

**Websites for search:**

<http://mops.twse.com.tw>

<http://www.cathayholdings.com>

**Stock code: 2882**



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

# **2016 Annual Report**

**Dated: April 20, 2017**

**1. Contact Information of Spokesperson:**

	Spokesperson	Deputy Spokesperson
Name/Title	Chung-Yi Teng / Senior Executive Vice President	Grace Chen/Chief Financial Officer David P. Sun/ Senior Executive Vice President
Phone	(02) 2708-7698 Ext.3606	(02) 2708-7698 Ext.7730 (02) 2708-7698 Ext.7790
Email	service@cathayholdings.com.tw	

**2. Contact information of CFH and its Subsidiaries:**

Company	Address	
	Website	Telephone
Cathay Financial Holding Co., Ltd.	No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	
	www.cathayholdings.com	(02) 2708-7698
Cathay Life Insurance Co., Ltd.	No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	
	www.cathayholdings.com/life	(02) 2755-1399
Cathay United Bank Co., Ltd.	No.7, Songren Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)	
	www.cathayholdings.com/bank	(02) 8722-6666
Cathay Century Insurance Co., Ltd.	No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	
	www.cathayholdings.com/insurance	(02) 2755-1299
Cathay Securities Corporation	No. 333 and 335, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	
	www.cathayholdings.com/securities	(02) 2326-9888
Cathay Securities Investment Trust Co., Ltd.	6F., No. 39, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	
	www.cathayholdings.com/funds	(02) 2700-8399
Cathay Venture Inc.	7F., No.68, Sec. 5, Zhongxiao E. Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)	
	None	(02) 7711-9889

**3. Name of Institution for stock transfer, Address, Website and Telephone:**

Institution for stock transfer	Stock Registration, Administrative Division of the Company	Telephone	(02) 2708-7698#9
Website	www.cathayholdings.com	Address	No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)

**4. Name of Institution for stock transfer, Address, Website and Telephone:**

Institution for stock transfer	Address	Telephone
Taiwan Ratings	49th Floor Taipei 101 Tower No.7, Xinyi road, Section 5, Taipei 110, Taiwan, R.O.C.	(02) 8722-5800
Moody's Asia-Pacific Ltd.	24F, One Pacific Place 88 Queensway Admiralty, Hong Kong	852-3758-1300
Standard & Poor's	Unit 1,Level 69,International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong	852-2533-3500

**5. Contact Information of independent accountants:**

Names of Auditors	Bob Chang, James Wang	Telephone	(02) 2757-8888
CPA Office	Ernst & Young	Address	9F, No. 333, Sec. 1, Keelung Road, Xinyi District, Taipei City, Taiwan (R.O.C.)
Website	www.ey.com		

**6. Overseas Listings and Access to the Listing Information:**

Listing Bourse	Luxembourg Stock Exchange
Information Access	Bloomberg

<b>One. Letter to Shareholders</b>	1
<b>Two. Company Profile</b>	5
I. Date of Establishment	5
II. Company Profile	5
<b>Three. Corporate Governance Report</b>	9
I. Organizational Chart	9
II. Board Members, Supervisors and Top Managers from Each Division and Subsidiary	10
III. Remuneration Paid to directors (including independent directors) and presidents and vice presidents, and bonuses paid to employees of the latest fiscal year	21
IV. Corporate Governance	28
V. Professional Fees to the Independent Auditor	38
VI. Information of Independent Auditor replacement	38
VII. The facts about the Company chairman, president, managerial officer in charge of financial or accounting affairs having served with the CPA Office or the affiliation thereof over the past year	38
VIII. Facts about the director or supervisor, managerial office, or a same person or a same affiliated enterprise having held the equity of a same financial holding corporation with voting power exceeding the specified ratio which should be declared under Article 11 of the Managerial Regulations: The facts of equity transfer and change in equity pledge	39
IX. Information of Related Parties of the top ten shareholders	42
X. Total Shareholding Ratio in Each Invested Enterprise	43
<b>Four. Capital Overview</b>	44
I. Capital and Shares	44
II. Issuance of Corporate Bonds	50
III. Issuance of Preferred Shares	50
IV. Issuance of Global Depositary Receipts	52
V. Issuance of Employee Stock Option Plan	53
VI. Issuance of New Restricted Employee Shares	53
VII. Merger and Acquisitions or Transfers of other Financial Institutions	53
VIII. Implementation of the Capital Utilization Plans	54
<b>Five. Overview of Operations</b>	56

I. The content of business	56
II. Cross-business & Cross-selling Benefits	75
III. Industry and Market Overview	76
IV. Employee Profile	82
V. Corporate responsibility and moral conduct	93
VI. Number of employees who are not in supervisor positions, the annual average employee benefit expenses, and the differences comparing to the previous year	99
VII. Information System	100
VIII. Industrial Relations	106
IX. Important contracts and commitments	108
<b>Six. Financial Report</b>	112
I. Five Year Condensed Balance Sheet and Income Statement Summary	112
II. Five Year Financial Analysis	119
III. Audit Report from the Auditing Committee on the Latest Financial Statements	126
IV. Audited consolidated financial reports of the parent and subsidiaries in the most recent year	127
V. In case of insolvency of the financial holding company and its subsidiaries in the most recent year to the date this report was printed, specify the effect on the financial position of the Company:	127
<b>Seven. Review and analysis of financial status and financial performance and risk management</b>	128
I. Analysis of Financial Status	128
II. Analysis of Financial Performance	129
III. Cash flows	130
IV. Major capital expenditures in the most recent year	130
V. The investment Strategy in the most recent year, Main Causes for Profits or Losses, Improvement Plans and the Investment Plans for the Coming Year	130
VI. The analysis and assessment of risk management in the most recent year to the date this report was printed by the analysis of the overall financial position and operation.	131
VII. Special Event Management	145
VIII. Other Major Events	145
<b>Eight. Special Disclosure</b>	146

I. I.Information on Affiliates	146
II. Any private placement of securities in the recent years up to the publication of this annual report.	146
III. The shares in the Financial Holding Company held or disposed of by subsidiaries in the recent years up to the publication of this annual report:	146
IV. Other important supplementary information:	146
V. Events occurred in the previous year or up to the publication of this annual report, which significantly affect shareholders' equity or price of shares pursuant to item2, paragraph 2, article 36 of the Securities and Exchange Act	146
<b>Appendix</b>	
Appendix 1: 2016 Consolidated Financial Statement	147
Appendix 2: 2016 Consolidated Business Report	428
Appendix 3: 2016 Affiliation Report	446

# **One. Letter to Shareholders**

## **I. Business Report for the year 2016**

In fulfillment of our commitment to continual advancement, Cathay Financial Holdings ("Cathay FHC"), Taiwan's largest financial holding company, has as of the end of 2016 accumulated US\$251.08 billion in total assets, indicating the extensive scope of customer trust in and support of Cathay's brand value. Maintaining a steady business performance as the scale of our assets continues to expand is truly challenging. Thanks to the concerted efforts of all of our employees, Cathay FHC still delivered an exceptional performance.

Looking back at 2016, the dramatic changes in the world's political economy, the divergence in the directions of monetary policies implemented by central banks across the world, and the uncertainties that have arisen in the process of global economic recovery have all posed immense challenges to business operations in the financial industry. By means of upholding our strategies for robust management, Cathay FHC turned in outstanding business accomplishments in 2016 with a consolidated after-tax profit of US\$1.48 billion at NT\$3.79 earnings per share contributed primarily by Cathay Life and Cathay United Bank.

Cathay FHC continues to expand its overseas markets in China and Southeast Asia where we integrate regional resources to complete the formulation of our overseas business platform and dedicate to developing Fintech-related applications based on future trends for the establishment of all-new business models. Cathay FHC will persist in its endeavors to provide customers with top-quality financial services, increase profits, optimize risk management practices, and mostly importantly devote ourselves to sustainable management.

### **Cathay Subsidiaries Once Again Deliver Excellent Performance in 2016**

Cathay Life generated a consolidated after-tax profit of US\$933 million for the year. Aside from continuous improvements in its investment performance, Cathay Life also secured its position as the market leader. First-year premium income was US\$6.14 billion for the year. Total premium income was US\$20.68 billion, which is the highest in the industry; first-year premium equivalent, an even better indicator of business value, was US\$4.17 billion, indicating that Cathay Life Insurance remains as the industry leader.

Cathay United Bank recorded consolidated after-tax profit of US\$540 million for the year, while the market positions of both corporate banking and retail banking operations continued to ascend. The Bank's loan balance exceeded US\$44.39 billion, meanwhile the asset quality remained at superior level. Regarding fee income, the Bank topped the chart in all aspects of credit card business operations. In terms of wealth management, the primary aim of which is to enhancing customer satisfaction, Cathay United Bank exhibited unparalleled performance among all domestic financial institutions.

Concerning the performance of other subsidiaries, Cathay Century Insurance was ranked second in the domestic market in terms of premium income. Cathay Securities Investment Trust recorded US\$14.54 billion in assets under management, making it the largest securities investment trust company in Taiwan. Cathay Securities was additionally ranked first in the market in terms of sub-brokerage service; all of its business operations demonstrate steady growth.

