,998)	(4,799,317)	(16,076,957)	(13,718,681)
Profit from continuing operations before income tax	5,307,604	4,411,914	17,380,547	13,241,415
Income tax expense	(758,400)	(518,671)	(2,301,600)	(1,587,077)
Profit from continuing operations after income tax	4,549,204	3,893,243	15,078,947	11,654,338
Net income	4,549,204	3,893,243	15,078,947	11,654,338
Other comprehensive income (loss)	132,006	(87,667)	1,047,092	(246,922)
Total comprehensive income	\$4,681,210	\$3,805,576	\$16,126,039	\$11,407,416
Primary earnings per share	\$0.68	\$0.60	\$2.25	\$1.82

English Translation of Financial Statements Originally Issued in Chinese

**Indovina Bank Limited
Condensed Balance Sheet**

**As of 30 September 2014 and 2013 and as of 31 December and 1 January 2013
(Expressed in thousands of New Taiwan Dollars)**

Items	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Assets				
Cash and cash equivalents	\$805,725	\$571,307	\$689,830	\$816,727
Due from the Central Bank and call loans to banks	13,103,154	12,450,373	13,106,116	12,698,859
Financial assets at fair value through profit or loss	78,571	62,346	843,013	140,920
Available-for-sale financial assets	1,013,838	861,559	855,627	768,190
Receivables-net	637,890	793,781	851,353	369,539
Discounts and loans-net	18,132,690	16,301,693	15,997,946	15,808,657
Held-to-maturity financial assets	1,654,456	683,400	959,099	1,126,103
Property and equipment-net	428,714	403,407	331,475	281,343
Intangible assets-net	6,802	5,216	6,605	10,001
Deferred tax assets-net	-	171	11,266	15,769
Other assets-net	455,163	416,020	441,498	353,101
Total assets	\$36,317,003	\$32,549,273	\$34,093,828	\$32,389,209
Liabilities				
Due to the Central Bank and call loans from banks	\$7,563,040	\$7,570,029	\$8,302,213	\$8,116,896
Payables	911,544	427,360	541,061	1,295,180
Current income tax liabilities	75,904	43,062	49,383	26,548
Deposits and remittances	20,616,228	17,453,353	18,360,953	17,219,063
Liability reserve	9,547	-	-	-
Deferred tax liability	46,349	58,961	47,996	19,949
Other liability	101,192	118,528	97,391	75,672
Total liabilities	29,323,804	25,671,293	27,398,997	26,753,308
Stockholders' equity				
Capital stock	6,094,911	6,094,911	6,094,911	5,269,493
Retained earnings	1,117,605	1,141,007	1,018,498	932,848
Others	(219,317)	(357,938)	(418,578)	(566,440)
Total stockholders' equity	6,993,199	6,877,980	6,694,831	5,635,901
Total liabilities and stockholders' equity	\$36,317,003	\$32,549,273	\$34,093,828	\$32,389,209

Indovina Bank Limited

Condensed Statement of Comprehensive Income

**For the three-month periods ended 30 September 2014 and 2013, and for the nine-month periods ended 30 September 2014 and 2013
(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)**

Items	2014.7.1~2014.9.30	2013.7.1~2013.9.30	2014.1.1~2014.9.30	2013.1.1~2013.9.30
Interest income	\$476,276	\$507,094	\$1,440,099	\$1,619,873
Interest expenses	(241,272)	(275,887)	(746,499)	(893,246)
Net interest income	235,004	231,207	693,600	726,627
Non-interest (loss) income	54,644	66,137	109,678	80,660
Net income	289,648	297,344	803,278	807,287
Bad debt expense and reserve for loss on guarantees	(28,857)	(404)	(47,665)	71,295
Operating expenses	(118,160)	(109,107)	(357,842)	(323,424)
Profit from continuing operations before income tax	142,631	187,833	397,771	555,158
Income tax expense	(32,836)	(41,179)	(90,743)	(171,130)
Profit from continuing operations after income tax	109,795	146,654	307,028	384,028
Net income	109,795	146,654	307,028	384,028
Other comprehensive (loss) income	137,526	(65,945)	138,621	147,862
Total comprehensive (loss) income	\$247,321	\$80,709	\$445,649	\$531,890
Primary earnings per share	Note	Note	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 2014 and as of 31 December and 1 January 2013