### **Continuous Developments in Overseas Markets**

Throughout 2016, Cathay FHC continued to extend its global presence. In China, the official launch of the Cathay United Bank Shenzhen Branch indicates that the Bank has extended its reach into the Pearl River Delta region, while business operations in the North, Central, and South China regions have also been established so as to effectively satisfy the needs of our customers. Our insurance business in China has also exhibited persistent growth. Cathay Lujiazui Life Insurance currently operates 11 offices

(headquarters and branch offices) and 38 sales and service agencies across China, while Cathay Century Insurance has established a total of 26 branch locations. Cathay Century Insurance has moreover in 2016 completed capital injection by engaging Ant Financial Services Group as a strategic investor, a move that is expected to further develop the property insurance market in China.

Concerning our expansion in Southeast Asia, Cathay United Bank has already established overseas offices in nine ASEAN member states, including Vietnam, Cambodia, Singapore, Malaysia, Laos, the Philippines, Thailand, Myanmar, and Indonesia, making Cathay United Bank the most efficiently expanding banking institution with the highest number of offices in the ASEAN market. Concurrently, Cathay Life Insurance also made equity investments in the Philippines and Indonesia to further strengthen the Group's business portfolio; phase 2 of equity acquisition of Bank Mayapada, Indonesia, was completed in 2016, resulting in a total shareholding ratio of 40%. We will continue to strengthen our partnerships, deepen our penetration into the local markets, and capture opportunities for further developments in overseas markets. In anticipation of Southeast Asia's development potential in the insurance business, Cathay Life Insurance and Cathay Century Insurance have established branch offices in major cities of Vietnam, the business operations of which are exhibiting steady growth. As the formation of our overseas operation platform approaches completion, Cathay Financial Holdings expects to be able to take full advantage of the significant growth opportunities in the Asia-Pacific region.

## **Developing Asset Management as Long-Term Strategic Pillar**

Cathay FHC has also progressed in the development of its asset management business. Following Cathay FHC's 100% acquisition of Conning Holdings Corp., Cathay FHC will be further consolidating and developing its business operations to expand its market presence in the realm of asset management. By capitalizing on Conning's presence in the United States and European nations, as well as Cathay FHC's advantages in Greater China, we hope in the long term to establish a global asset management platform.

## **Fulfillment of Corporate Social Responsibility, Attainment of Global and Domestic Acclaim**

With regard to corporate social responsibility, Cathay Financial Holdings has been for two years consecutively selected as a "DJSI Emerging Markets" constituent stock of the Dow Jones Sustainability Index (DJSI), a crucial indicator of corporate sustainability management internationally. The selection testifies to our continuous efforts in practicing corporate sustainability, for which we have begun to receive international recognition. Our performances in information disclosure, corporate governance, and corporate sustainability have all been highly rated and commended by authoritative institutions both locally and internationally. As the first financial institution in Taiwan to have adopted the Equator Principles in 2015, Cathay United Bank was again at the forefront of industry in 2016 with the completion of Taiwan's first Equator Principles compliant offshore wind power financing project implemented in accordance with international standards. Through this project, CUB contributed further to sustainable development by taking concrete action for the realization of financial industry corporate social responsibility.

Cathay FHC attaches great importance to sustainability, and is fully committed to resolving issues in environment, society, and governance (ESG) by incorporating ESG into corporate management and investment decisions. Even though Taiwan, which is not a member of the United Nations, is as yet unable to sign the Principles for Sustainable Insurance (PSI) and the Principles for Responsible Investment (PRI), Cathay FHC remains dedicated to the active implementation of these principles and values initiatively. Cathay FHC strongly believes that the wellbeing of the financial industry is predicated upon a sustainable society and environment. Under these premises, Cathay FHC provides a comprehensive range of products and top-quality services that serve to create lasting value for the company, industry, and society.

Looking forward to 2017, the world remains highly susceptible to political and economic variables. As the economy rebounds, Cathay FHC will monitor and manage latent risks cautiously, continue to achieve business synergies, optimize organizational compositions and business structures, strengthen core product and service capabilities, and strive to provide diverse, innovative, high-quality financial services that fulfill the needs of our extensive customer base. Cathay FHC will also carefully evaluate overseas strategic investment opportunities and extend our global presence by both organic growth and engaging in mergers and acquisitions. By employing the three engines of growth, "Insurance + Banking + Asset Management," as our core development strategy, we will persist in the creation of value for our shareholders and advance toward our vision of becoming "the leading financial institution in the Asia-Pacific region," thereby demonstrating our sincere gratitude and appreciation to the shareholders who have given us their invaluable support over the years.

## **II. 2017 Business Plan**

Based on the core principle of "managing for the long-term," Cathay Financial Holdings aspires to be the most trustworthy and reliable financial holding company and to be a leading financial institution in the Asia-Pacific region. Cathay Financial Holdings is committed to maximizing value for its shareholders, customers and employees. In the face of rapid market changes, e.g. United States presidential election, Brexit, and China economic slowdown, Cathay Financial Holdings stands on strong, solid ground and continues to focus on internal transformation and innovation and outward expansion. Our 2017 business plan is outlined below:

### **(I) Transform the organization and optimize our business structure:**

Guided by the core values of "Integrity, Accountability and Innovation", Cathay Financial Holdings will continue to optimize organizational operations and to implement transformative measures, such as a maintaining a performance-oriented culture, remuneration systems, and talent management, as the basis for sustainable development.

Regarding the optimization of our business structure, each subsidiary is developing digital financial solutions that meet the needs of the younger generations, while continuing improving the service to strengthen our competitive position. We will stresses the importance of creating value and create the digital interface channel to provide more convenient and safer services. At last, each subsidiary will strictly follow the guideline of internal control and comply with the requirements of the FSC.

### **(II) Expand regional operations and achieve the vision of being a leading financial institution in the Asia-Pacific region.**

Guided by our vision of being a leading financial institution in the Asia-Pacific region, Cathay Financial Holdings will continue to expand in China and the AsiaPacific region with equal emphasis on equity investments and acquisitions. Our goal is to connect all our overseas offices to create a platform for trade finance and cash flow management.

Regarding the operations in China, apart from the opening of Shenzhen Branch in 2016, Cathay Financial Holdings will continue to apply for more branches and subsidiary. Combined with our well-established insurance operations and asset management entities in China, Cathay Financial Holdings will consolidate the efforts of the entire financial group to achieve further market expansion.

Concerning our expansion in Southeast Asia, Cathay United Bank has already established overseas offices in nine out of ten ASEAN member states, including Vietnam, Cambodia, Singapore, Malaysia, Laos, the Philippines, Thailand, Myanmar, and Indonesia. In the future, we will continue to enhance the value of this platform and grow in both the Taiwan and overseas markets. Concurrently, Cathay Financial Holdings completed the acquisition of Conning Holdings Corp. in

2015 and built upon this acquisition to create a global asset management platform spanning the U.S., Europe, and Asia. And its development will drive our three engines of growth, "Insurance + Banking + Asset Management".

### III. Our business strategies and impacts of external competition, statutory regulation and macro environment

Under the circumstances that the global economics is still slowly recovering and the profits of domestic banks in general slightly declined in 2016, we shall carefully respond to the economic activities in the future. In addition, competent authority in finance sector has adopted multiple easing measures, relaxed financial regulations, encouraged internationalized development, supported firms to improve product innovation capacity and developed digital financial technologies recently to assist domestic companies to obtain more business opportunities. Looking forward 2017, Cathay Financial Holdings will closely monitor the dynamic of international economy and the trend of major industries, carefully evaluate development opportunities, and aim to maintain stable growth. We will uphold the trio engine of “insurance+banking+asset management” as our development strategy, preserve the core values of “Integrity, Accountability, and Innovation” and work toward the strategic goal of becoming “a leading financial institution in the Asia-Pacific region.”

### IV. Latest Credit Ratings

Rating results summary:

Rating Agency		Cathay Financial Holdings	Cathay Life	Cathay Century Insurance	Cathay United Bank	Cathay Securities
Taiwan	Rating Date	2016.09.29	2016.09.29	2016.09.29	2016.09.29	2016.09.29
	Rating Received	twAA	twAA+	twAA+	twAA+	twAA-
	Rating Outlook	Stable	Stable	Stable	Stable	Stable
Moody's	Rating Date	2016.12.15	2016.12.16	2017.02.24	2016.12.09	None
	Rating Received	Baa2	Baa1	A3	A2	
	Rating Outlook	Stable	Stable	Stable	Stable	
Standard & Poor's	Rating Date	2016.09.29	2016.09.29	2016.09.29	2016.09.29	None
	Rating Received	BBB+	A-	A-	A-	
	Rating Outlook	Stable	Stable	Stable	Stable	

## Two. Company Profile

### I. Date of Establishment

December 31, 2001.

### II. Company Profile

- Cathay Financial Holding Co., Ltd. (hereinafter referred to as the Company or the Group) was founded on December 31, 2001 with paid-in capital of NT\$58.386 billion through a share swap between the Company and Cathay Life Insurance Co., Ltd. (or Cathay Life Insurance) that became a wholly-owned subsidiary of the Company thereafter. All Cathay Life Insurance shares, TAIEX listed, were transferred to the ownership of the Company on the same day.
- In April 2002, Tong Tai Insurance Co., Ltd. (later renamed to Cathay Century Insurance Co., Ltd. or Cathay Century Insurance) and Hui-Tong commercial banks (Later changed to Cathay United Bank Co., Ltd., or Cathay United Bank) jointed the Group as wholly-owned subsidiaries through share swaps. The conversion ratio between Cathay Century Insurance and Cathay United Bank was 4.5 to 1 and 6 to 1 for the latter transaction. After the transaction, the Company's total paid-in capital reached NT\$60.959 billion.
- In May 2002, the Company issued US\$ 700 million in European Convertible Bond (ECB).
- In December 2002, United World Chinese Commercial Bank converted every of its 1.6848 for one share of the Company to become a 100% subsidiary under the Group. After the merger, total paid-in capital reached NT\$ 84.532 billion.
- In January 2003, total paid-in capital was reduced to NT\$ 83.075 billion, followed by the cancellation of treasury stocks for 145.674 million shares.
- In April 2003, the Company invested NT\$ 600 million to establish Cathay Venture Co., Ltd.
- In July 2003, the Company and Cathay Life Insurance issued US\$ 522 million Global Depository Receipts (GDRs) through a conversion of 448.5 million treasury shares.
- In September 2003, the Company acquired 8.33% of Yitai Venture with NT\$ 75 million.
- In October 2003, United World Bank became the surviving entity after its merger with Cathay Bank and changed its name to Cathay United Bank Co., Ltd (Cathay United Bank).
- In April 2004, the Company invested NT\$ 600 million to establish Yitai II Venture Investment Co., Ltd.
- In May 2004, the Company invested NT\$ 3.5 billion to found Cathay Securities Corporation (or Cathay Securities).
- In July 2004, the Company acquired 100% of Yitai Management Consultant Co., Ltd. with NT\$ 16.56 million.
- In November 2004, the Company issued US\$ 495 million GDRs through a conversion of 254.911

million treasury shares.

- In May 2005, the Company injected another NT\$ 150 million into Yitai Venture for its secondary equity offering. The ownership increased to 15% from the original 8.33% after the investment.
- In June 2005, the Company solely participated in Cathay Securities' secondary equity offering of NT\$ 500 million, or NT\$ 25/share for a total of 20 million shares. The securities arm's total paid-in capital, hence, reached NT\$3.7 billion from NT\$ 3.5 billion.
- In 2005, the Company acquired 81.35% of The Lucky Bank through insider transfer and public tender offering. Later in June 2006, Shareholders' meetings from both sides together resolved a conversion ratio of one common share of Cathay Financial Holdings to 3.8392 shares of the bank to make The Lucky Bank a wholly-owned subsidiary under the Group, followed by the Company's Board decision to proceed the share swap in March 2006. Cathay United Bank became the surviving company after the reference merger date of January 01, 2007 based on a decision made in November 2006.
- Rights to convert the ECB into common shares or GDRs became exercisable from October 2004. As of April 30th, 2007, a total of 461.242 million common shares were converted, which made the Company's total paid-in capital NT\$ 92.77 billion. ECB worth of US\$ 13.926 million remained outstanding thereafter.
- All outstanding ECB (US\$ 13.926 million) as of April 16, 2007 were paid off before the expiration day of May 20, 2007.
- In June 2008, the Company solely participated in Cathay Life Insurance's secondary equity offering of NT\$ 15 billion, or NT\$ 75/share for a total of 200 million shares. Total paid-in capital of the insurer thus increased to NT\$ 52.69 billion from NT\$ 50.69 billion.
- In August 2008, the total paid-in capital grew to NT\$ 97.38 billion after stock dividend distributions.
- On December 25, 2008, an investment of NT\$ 15 billion on Cathy Life's preferred share was made through the issuance of the first unsecured subordinated debenture in 2008 (2008-1) for NT\$ 20 billion during the same month. The residual NT\$ 5 billion was kept for working capital of the Company.
- In August 2009, Cathay Venture, Yitai II Venture, Yitai Management Consultant, and Yitai Venture were merged. Cathay Venture was the surviving company.
- In October 2009, to stabilize the ownership, the Company paid NT\$ 925 million for 49.97% of Cathay Venture and incorporated the newly acquired a wholly-owned subsidiary.
- On December 16th, 2009, an investment of NT\$ 10 billion on Cathy Life Insurance's Series-B Preferred Share was made through the issuance of the first unsecured debenture in October 2009 (2009-1) for NT\$ 20 billion during the year. The residual NT\$ 10 billion was kept for future merger/acquisition or capital adequacy ratio improvement.

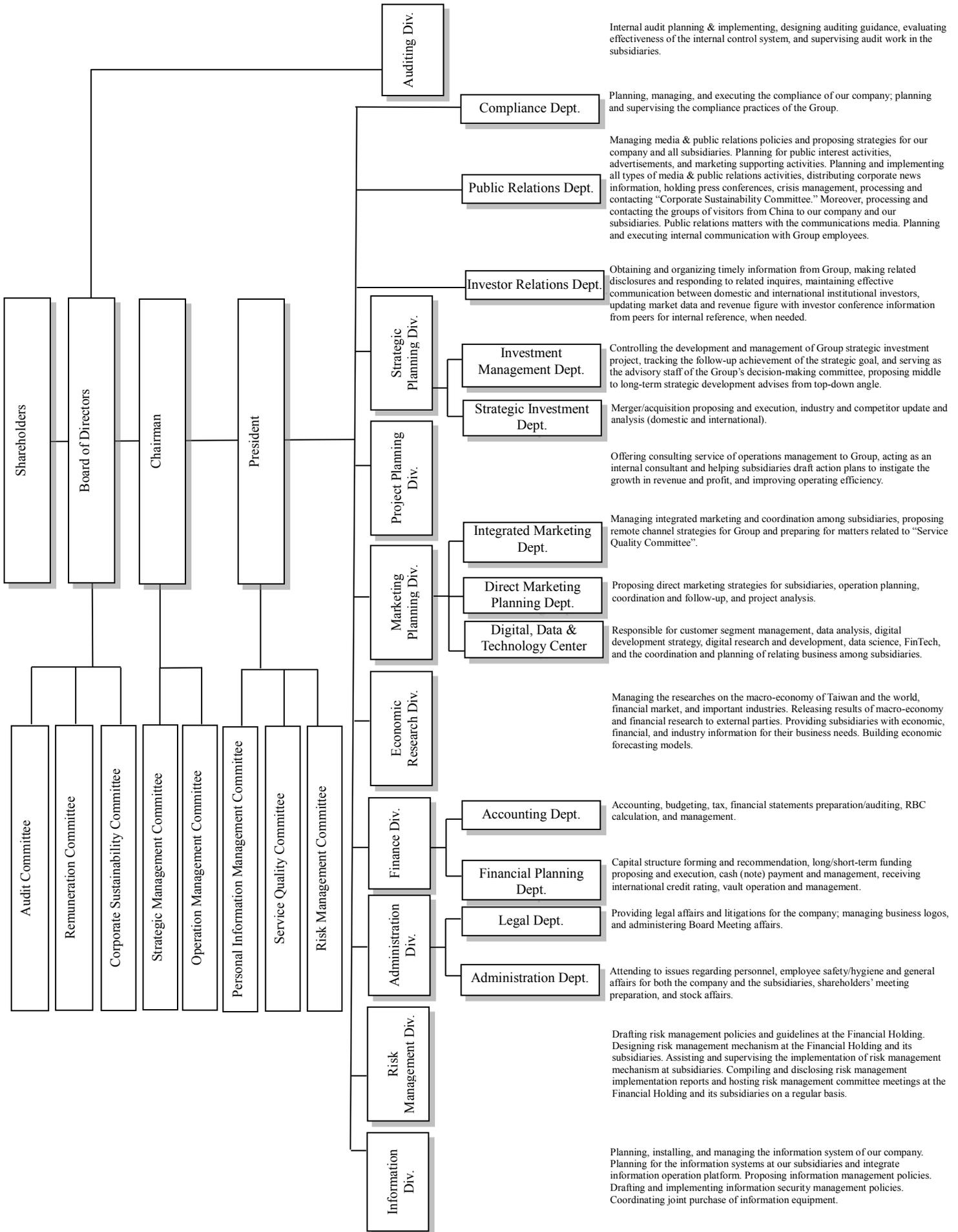
- In October 2009, the total paid-in capital was reduced to NT\$ 96.709 billion, after the cancellation of treasury stocks for 66.66 million shares obtained through the share swap between the Company and the Lucky Bank.
- In September 2010, the total paid-in capital grew to NT\$ 101.54 billion after the distribution of stock dividends.
- In June 2011, the Company paid NT\$ 2.774 billion to acquire the entire Cathay Investment Trust to establish an asset management platform.
- In August 2011, the total paid-in capital grew to NT\$ 103.58 billion after stock dividend distribution.
- In September 2011, the Company injected additional capital of NT\$ 715 million (NT\$ 10/share) to Cathay Investment Trust.
- In September 2011, the Company acquired 9.9% shares of Conning Holdings Corp. for NT\$ 507 million.
- In September 2011, the Company and Conning Holdings Corp. together set up Cathay Conning Asset Management (or CCAM). An investment proceeds of NT\$ 89 million was made to own 50% of the new venture in February 2012.
- In October 2011, the Company bought back 200 million treasury shares (NT\$ 35.9/share in average), for future ECB conversion.
- In July 2012, the Company invested another NT\$ 199.992 million (NT\$ 12/share) on Cathay Securities. Total paid-in capital of the securities arm became NT\$3,866.660 million then.
- In August 2012, the Company issued US\$ 254.4 million ECB that can be later converted to common stocks out of the treasury shares bought back in October 2011.
- In August 2012, the total paid-in capital grew to NT\$ 108.65 billion after stock dividend distribution.
- In January 2013, additional capital of US\$ 1 million (or NT\$ 29 million) was injected to Cathay Conning Asset Management Ltd. Ownership remained 50% after the transaction.
- In May 2013, additional capital of US\$ 2 million (or NT\$ 60 million) was injected to Cathay Conning Asset Management Ltd. Ownership remained 50% after the transaction.
- In September 2013, our company performed a capital raising by cash at \$36 per share. In total, 353 million shares were issued for \$12.708 billion. The paid-in capital of our company increased to NT\$112.18 billion.
- In September 2013, our company became the sole buyer of a stock offering for capital raising by cash of \$12.002 billion at Cathay United Bank. In total, 324,378,000 shares were sold for \$37 per share. After the capital raising, the paid-in capital of the company increased to \$64.67 billion (including increase of capital by appropriating \$9.15 billion of retained earnings in 2013).