(Expressed in thousands of New Taiwan Dollars)

Items	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Assets				
Cash and cash equivalents	\$1,308,684	\$909,957	\$603,411	\$678,535
Due from the Central Bank and call loans to banks	686,457	392,546	576,541	519,496
Available-for-sale financial assets	779	766	759	-
Receivables-net	156,071	59,212	54,675	52,289
Discounts and loans-net	2,004,057	1,080,512	1,051,487	858,125
Other financial assets-net	-	-	-	728
Property and equipment-net	140,427	136,791	138,816	136,718
Intangible assets-net	10,878	7,647	8,117	5,971
Other assets-net	209,834	121,802	124,288	27,248
Total assets	\$4,517,187	\$2,709,233	\$2,558,094	\$2,279,110
Liabilities				
Due to the Central Bank and call loans from banks	\$149	\$179,847	\$178,165	\$143
Payables	61,471	52,664	36,013	38,488
Current income tax liabilities	1,087	1,175	-	-
Deposits and remittances	2,832,457	2,104,552	1,938,379	1,819,637
Other liability	800	607	1,448	5,183
Total liabilities	2,895,964	2,338,845	2,154,005	1,863,451
Stockholders' equity				
Capital stock	1,783,202	494,836	494,836	495,312
Retained earnings	(197,298)	(133,869)	(98,824)	(79,552)
Others	35,319	9,421	8,077	(101)
Total stockholders' equity	1,621,223	370,388	404,089	415,659
Total liabilities and stockholders' equity	\$4,517,187	\$2,709,233	\$2,558,094	\$2,279,110

Cathay United Bank (Cambodia) Corporation Limited

Condensed Statement of Comprehensive Income

For the nine-month periods ended 30 September 2014 and 2013

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

Items	2014.1.1~2014.9.30	2013.1.1~2013.9.30
Interest income	\$105,578	\$75,001
Interest expenses	(30,130)	(23,719)
Net interest income (loss)	75,448	51,282
Non-interest income	38,772	40,169
Net income (loss)	114,220	91,451
Bad debt expense and reserve for loss on guarantees	(74,672)	(4,734)
Operating expenses	(101,298)	(110,913)
(Loss) profit from continuing operations before income tax	(61,750)	(24,196)
Income tax (expense) profit	(1,678)	4,944
Profit from continuing operations after income tax	(63,428)	(19,252)
Net loss	(63,428)	(19,252)
Other comprehensive (loss) income	25,898	8,178
Total comprehensive (loss) income	\$(37,530)	\$(11,074)
Primary earnings per share	(\$1.51)	(\$1.49)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Condensed Balance Sheet

As of 30 September 2014 and 2013 and as of 31 December and 1 January 2013

(Expressed in thousands of New Taiwan Dollars)

Items	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Assets				
Current assets	\$18,418,167	\$15,409,801	\$13,620,894	\$14,366,771
Available-for-sale financial assets	18	18	18	18
Investments accounted for using the equity method	1,036,893	988,147	914,759	783,254
Property and equipment	174,494	163,055	154,576	113,495
Intangible assets	52,532	27,861	23,855	12,128
Deferred tax assets	5,480	5,774	5,086	313,808
Other non-current assets	492,316	473,524	477,815	445,340
Total assets	<u>\$20,179,900</u>	<u>\$17,068,180</u>	<u>\$15,197,003</u>	<u>\$16,034,814</u>
Liabilities				
Current liability	\$14,797,258	\$12,000,481	\$10,263,472	\$11,061,728
Deferred tax liability	29,408	253	6,960	317,912
Other non-current liability	10,235	8,353	8,233	7,823
Total liabilities	<u>14,836,901</u>	<u>12,009,087</u>	<u>10,278,665</u>	<u>11,387,463</u>
Stockholders' equity				
Capital stock	4,200,000	3,982,027	3,982,027	3,866,660
Capital surplus	291,766	291,766	291,766	291,766
Retained earnings	648,081	587,576	531,151	479,456
Others	203,152	197,724	113,394	9,469
Total stockholders' equity	<u>5,342,999</u>	<u>5,059,093</u>	<u>4,918,338</u>	<u>4,647,351</u>
Total liabilities and stockholders' equity	<u>\$20,179,900</u>	<u>\$17,068,180</u>	<u>\$15,197,003</u>	<u>\$16,034,814</u>