- In November 2013, the total paid-in capital grew to NT\$119.65 billion after stock dividend distributions.
- In November 2013, our company redeemed overseas convertible bonds issued in 2012 before maturity date. As of November 28, 2013, those bonds have been fully converted to common shares.
- In August 2014, the total paid-in capital grew to NT\$125.63 billion after stock dividend distributions.
- In October 2014, the Company invested another NT\$700.000 million (NT\$14 per share) on Cathay Securities. Total paid-in capital of the securities arm became NT\$4,700.000 million then.
- In September 2015, the Company sold 9.9% shares of Conning Holdings Corp. to its subsidiary Cathay Life Insurance, with the amount of NT\$710 million. Conning Holdings Corp. became a wholly owned subsidiary of Cathay Life Insurance after the investment was completed.
- In July 2016, the Company invested another NT\$557 million (NT\$13 per share) on Cathay Venture. Total paid-in capital of the venture arm became NT\$3 billion.
- In December 2016, the company issued 833.3 million Series A Preferred Shares in a cash capital increase for \$49.998 billion (\$60 per share). The paid-in capital of our company increased to NT\$133.97 billion.
- In December 2016, the Company subscribed NT\$35 billion of non-cumulative perpetual subordinated debts issued by Cathay Life Insurance.

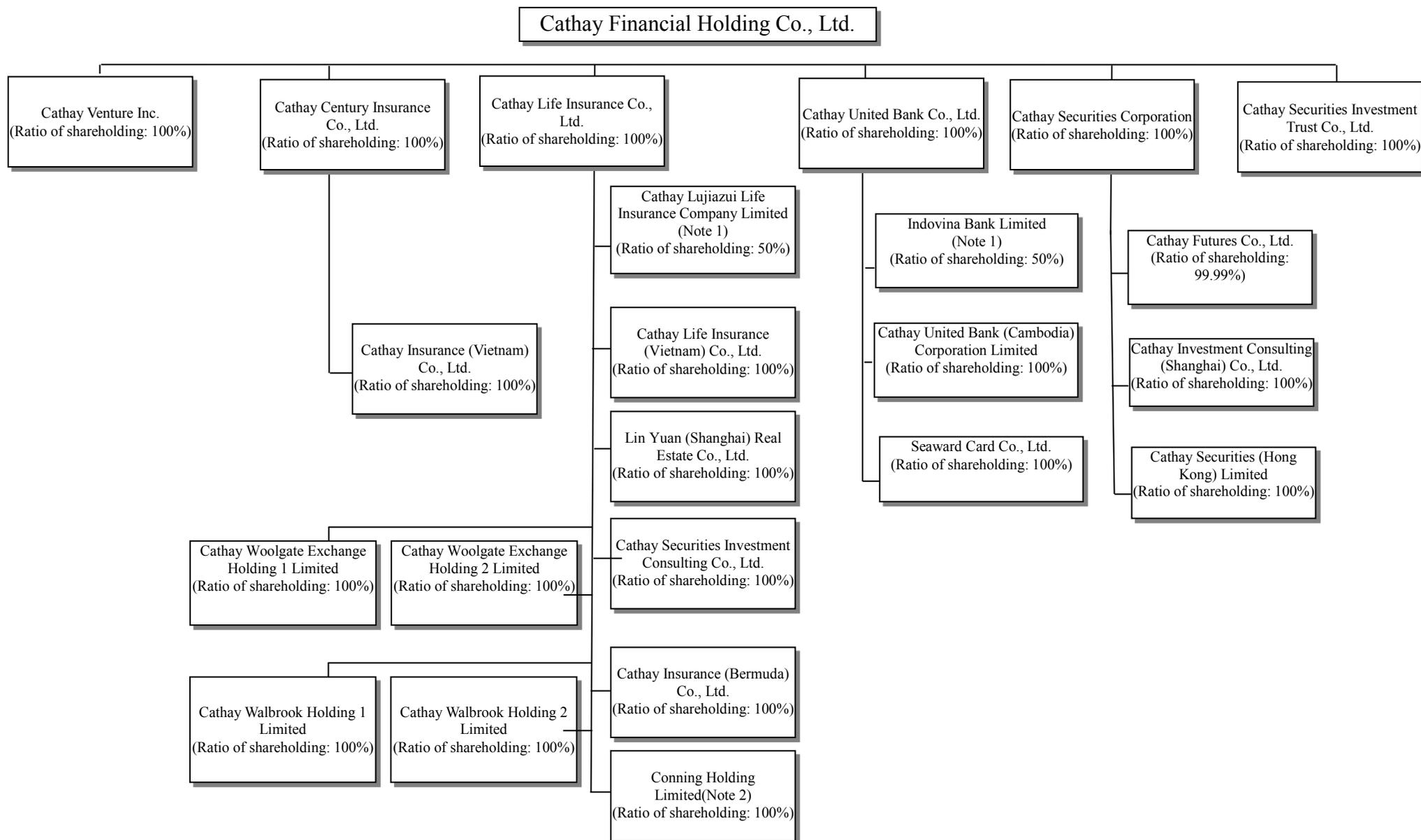
# Three. Corporate Governance Report

## I. Organization

### (I) Organizational Chart and Major Corporate Functions



(II) Organizational Chart of Affiliated Companies



Note 1: A subsidiary other than those referred to in Article 4 of the Financial Holding Company Act.

Note 2: Expressed with the consolidated entity

April 20, 2017

Subsidiary Company	Shares Held by Cathay Financial Holding Co., Ltd.			
	Percentage (%)	Number of shares (thousand shares)	Original Investment (NT\$ thousands)	Book Value (NT\$ thousands)
Cathay Life Insurance Co., Ltd.	100%	5,431,527	82,009,366	337,414,234
Cathay United Bank Co., Ltd.	100%	7,209,981	77,302,226	159,122,788
Cathay Century Insurance Co., Ltd.	100%	320,205	2,570,964	9,636,016
Cathay Securities Corporation	100%	533,000	4,899,992	7,045,113
Cathay Securities Investment Trust Co., Ltd.	100%	150,000	3,488,754	3,797,151
Cathay Venture Inc.	100%	300,000	2,390,881	3,609,896

■ Cross-holdings between the parent company and subsidiaries: None.

## II. Board Members, Supervisors and Top Managers from Each Division and Subsidiary

### (I) Board Members and Supervisors Information (Table 1)

Board Members and Supervisors Information (1)

April 18, 2017

Title (Note 1)	Nationality or Place of Registration	Name	Gender	On-Board Date	Office Term	Date first Elected (Note 2)	Shareholding when Elected			Current Shareholding (Note 4)		The Representative of the Juristic Person, Spouse & Minor Shareholding (Note 4)		Shares held in the name of others (Note 4)		Major Past/Current Position and Education (Note 6)
							Common stock	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	
							Preferred shares	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	
Chairman	R.O.C.	Hong-Tu Tsai	M	2016/6/8	Three years	2001/12/31	45,595,229	0.420%	72,713,489	0.579%	0	0%	0	0%	Chairman, Cathay Life Insurance (J.D., Southern Methodist University, USA)	
							0	0%	3,858,386	0.463%	0	0%	0	0%		
Director	R.O.C.	Cathay Medical Care Corporate Representative: Cheng-Ta Tsai	M	2016/6/8	Three years	2007/6/15	25,148,985	0.200%	25,148,985	0.200%	68,624,464	0.546%	0	0%	Executive Director, Cathay Life Insurance (B.A., Chinese Culture University)	
							0	0%	0	0%	0	0%	0	0%		
Director	R.O.C.	Chen-Sheng Industrial Co., Ltd. Representative: Cheng-Chiu Tsai	M	2016/6/8	Three years	2007/6/15	27,915,093	0.222%	27,915,093	0.222%	853,678	0.007%	0	0%	Chairman, Cathay Century Insurance (M.A., Keio University, Japan)	
							0	0%	0	0%	0	0%	0	0%		
Director	HK	Chia Yi Capital Co., Ltd. Representative: Peter V. Kwok	M	2016/6/8	Three years	2013/6/14	53,084,668	0.423%	53,084,668	0.423%	0	0%	0	0%	Chairman and Chief Executive Officer, CITIC KA WAH Bank Limited; Chairman, CITIC Resources Holdings Limited (Ph.D in Finance, UC Berkeley, USA)	
							0	0%	2,816,824	0.338%	0	0%	0	0%		
Director	R.O.C.	Chia Yi Capital Co., Ltd. Representative: Chi-Wei Joong	M	2016/6/8	Three years	2013/6/14	53,084,668	0.423%	53,084,668	0.423%	4,545	0%	0	0%	President of the Credit Card Center at China Merchants Bank (B.A., Kean College of New Jersey, USA)	
							0	0%	2,816,824	0.338%	0	0%	0	0%		
Director	R.O.C.	Cathay Medical Care Corporate Representative: Tsu-Pei Chen	M	2016/6/8	Three years	2007/6/15	25,148,985	0.200%	25,148,985	0.200%	147,463	0.001%	0	0%	Chairman, Cathay United Bank (B.A., National Chengchi University)	
							0	0%	0	0%	0	0%	0	0%		

Title (Note 1)	Nationality or Place of Registration	Name	Gender	On-Board Date	Office Term	Date first Elected (Note 2)	Shareholding when Elected			Current Shareholding (Note 4)		The Representative of the Juristic Person, Spouse & Minor Shareholding (Note 4)		Shares held in the name of others (Note 4)		Major Past/Current Position and Education (Note 6)
							Common stock	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	
							Preferred shares	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	
Director	R.O.C.	Cathay Life Insurance Co., Ltd. Employees' Welfare Committee Representative: Tiao-Kuei Huang	M	2016/6/8	Three years	2001/12/31 (Note 5)	34,590,372	0.275%	34,590,372	0.275%	307,907	0.002%	0	0%	Vice Chairman, Cathay Life Insurance (M.S., National Tsing Hua University)	
							0	0%	0	0%	16,337	0.002%	0	0%		
Director	R.O.C.	Cathay Life Insurance Co., Ltd. Employees' Welfare Committee Representative: Chang-Ken Lee	M	2016/6/8	Three years	2010/6/18	34,590,372	0.275%	34,590,372	0.275%	124,729	0.001%	0	0%	President, Cathay United Bank (M.B.A., University of Pennsylvania, USA)	
							0	0%	0	0%	5,000	0.001%	0	0%		
Director	R.O.C.	Cathay Life Insurance Co., Ltd. Employees' Welfare Committee Representative: Ming- Ho Hsiung	M	2016/6/8	Three years	2007/6/15	34,590,372	0.275%	34,590,372	0.275%	58,692	0%	0	0%	President, Cathay Life Insurance (M.S., University of Iowa, USA)	
							0	0%	0	0%	25,000	0.003%	0	0%		
Independent Director	R.O.C.	Min-Houng Hong	M	2016/6/8	Three years	2007/6/15	0	0%	0	0%	0	0%	0	0%	Chairman, SinoPac Financial Holdings; Chairman, Panasonic Taiwan Co., Ltd. (Ph.D. in EE of Michigan State University, USA)	
							0	0%	0	0%	0	0%	0	0%		
Independent Director	R.O.C.	Feng-Chiang Miao	M	2016/6/8	Three years	2016/6/8	0	0%	0	0%	0	0%	0	0%	Chairman, MiTAC Holdings Corporation (M.B.A., Santa Clara University, USA ; Electrical Engineering BA, UC Berkeley, USA)	
							0	0%	0	0%	0	0%	0	0%		
Independent Director	R.O.C.	Tsing-Yuan Hwang	M	2016/6/8	Three years	2007/6/15	0	0%	0	0%	0	0%	0	0%	Executive Officer & Head of Asia and Oceania, Daiwa Securities SMBC Co., Ltd.; Director, First Financial Holdings; Director, Hon Hai Precision Industry Co., Ltd. (Ph.D. Candidate, Business Graduate School, Nihon University, Japan)	
							0	0%	0	0%	0	0%	0	0%		

Note 1: For representatives of institutional shareholders, the name of the institutional shareholder should be noted and filled in Chart 1 below.

Note 2: Fill in "the Date of First Elected of the financial holdings' directors and supervisors" and footnote any discontinuation.

Note 3: The Company has established an audit committee in lieu of a supervisor since 06/15/2007 according to Article #14-4 of the Securities and Exchange Act.

Note 4: Data baseline date: 04/18/2017.

Note 5: Director Tiao-Kuei Huang served as director of the Company from December 31, 2001 to February 18, 2008 and again from June 30, 2011 to June 7, 2016.

Note 6: Experiences related with current position. Detailed job title and the working responsibilities should be described if previously worked for the auditing accounting firm or its affiliated company.

Chart 1: Major Shareholders of Institutional Shareholders

April 18, 2017

Institutional Shareholders (Note 1)	Major Shareholders of Institutional Shareholders (Note 2)
Chen-Sheng Industrial Co., Ltd.	Cheng-Chiu, Tsai (77.17%), sung-Hsun Tsai (18.18%)
Chia Yi Capital Co., Ltd.	Wan Pao Development Co., Ltd. (60.07%), Lin Yuan Investment Co., Ltd (39.93%)
Cathay Life Insurance Co., Ltd. Employees' Welfare Committee	Non-company organization (Not applicable)
Cathay Medical Care Corporate	Non-company organization (Not applicable)

Note 1: For directors and supervisors who are representatives of institutional shareholders, the name of the institutional shareholder should be filled.

Note 2: Fill in the major shareholders (top-10 shareholdings) of the institutional shareholders and their individual holding percentage. Fill in Chart 2 below, if the major shareholders are institutions/corporate.

Chart 2: Major Shareholders of the Entities from Chart 1 that Are Institutions/Corporate

April 18, 2017

Institutional Shareholders (Note 1)	Major Shareholders of Institutional Shareholders (Note 2)
Lin Yuan Investment Co., Ltd.	Chia Yi Capital Co., Ltd. (19.75%), Tung Chi Capital Co., Ltd. (19.69%), Liang-Ting Industrial Co., Ltd. (17.74%), Wan Pao Development Co., Ltd. (14.81%), Wan Ta Investment Co., Ltd. (13.01%), Pai Hsing Investment Co., Ltd. (9.45%), Chen-Sheng Industrial Co., Ltd. (3.54%), Tzung-Lien Industrial Co., Ltd. (2.01%)
Wan Pao Development Co., Ltd.	Tung Chi Capital Co., Ltd. (19.96%), Chia Yi Capital Co., Ltd. (19.85%), Liang-Ting Industrial Co., Ltd. (17.85%), Lin Yuan Investment Co., Ltd. (14.70%), Wan Ta Investment Co., Ltd. (12.89%), Pai Hsing Investment Co., Ltd. (9.18%), Chen-Sheng Industrial Co., Ltd. (3.57%), Tzung-Lien Industrial Co., Ltd. (2.00%)

Note 1: The name of the institutional shareholder should be filled in for an institutional investor, like that in Chart 1.

Note 2: Fill in the major shareholders (top-10 shareholdings) of the institutional shareholders and their individual holding percentage.

## Directors and Supervisors Information (2)

Name	Criteria	Possess at least Five Years' Work Experience and Meet One of the Following Professional Qualification Requirements			Independence Criteria (Note 1)										Name of other Taiwanese Companies currently Serves as an independent Director (Note 2)
		An instructor of Commerce, Law Finance, Accounting, or other fields related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist who possessed National Exam Certificate in profession necessary for the business of the company	Work experience in areas of commerce, law, finance, or accounting necessary for the business of the company	1	2	3 (Note 3)	4 (Note 3)	5 (Note 3)	6 (Note 3)	7	8	9	10	
Hong-Tu Tsai			✓	✓				✓	✓	✓		✓	✓		
Cheng-Ta Tsai			✓	✓				✓	✓	✓		✓			
Cheng-Chiu Tsai			✓	✓		✓		✓	✓	✓		✓			
Peter V. Kwok			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓			
Chi-Wei Joong			✓	✓		✓	✓	✓	✓	✓	✓	✓			
Tsu-Pei Chen			✓	✓		✓	✓	✓	✓	✓	✓	✓			
Tiao-Kuei Huang			✓	✓		✓	✓	✓	✓	✓	✓	✓			
Chang-Ken Lee			✓			✓	✓	✓	✓	✓	✓	✓			
Ming-Ho Hsiung			✓			✓	✓	✓	✓	✓	✓	✓			
Min-Houng Hong			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	
Feng-Chiang Miao			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	
Tsing-Yuan Hwang			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3	

Note 1: Directors or supervisors who, during the two years before being elected or during the term of office, meet any of the following situations, please tick (✓) the appropriate corresponding boxes.

- (1) Not an employee of the company or any of its affiliates.
- (2) Not a director or supervisor of an affiliate of the Company (this does not apply to independent directors of the Company or its Parent company or subsidiaries established in accordance with the Securities and Exchange Act or local laws and regulations).
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names in an aggregate amount of 1% or more than the total outstanding shares of the Company or ranked in the top-10 holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of an institutional shareholder that directly holds 5% or more of the total outstanding shares of the Company or that holds shares ranked in the top-five holdings.
- (6) Not a director, supervisor, officer, or shareholder holding 5% or more of the total outstanding shares of a specified company or institution that has a financial or business relationship with the Company.
- (7) Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any subsidiaries of the Company, or a spouse thereof. This does not include members from a remuneration committee who exercises his/her power based on Article 7 of Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded over the Counter.
- (8) Not a relative within the second degree of kinship to any other director of the company.
- (9) Not been a person of any conditions defined in Article 30 of the Company Act.
- (10) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

Note 2: Calculation is made per Order No. Financial-Supervisory-Securities-1-0960010070 of the Financial Supervisory Commission, Executive Yuan.

Note 3: Data baseline date: 04/18/2017.