Cathay Securities Corporation

Condensed Statement of Comprehensive Income

For the three-month periods ended 30 September 2014 and 2013, and for the nine-month periods ended 30 September 2014 and 2013

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

Items	2014.7.1~2014.9.30	2013.7.1~2013.9.30	2014.1.1~2014.9.30	2013.1.1~2013.9.30
Revenues	\$433,536	\$395,630	\$1,340,169	\$1,004,379
Service fee expenses	(19,050)	(14,096)	(53,286)	(33,958)
Employee benefit expenses	(163,633)	(141,562)	(485,619)	(388,220)
Share of the profit of associates and joint ventures accounted for using the equity method	5,133	11,661	23,708	33,252
Operating expenses	(213,272)	(192,306)	(539,199)	(457,261)
Non-operating income and expenses	7,694	2,557	16,713	14,522
Profit from continuing operations before income tax	50,408	61,884	302,486	172,714
Income tax (expense) profit	4,643	450	(24,008)	(5,652)
Profit from continuing operations after income tax	55,051	62,334	278,478	167,062
Net income	55,051	62,334	278,478	167,062
Other comprehensive (loss) income	(14,929)	90,455	5,428	103,925
Total comprehensive (loss) income	<u>\$40,122</u>	<u>\$152,789</u>	<u>\$283,906</u>	<u>\$270,987</u>
Primary earnings per share	<u>\$0.13</u>	<u>\$0.15</u>	<u>\$0.66</u>	<u>\$0.40</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Venture Inc.

Condensed Balance Sheet

As of 30 September 2014 and 2013 and as of 31 December and 1 January 2013

(Expressed in thousands of New Taiwan Dollars)

Items	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Assets				
Current assets	\$686,184	\$398,984	\$188,957	\$663,149
Available-for-sale financial assets	2,295,994	2,370,304	1,777,559	1,207,167
Investments accounted for using the equity method	136,111	64,028	275,880	228,616
Property and equipment	299	479	503	306
Deferred tax assets	9,857	13,325	19,739	18,881
Other non-current assets	836	837	837	680
Total assets	\$3,129,281	\$2,847,957	\$2,263,475	\$2,118,799
Liabilities				
Current liability	\$21,163	\$5,331	\$30,179	\$4,874
Deferred tax liability	8,586	4,704	-	3,216
Other non-current liability	1,880	1,207	1,032	478
Total liabilities	31,629	11,242	31,211	8,568
Stockholders' equity				
Capital stock	2,174,236	2,000,000	2,000,000	2,000,000
Retained earnings	299,296	242,128	134,653	205,204
Others	624,120	594,587	97,611	(94,973)
Total stockholders' equity	3,097,652	2,836,715	2,232,264	2,110,231
Total liabilities and stockholders' equity	\$3,129,281	\$2,847,957	\$2,263,475	\$2,118,799

Cathay Venture Inc.

Condensed Statement of Comprehensive Income

For the three-month periods ended 30 September 2014 and 2013, and for the nine-month periods ended 30 September 2014 and 2013

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

Items	2014.7.1~2014.9.30	2013.7.1~2013.9.30	2014.1.1~2014.9.30	2013.1.1~2013.9.30
Operating income	\$55,142	\$77,042	\$274,354	\$112,241
Operating cost	(3,625)	(4,110)	(11,968)	(11,762)
Operating expenses	(4,153)	(2,604)	(10,440)	(6,993)
Non-operating income and expenses	-	1	2,701	514
Profit from continuing operations before income tax	47,364	70,329	254,647	94,000
Income tax expense	(22,737)	(5,351)	(23,243)	(7,880)
Profit from continuing operations after income tax	24,627	64,978	231,404	86,120
Net income	24,627	64,978	231,404	86,120
Other comprehensive income	41,638	85,804	29,533	192,584
Total comprehensive income	\$66,265	\$150,782	\$260,937	\$278,704
Primary earnings per share	\$0.11	\$0.30	\$1.06	\$0.40

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Investment Trust Co., Ltd.

Condensed Balance Sheet

As of 30 September 2014 and 2013 and as of 31 December and 1 January 2013

(Expressed in thousands of New Taiwan Dollars)

Items	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Assets				
Current assets	\$1,806,091	\$1,681,323	\$1,157,300	\$1,677,761
Available-for-sale financial assets	108,096	143,232	149,802	128,032
Held-to-maturity financial assets	-	-	-	200,000
Investment in debt securities with no active market	-	2,500	415,000	11,250
Investments accounted for using the equity method	277,153	298,036	304,976	-
Property and equipment	14,449	18,466	16,115	19,952
Intangible assets	11,524	15,191	10,307	10,475
Deferred tax assets	9,870	9,614	9,565	9,406
Other non-current assets	294,853	277,676	254,387	244,064
Total assets	\$2,522,036	\$2,446,038	\$2,317,452	\$2,300,940
Liabilities				
Current liability	\$238,802	\$261,437	\$209,027	\$183,517
Other non-current liability	176,758	152,978	113,856	121,447
Total liabilities	415,560	414,415	322,883	304,964
Stockholders' equity				
Capital stock	1,500,000	1,500,000	1,500,000	1,500,000
Capital surplus	13,908	13,908	13,908	13,908
Retained earnings	587,234	500,730	472,852	480,079
Others	5,334	16,985	7,809	1,989
Total stockholders' equity	2,106,476	2,031,623	1,994,569	1,995,976
Total liabilities and stockholders' equity	\$2,522,036	\$2,446,038	\$2,317,452	\$2,300,940

Cathay Securities Investment Trust Co., Ltd.

Condensed Statement of Comprehensive Income

For the three-month periods ended 30 September 2014 and 2013, and for the nine-month periods ended 30 September 2014 and 2013

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

Items	2014.7.1~2014.9.30	2013.7.1~2013.9.30	2014.1.1~2014.9.30	2013.1.1~2013.9.30
Operating income	\$352,338	\$305,204	\$1,002,634	\$933,580
Operating expenses	(240,429)	(218,164)	(648,911)	(635,955)
Operating gross profit	111,909	87,040	353,723	297,625
Non-operating income and expenses	11,284	(12,486)	5,565	(4,022)
Profit from continuing operations before income tax	123,193	74,554	359,288	293,603
Income tax expense	(21,193)	(15,293)	(62,828)	(51,965)
Profit from continuing operations after income tax	102,000	59,261	296,460	241,638
Net income	102,000	59,261	296,460	241,638
Other comprehensive (loss) income	1,791	3,048	(11,651)	5,820
Total comprehensive income	\$103,791	\$62,309	\$284,809	\$247,458
Primary earnings per share	\$0.68	\$0.40	\$1.98	\$1.61

English Translation of Financial Statements Originally Issued in Chinese

Cathay Futures Co., Ltd.

Condensed Balance Sheet

As of 30 September 2014 and 2013 and as of 31 December and 1 January 2013

(Expressed in thousands of New Taiwan Dollars)

Items	2014.9.30	2013.12.31	2013.9.30	2013.1.1
Assets				
Current assets	\$2,929,805	\$2,876,356	\$2,715,692	\$2,516,674
Available-for-sale financial asseets	235,988	222,738	152,592	30,500
Property and equipment	58,045	59,267	58,109	59,026
Investment property	255,423	255,826	255,961	256,364
Intangible assets	9,814	2,212	1,732	1,311
Other non-current assets	171,208	169,110	168,889	151,316
Total assets	<u>\$3,660,283</u>	<u>\$3,585,509</u>	<u>\$3,352,975</u>	<u>\$3,015,191</u>
Liabilities				
Current liability	\$2,657,628	\$2,595,410	\$2,436,272	\$2,230,013
Deferred tax liability	412	412	412	412
Other non-current liability	1,447	1,447	1,447	1,439
Total liabilities	<u>2,659,487</u>	<u>2,597,269</u>	<u>2,438,131</u>	<u>2,231,864</u>
Stockholders' equity				
Capital stock	650,000	650,000	650,000	650,000
Retained earnings	147,680	148,028	145,140	133,327
Others	203,116	190,212	119,704	-
Total stockholders' equity	<u>1,000,796</u>	<u>988,240</u>	<u>914,844</u>	<u>783,327</u>
Total liabilities and stockholders' equity	<u>\$3,660,283</u>	<u>\$3,585,509</u>	<u>\$3,352,975</u>	<u>\$3,015,191</u>