**(II) Management Team Information (Table 1-1)**

February 24, 2017

Title (Note 1)	Nationality	Name	On-Board Date	Gender	Number of shares held			Shares held by spouses, minor children			Shares held in the name of others			Education and Major Past/Current Position (Note 2)	Selected Current Positions at Other Companies	Managers who are Spouses or a Second-degree Relative of Consanguinity to each other		
					Common stock	Number of shares	Ratio of shareholding	Common stock	Number of shares	Ratio of shareholding	Common stock	Number of shares	Ratio of shareholding			Title	Name	Relationship
					Preferred shares	Number of shares	Ratio of shareholding	Preferred shares	Number of shares	Ratio of shareholding	Preferred shares	Number of shares	Ratio of shareholding					
President	R.O.C.	Chang-Ken Lee	2011/02/25	M	124,729	0.001%	0	0%	0	0%	M.B.A., University of Pennsylvania, USA	Managing Director, Development International Investment ; Director, Cathay United Bank, Cathay Securities Corporation, Cathay Charity Foundation, Culture and Charity Foundation of the CUB, Cathay Medical Care Corporate, Joint Credit Information Center, Taiwan Real-estate Management; Supervisor, the Banker Association of Taipei.	None	None	None			
					5,000	0.001%	0	0%	0	0%								
Chief Auditor	R.O.C.	Chih-Jung Kung	2016/08/05	M	37,233	0%	0	0%	0	0%	E.M.B.A., China Europe International Business School	None	None	None	None			
					0	0%	0	0%	0	0%								
Chief Financial Officer	R.O.C.	Grace Chen	2004/01/09	F	39,368	0%	0	0%	0	0%	M.B.A., National Chengchi University	Director, Culture and Charity Foundation of the CUB, Taiwan Finance, Ann Fong Co.; Supervisor, Taipei Forex Inc., Taipei Foreign Exchange Market Development Foundation	None	None	None			
					25,000	0.003%	0	0%	0	0%								
Senior Executive VP	USA	David P. Sun	2008/02/01	M	7,168	0%	0	0%	0	0%	M.B.A. & M.S., Harvard University, USA	Chairman, Cathay Securities Investment Consulting; Director, Cathay United Bank (Cambodia), Cathay Charity Foundation, Conning Holdings Limited	None	None	None			
					5,000	0.001%	0	0%	0	0%								
Chief Investment Officer	R.O.C.	Sophia Cheng	2012/07/23	F	9,737	0%	0	0%	0	0%	M.S., Golden Gate University, USA	None	None	None	None			
					0	0%	0	0%	0	0%								
Senior Executive VP	R.O.C.	Chung-Yi Teng	2013/05/01	M	14,809	0%	0	0%	0	0%	M.B.A., M.I.T., USA/M.S. Statistics, National Tsinghua University	Senior Executive Vice President, Cathay United Bank; Director, Cathay United Bank, Seaward Card Co., Ltd., Cathay United Bank (Cambodia), Taiwan Star Telecom	None	None	None			
					0	0%	0	0%	0	0%								

Title (Note 1)	Nationality	Name	On-Board Date	Gender	Number of shares held			Shares held by spouses, minor children			Shares held in the name of others			Education and Major Past/Current Position (Note 2)	Selected Current Positions at Other Companies	Managers who are Spouses or a Second-degree Relative of Consanguinity to each other		
					Common stock	Number of shares	Ratio of shareholding	Common stock	Number of shares	Ratio of shareholding	Common stock	Number of shares	Ratio of shareholding			Title	Name	Relations hip
					Preferred shares	Number of shares	Ratio of shareholding	Preferred shares	Number of shares	Ratio of shareholding	Preferred shares	Number of shares	Ratio of shareholding					
Chief Risk Officer	R.O.C.	Po-Tsang Hsieh	2013/05/01	M	183,768	0.001%	21,846	0%	0	0%	B.B.A., Chinese Culture University	Senior Executive Vice President, Cathay United Bank; Director, Cathay United Bank	None	None	None			
					34,751	0.004%	1,159	0%	0	0%								
Chief Information Officer	R.O.C.	Chia-Sheng Chang	2015/04/01	M	0	0%	0	0%	0	0%	Ph. D., Weatherhead School of Management at Case Western Reserve University, USA	Chairman, Symphox Information	None	None	None			
					0	0%	0	0%	0	0%								
Senior Executive VP	R.O.C.	Jian-Hsing Wu	2016/01/18	M	0	0%	18,975	0%	0	0%	M.S., Tamkang University	Senior Executive Vice President, Cathay United Bank; Director, Cathay United Bank	None	None	None			
					24,000	0.003%	0	0%	0	0%								
Senior Executive VP	R.O.C.	Shang-Chi Liu	2016/07/26	M	14,493	0%	0	0%	0	0%	E.M.B.A., National Taiwan University	Senior Executive Vice President, Cathay Life Insurance; Director, Cathay United Bank, Cathay Venture	None	None	None			
					25,000	0.003%	0	0%	0	0%								
Executive VP	R.O.C.	Tsung-Hsien Tsai	2014/06/25	M	0	0%	0	0%	0	0%	M.S. in Electronic Engineering, Harvard University, USA	Director, Cathay United Bank, Cathay Century Insurance	Chairman	Hong-Tu Tsai	Paternity			
					0	0%	0	0%	0	0%								
Executive VP	R.O.C.	Deh-Yen Weng	2011/06/29	F	12,812	0%	0	0%	0	0%	M.B.A., Massachusetts Institute of Technology, USA	None	None	None	None			
					5,000	0.001%	0	0%	0	0%								
Executive VP	R.O.C.	Shu-Ying Wu	2013/05/01	F	532	0%	1,467	0%	0	0%	M.B.A., Michigan State University, USA	Executive Vice President, Cathay United Bank	None	None	None			
					0	0%	0	0%	0	0%								
Executive VP	R.O.C.	Ta-Ching Hung	2013/12/28	M	20,524	0%	0	0%	0	0%	M.B.A., National Chengchi University	Executive Vice President, Cathay Life Insurance	None	None	None			
					25,000	0.003%	0	0%	0	0%								
Executive VP	R.O.C.	Hsiao-Yuan Ching	2015/02/07	F	3,243	0%	0	0%	0	0%	M.S. Actuarial Science, University of Iowa, USA	None	None	None	None			
					0	0%	0	0%	0	0%								
Executive VP	R.O.C.	Chao-Hsiang Lin	2015/02/07	M	2,031	0%	0	0%	0	0%	M.B.A., National Chengchi University/M.B. A., Peking University, China	Executive Vice President, Cathay Life Insurance	None	None	None			
					0	0%	0	0%	0	0%								

Title (Note 1)	Nationality	Name	On-Board Date	Gender	Number of shares held			Shares held by spouses, minor children			Shares held in the name of others			Education and Major Past/Current Position (Note 2)	Selected Current Positions at Other Companies	Managers who are Spouses or a Second-degree Relative of Consanguinity to each other		
					Common stock	Number of shares	Ratio of shareholding	Common stock	Number of shares	Ratio of shareholding	Common stock	Number of shares	Ratio of shareholding			Title	Name	Relations hip
					Preferred shares	Number of shares	Ratio of shareholding	Preferred shares	Number of shares	Ratio of shareholding	Preferred shares	Number of shares	Ratio of shareholding					
Chief Compliance Officer	R.O.C.	Judie Hsu	2015/03/25	F	781	0%	0	0%	0	0%	LLM, University of London, School of Oriental and African Studies	Chief Compliance Officer, Cathay United Bank	None	None	None			
					0	0%	0	0%	0	0%								
Executive VP	R.O.C.	Ching-Yuan, Kung	2015/11/01	M	0	0%	0	0%	0	0%	M.B.A., Carlson School, University of Minnesota	Executive Vice President, Cathay United Bank	None	None	None			
					0	0%	0	0%	0	0%								
Executive VP	R.O.C.	Francis Peng	2016/01/29	M	6,491	0%	31,399	0%	0	0%	M.B.A., National Central University	Executive Vice President, Cathay United Bank; Director, Rizal Commercial Banking Corporation	None	None	None			
					10,000	0.001%	0	0%	0	0%								
Executive VP	R.O.C.	Hsiang-Hsin Tsai	2012/12/21	F	9,395	0%	0	0%	0	0%	M.B.A., Thunderbird School of Global Management, USA	Executive Vice President, Cathay United Bank	None	None	None			
					6,000	0.001%	0	0%	0	0%								
Executive VP	R.O.C.	Ching-Lu Huang	2016/04/28	M	10,970	0%	67	0%	0	0%	M.S., National Tsinghua University	Executive Vice President, Cathay Life Insurance	None	None	None			
					7,000	0.001%	5,000	0.001%	0	0%								
Senior VP	R.O.C.	Huan-Chen Chang	2009/03/05	M	75,162	0%	1,357	0%	0	0%	B.B.A., National Chung Hsing University	None	None	None	None			
					0	0%	0	0%	0	0%								
Senior VP	R.O.C.	Chang-Chao Liao	2009/04/06	M	13,718	0%	0	0%	0	0%	LL.B., National Chengchi University	None	None	None	None			
					0	0%	0	0%	0	0%								
Senior VP	R.O.C.	Shan-Chih Liu	2010/09/15	M	7,886	0%	12,606	0%	0	0%	M.B.A., Massachusetts Institute of Technology, USA	None	None	None	None			
					4,000	0%	0	0%	0	0%								
Senior VP	R.O.C.	Fu-Min Wang	2013/02/07	M	15,086	0%	0	0%	0	0%	B.A., Soochow University	Senior Vice President, Cathay Life Insurance	None	None	None			
					5,800	0.001%	0	0%	0	0%								
Senior VP	R.O.C.	Chen-Tung Chang	2013/03/13	M	38,531	0%	14,806	0%	0	0%	M.B.A., National Chiayi University	Senior Vice President, Cathay United Bank	None	None	None			
					24,000	0.003%	0	0%	0	0%								

Title (Note 1)	Nationality	Name	On-Board Date	Gender	Number of shares held			Shares held by spouses, minor children			Shares held in the name of others			Education and Major Past/Current Position (Note 2)	Selected Current Positions at Other Companies	Managers who are Spouses or a Second-degree Relative of Consanguinity to each other		
					Common stock	Number of shares	Ratio of shareholding	Common stock	Number of shares	Ratio of shareholding	Common stock	Number of shares	Ratio of shareholding			Title	Name	Relations hip
					Preferred shares	Number of shares	Ratio of shareholding	Preferred shares	Number of shares	Ratio of shareholding	Preferred shares	Number of shares	Ratio of shareholding					
Senior VP	R.O.C.	Shao-Ling Weng	2013/11/12	F	0	0%	0	0%	0	0%	M.B.A., National Cheng Kung University	None	None	None	None			
					3,000	0%	0	0%	0	0%								
Senior VP	R.O.C.	Gwang-Ying She	2014/04/01	F	110	0%	0	0%	0	0%	M.B.A., Oregon State University, USA	None	None	None	None			
					0	0%	0	0%	0	0%								
Senior VP	R.O.C.	Sheng-Hsiung Tsai	2015/02/07	M	0	0%	0	0%	0	0%	M.B.A., National Taiwan University	None	None	None	None			
					0	0%	20,000	0.002%	0	0%								
Senior VP	R.O.C.	Chin-Chi Chen	2015/02/07	M	0	0%	0	0%	0	0%	M.A. Economics, National Taiwan University	None	None	None	None			
					0	0%	0	0%	0	0%								
Senior VP	R.O.C.	Xu-Jie Yao	2015/11/20	M	0	0%	0	0%	0	0%	M.I.T. SLOAN Business	Senior Vice President, Cathay United Bank	None	None	None			
					0	0%	0	0%	0	0%								
Senior VP	R.O.C.	Yu-Lung Huang	2016/01/29	M	0	0%	0	0%	0	0%	M.B.A., National Kaohsiung First University of Science and Technology	Senior Vice President, Cathay Life Insurance	None	None	None			
					0	0%	0	0%	0	0%								
Senior VP	R.O.C.	Hua-Hsin Yang	2016/07/26	M	0	0%	0	0%	0	0%	M.B.A., Rutgers, USA	None	None	None	None			
					0	0%	0	0%	0	0%								

Note 1: This should include all Presidents, Executive Vice Presidents, Senior Vice Presidents, and those who hold the equivalent positions (regardless the job titles), as well as, key managers from each department and branch entity, must be disclosed.

Note 2: Experiences related with current position. Detailed job title and the working responsibilities should be described if previously worked for the auditing accounting firm or its affiliated company.

Note 3: Shareholding as of the book closing date of 04/18/2017.



## Remuneration Range

Remuneration Paid to Directors by Range	Director Name			
	Total Remuneration from (A+B+C+D)		Total Remuneration from (A+B+C+D+E+F+G)	
	Cathay Financial Holdings (Note 8)	Consolidated subsidiaries (Note 9)H	Cathay Financial Holdings (Note 8)	Consolidated subsidiaries (Note 9) I
Under NT\$2,000,000	Hong-Tu Tsai, Cheng-Ta Tsai, Cheng-Chiu Tsai, Tsu-Pei Chen, Chang-Ken Lee, Tiao-Kuei Huang, Ming-Ho Hsiung, Jeff Chang, Yu-Tsai Tsai	Hong-Tu Tsai, Cheng-Ta Tsai, Chang-Ken Lee, Ming-Ho Hsiung, Yu-Tsai Tsai	Hong-Tu Tsai, Cheng-Ta Tsai, Cheng-Chiu Tsai, Tsu-Pei Chen, Tiao-Kuei Huang, Ming-Ho Hsiung, Jeff Chang, Yu-Tsai Tsai	Hong-Tu Tsai, Cheng-Ta Tsai, Yu-Tsai Tsai
NT\$2,000,000 ~ NT\$5,000,000	Peter V. Kwok, Chi-Wei Joong, Feng-Chiang Miao, Andrew Ming-Jian Kuo	Peter V. Kwok, Chi-Wei Joong, Feng-Chiang Miao, Andrew Ming-Jian Kuo	Peter V. Kwok, Chi-Wei Joong, Feng-Chiang Miao, Andrew Ming-Jian Kuo	Peter V. Kwok, Chi-Wei Joong, Feng-Chiang Miao, Andrew Ming-Jian Kuo
NT\$5,000,000 ~ NT\$10,000,000	Min-Houng Hong, Tsing-Yuan Hwang	Cheng-Chiu Tsai, Min-Houng Hong, Tsing-Yuan Hwang	Min-Houng Hong, Tsing-Yuan Hwang	Cheng-Chiu Tsai, Min-Houng Hong, Tsing-Yuan Hwang
NT\$10,000,000 ~ NT\$15,000,000	None	Jeff Chang	None	Jeff Chang
NT\$15,000,000 ~ NT\$30,000,000	None	Tsu-Pei Chen, Tiao-Kuei Huang	Chang-Ken Lee	Tsu-Pei Chen, Tiao-Kuei Huang
NT\$30,000,000 ~ NT\$50,000,000	None	None	None	Ming-Ho Hsiung, Chang-Ken Lee
NT\$50,000,000 ~ NT\$100,000,000	None	None	None	None
Over NT\$100,000,000	None	None	None	None
Total	15	15	15	15

Note 1: Directors name must be shown separately (for institutional directors, both the institution and the representative are required). All compensation paid must be added together. For directors who are also presidents or executive vice presidents at the Company or the subsidiaries, Chart (3-1) or (3-2) below must be filled in.

Note 2: This includes salary, compensation for professional services, severance pay, and all bonus and bounties paid to the director during the year.

Note 3: This refers to filling in director's profit sharing of the latest fiscal year proposed and resolved by the Board.

Note 4: Payments to the director to cover business expenses (including travel expenditures, allowances, reimbursements, accommodation, company cars, in-kind supplies, etc.) If residences, cars (or other transportations) or personal expenses are provided, information about the assets (including classification, cost, actual or fair market values of the rent, gasoline expenses, other perks) must be disclosed but not included in the remuneration. Compensation paid to personal drivers must be noted, when applicable, but not accumulated under the remuneration received. Total compensation paid to the pertinent drivers by the Group companies in the consolidated statement was NT\$ 2,742 thousand for the period.

Note 5: Payments to the director, who is also a president, executive vice president, manager, or employee, to cover business expenses (including travel expenditures, allowances, reimbursements, accommodation, company cars, in-kind supplies, etc.) If residences, cars (or other transportations) or personal expenses are provided, information about the assets (including classification, cost, actual or fair market values of the rent, gasoline expenses, other perks) must be disclosed but not included in the remuneration. Compensation paid to personal drivers must be noted, when applicable, but not accumulated under the remuneration received. Total compensation paid to the pertinent drivers by the Group companies in the consolidated statement was NT\$ 1,425 thousand for the period. Salary expenses recognized in accordance with IFRS 2 "Share-based Payment" include acquisition of employee stock warrants, new restricted employee shares, and participation in capital increases by cash subscription, which shall all be calculated as remuneration.

Note 6: A person receiving employee remuneration (stock and cash bonus) to the director, (including concurrently serving as a president, executive vice president, other manager, or employee)

shall disclose the rewarding amount proposed and resolved by the Board (If cannot be estimated, the distribution amount of this year shall be determined by the actual distribution ratio of last year). Table 1-3 shall be filled in.

Note 7: Total remuneration paid by the Group companies (including the Company) in the consolidated report to the director.

Note 8: Disclose remuneration paid by the Company to the director under the suitable range. Name of the receiver must be shown under the suitable range.

Note 9: Disclose remuneration paid by the Group companies (including the Company) in the consolidated report to the director under the suitable range. Name of the receiver must be shown under the suitable range.

Note 10: Net income disclosed from the latest financial statement of each company.

Note 11: a. Remuneration amount received by directors from Non-group affiliates.

b. For remuneration received by Company directors from non-group subsidiaries, the amount must be shown in the Column I under the Remuneration Range Table. The Column must be renamed to "All Investment Businesses."

c. Remuneration refers to compensation, remuneration (including remuneration to employees, directors and managers), and rewards related to business execution expenses received by directors of the Company serving as directors of non-group subsidiaries investment business.

\* Remuneration shown under the chart is for disclosure purpose. It is not subject to "income" under the Income Tax Act, and thereby is not taxable.