Cathay Futures Co., Ltd.

Condensed Statement of Comprehensive Income

For the three-month periods ended 30 September 2014 and 2013, and for the nine-month periods ended 30 September 2014 and 2013

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

Items	2014.7.1~2014.9.30	2013.7.1~2013.9.30	2014.1.1~2014.9.30	2013.1.1~2013.9.30
Income	\$38,878	\$31,675	\$99,170	\$95,093
Expenses	(40,486)	(34,968)	(108,718)	(101,740)
Operating loss	(1,608)	(3,293)	(9,548)	(6,647)
Non-operating income and expenses	11,033	15,995	39,107	43,754
Profit from continuing operations before income tax	9,425	12,702	29,559	37,107
Income tax expense	(1,037)	(1,040)	(2,593)	(3,852)
Profit from continuing operations after income tax	8,388	11,662	26,966	33,255
Net income	8,388	11,662	26,966	33,255
Other comprehensive income	(1,912)	119,037	12,904	119,704
Total comprehensive income	<u>\$6,476</u>	<u>\$130,699</u>	<u>\$39,870</u>	<u>\$152,959</u>
Primary earnings per share	<u>\$0.12</u>	<u>\$0.18</u>	<u>\$0.41</u>	<u>\$0.51</u>

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Woolgate Exchange Holding 1 Limited
Condensed Balance Sheet
As of 30 September 2014
(Expressed in thousands of New Taiwan Dollars)**

Items	2014.9.30
Assets	
Current assets	\$1,039,725
Investment property	15,232,427
Total assets	<u>\$16,272,152</u>
Liabilities	
Current liability	\$113,308
Total liabilities	<u>113,308</u>
Stockholders' equity	
Capital stock	16,654,013
Retained earnings	(15,433)
Others	(479,736)
Total stockholders' equity	<u>16,158,844</u>
Total liabilities and stockholders' equity	<u>\$16,272,152</u>

**Cathay Woolgate Exchange Holding 1 Limited
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2014**

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

Items	2014.1.1~2014.9.30
Operating income	\$99,481
Operating costs	-
Operating expenses	(115,364)
Operating loss	(15,883)
Non-operating income and loss	450
Loss from continuing operations before income tax	(15,433)
Income tax (expense) profit	-
Profit from continuing operations after income tax	(15,433)
Net loss	(15,433)
Other comprehensive income (loss)	(479,736)
Total comprehensive (loss) income	<u>\$(495,169)</u>
Primary earnings per share	<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 2014
(Expressed in thousands of New Taiwan Dollars)

Items	2014.9.30
Assets	
Current assets	\$10,500
Investment property	153,863
Total assets	<u>\$164,363</u>
Liabilities	
Current liability	\$1,338
Total liabilities	<u>1,338</u>
Stockholders' equity	
Capital stock	168,222
Retained earnings	(355)
Others	(4,842)
Total stockholders' equity	163,025
Total liabilities and stockholders' equity	<u>\$164,363</u>

Cathay Woolgate Exchange Holding 2 Limited
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2014

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

Items	2014.1.1~2014.9.30
Operating income	\$1,005
Operating expenses	(1,364)
Operating loss	(359)
Non-operating income and loss	4
Loss from continuing operations before income tax	(355)
Income tax (expense) profit	-
Profit from continuing operations after income tax	(355)
Net loss	(355)
Other comprehensive income (loss)	(4,842)
Total comprehensive (loss) income	<u>\$(5,197)</u>
Primary earnings per share	<u>Note</u>

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