**(II) Remuneration Paid to Presidents and Executive Vice Presidents**

December 31, 2016; Unit: NT\$ thousand

Title	Name (Note 1)	Salary (A) (Note 2)		Pension upon retirement (B)		Bonuses & Allowance Paid (C) (Note 3)		Amount of Employee remuneration (D) (Note 4)				Sum of A, B, C and D as percentage of Net Income (%) (Note 8)		Compensation Received by Directors from Affiliates not under the Group (Note 9)
		Cathay Financial Holdings	Consolidated subsidiaries (Note 5)	Cathay Financial Holdings	Consolidated subsidiaries (Note 5)	Cathay Financial Holdings	Consolidated subsidiaries (Note 5)	Cathay Financial Holdings		Consolidated subsidiaries (Note 5)		Cathay Financial Holdings	Consolidated subsidiaries (Note 5)	
								Cash Amount	Stock Amount	Cash Amount	Stock Amount			
President	Chang-Ken Lee	70,273	141,772	19,337	19,337	60,429	124,701	504	0	504	0	0.32%	0.60%	677
Chief Auditor	Chih-Jung Kung													
Chief financial Officer	Grace Chen													
Senior Executive VP	David P. Sun													
Chief Investment Officer	Sophia Cheng													
Senior Executive VP	Chung-Yi Teng													
Chief Information Officer	Chia-Sheng Chang													
Chief Risk Officer	Po-Tsang Hsieh													
Senior Executive VP	Jian-Hsing Wu													
Senior Executive VP	Shang-Chi Liu													
Executive VP	Tsung-Hsien Tsai													
Executive VP	Deh-Yen Weng													
Executive VP	Shu-Ying Wu													
Executive VP	Chun-Chi Hsu													
Executive VP	Hsiao-Yuan Ching													
Executive VP	Ching-Yuan, Kung													
Executive VP	Chao-Hsiang Lin													
Executive VP	Ta-Ching Hung													
Executive VP	Hsiang-Hsin Tsai													
Executive VP	Francis Peng													
Executive VP	Ching-Lu Huang													
Former Chief Auditor Ching-Ming Pan resigned on August 5, 2016														
Former Senior Executive VP Tzung-Han, Tsai resigned on July 26, 2016														
Former Senior Executive VP Alan Le resigned on June 28, 2016														
Former Executive Vice President Yu-Chin, Cheng resigned on August 11, 2016														
Former Executive Vice President Chih-Fong Wang resigned on August 11, 2016														

\* All personnel who hold positions equivalent to president or executive vice president (such as chairman, executive, business director, etc) must be disclosed.

## Remuneration Range

Remuneration Paid to all Presidents & Executive Vice presidents by Range Remuneration Range	President & Executive Vice President Name	
	Cathay Financial Holdings (Note 6)	Consolidated subsidiaries (Note 7) (E)
Under NT\$2,000,000	Chih-Jung Kung, Po-Tsang Hsieh, Shang-Chi Liu, Ching-Yuan, Kung, Chao-Hsiang Lin, Ta-Ching Hung, Francis Peng, Ching-Lu Huang, Yu-Chin, Cheng, Chih-Fong Wang	None
NT\$2,000,000 ~ NT\$5,000,000	Jian-Hsing Wu, Chun-Chi Hsu, Hsiao-Yuan Ching, Hsiang-Hsin Tsai	Chih-Jung Kung, Chun-Chi Hsu, Hsiang-Hsin Tsai
NT\$5,000,000 ~ NT\$10,000,000	Grace Chen, Chia-Sheng Chang, Tsung-Hsien Tsai, Deh-Yen Weng, Shu-Ying Wu, Tzung-Han, Tsai, Alan Lee	Chia-Sheng Chang, Po-Tsang Hsieh, Tsung-Hsien Tsai, Deh-Yen Weng, Shu-Ying Wu, Hsiao-Yuan Ching, Ching-Yuan, Kung, Chao-Hsiang Lin, Ta-Ching Hung, Ching-Lu Huang, Yu-Chin, Cheng, Chih-Fong Wang
NT\$10,000,000 ~ NT\$15,000,000	David P. Sun, Chung-Yi Teng	Grace Chen, David P. Su, Jian-Hsing Wu, Shang-Chi Liu, Francis Peng
NT\$15,000,000 ~ NT\$30,000,000	Chang-Ken Lee, Sophia Cheng, Ching-Ming Pan	Sophia Cheng, Chung-Yi Teng, Ching-Ming Pan, Tzung-Han Tsai, Alan Lee
NT\$30,000,000 ~ NT\$50,000,000	None	Chang-Ken Lee
NT\$50,000,000 ~ NT\$100,000,000	None	None
Over NT\$100,000,000	None	None
Total	26	26

Note 1: Names of the presidents and executive vice presidents must be shown separately. For directors who are also presidents or executive vice presidents at the Company or the subsidiaries, Chart (1-1) or (1-2) above must be filled in.

Note 2: This includes salary, compensation for professional services, severance pay, and all bonus and bounties paid to the director during the year.

Note 3: Payments to presidents or executive vice presidents to reward or cover business expenses (including travel expenditures, allowances, reimbursements, accommodation, company cars, in-kind supplies, etc.) If residences, cars (or other transportations) or personal expenses are provided, information about the assets (including classification, cost, actual or fair market values of the rent, gasoline expenses, other perks) must be disclosed but not included in the remuneration. Compensation paid to personal drivers must be noted, when applicable, but not accumulated under the remuneration received. Total compensation paid to the pertinent drivers by the Group companies in the consolidated statement was NT\$ 6,159 thousand for the period. Salary expenses recognized in accordance with IFRS 2 "Share-based Payment" include acquisition of employee stock warrants, new restricted employee shares, and participation in capital increases by cash subscription, which shall all be calculated as remuneration.

Note 4: Employee remuneration amount (stock and cash; if cannot be estimated, the distribution amount of this year shall be determined by the actual distribution ratio of last year) to the president or the executive vice president. The rewarding amount is proposed and resolved by the Board of the fiscal years. Table 1-3 shall be filled in.

Note 5: Aggregated amount of individual compensation paid by the Group companies (including the Company) in the consolidated statement to the president or executive vice president.

Note 6: Aggregated amount of individual compensation paid by the Company to the president or executive vice president. Names of the receivers must be shown under the suitable range.

Note 7: Aggregated amount of individual compensation paid by the Group companies (including the Company) in the consolidated statement to the president or executive vice president. Names of the receivers must be shown under the suitable range.

Note 8: Net income disclosed from the latest financial statement of each company.

Note 9: a. Remuneration amount received by the president or executive vice president from affiliates of the subsidiaries.  
b. For remuneration received by the president or executive vice president from affiliates of the subsidiaries, the amount must be shown in the Column E under the Remuneration Range Table. The Column must be renamed to "All Investee Companies."  
c. Remuneration refers to compensation, remuneration (including remuneration to employees, directors and supervisors), and rewards related to business execution expenses received by Presidents and Executive Vice Presidents of the Company serving as directors, supervisors, or managers of non-group subsidiaries investment business.

Note 10: Based on the Company laws and articles of incorporation, the Company has set up a compensation policy of officers and managers, which includes monthly salary, performance bonus, and retirement benefits. The monthly salary is determined by taking into account the job duty, performance and competence, as well as the industry compensation benchmark. Furthermore, the policy is proposed by the Chairman, audited by the Remuneration Committee, and taken effect after the Board's approval.

\* Remuneration shown under the chart is for disclosure purpose. It is not subject to "income" under the Income Tax Act, and thereby is not taxable.

**(III) Employee Remuneration Distributed to Managers and Distribution Situation (Table 1-3)**

December 31, 2016; Unit: NT\$ thousand

	Title (Note 1)	Name (Note 1)	Stock Amount (Note 2)	Cash Amount (Note 2)	Total	Total as a Percentage of Net Income (%)
Manager (Note 3)	President	Chang-Ken Lee	0	792	792	0.0017%
	Chief Auditor	Chih-Jung Kung				
	Chief financial Officer	Grace Chen				
	Senior Executive VP	David P. Sun				
	Chief Investment Officer	Sophia Cheng				
	Senior Executive VP	Chung-Yi Teng				
	Chief Information Officer	Chia-Sheng Chang				
	Chief Risk Officer	Po-Tsang Hsieh				
	Senior Executive VP	Jian-Hsing Wu				
	Senior Executive VP	Shang-Chi Liu				
	Executive VP	Tsung-Hsien Tsai				
	Executive VP	Deh-Yen Weng				
	Executive VP	Shu-Ying Wu				
	Executive VP	Chun-Chi Hsu				
	Executive VP	Hsiao-Yuan Ching				
	Executive VP	Ching-Yuan, Kung				
	Executive VP	Chao-Hsiang Lin				
	Executive VP	Ta-Ching Hung				
	Executive VP	Hsiang-Hsin Tsai				
	Executive VP	Francis Peng				
	Executive VP	Ching-Lu Huang				
	Senior Vice President	Chang-Chao Liao				
	Senior Vice President	Shan-Chih Liu				
	Senior Vice President	Sheng-Hsiung Tsai				
	Senior Vice President	Huan-Chen Chang				
	Senior Vice President	Chin-Chi Chen				
	Senior Vice President	Fu-Min Wang				
	Senior Vice President	Chen-Tung Chang				
Senior Vice President	Hua-Hsin Yang					
Senior Vice President	Xu-Jie Yao					
Senior Vice President	Yu-Lung Huang					
Senior Vice President	Gwang-Ying She					
Senior Vice President	Shao-Ling Weng					

Note 1: Individual name and title must be disclosed, but the profit sharing awarded may be shown as an aggregated number.

Note 2: Employee remuneration amount (stock and cash) to managers. The rewarding amount is proposed and resolved by the Board of the fiscal years. If cannot be estimated, the distribution amount of this year shall be determined by the actual distribution ratio of last year. Net income disclosed from the latest financial statement of each company.

Note 3: Managers subject to the rewarding (according to per March 27, 2003 Letter No. Securities and Futures Bureaus-III-0920001301 of the Financial Supervisory Commission, Executive Yuan of the Taiwan Stock Exchange Corporation) are:  
(1) president or their equivalents; (2) executive vice president or their equivalents; (3) Division Head or their equivalents; (4) chief financial officer; (5) chief accounting officer; and (6) other persons authorized to manage affairs and sign documents on behalf of a company.

Note 4: For directors, presidents, and executive vice presidents who received Employee remuneration (including stock and cash bonus), Table 1-2 must be filled in other than this chart.

**(IV) A Company that has had an insufficient director shareholding percentage for 3 consecutive months or longer during the most recent fiscal year shall disclose the remuneration of individual directors:**

None.

**(V) A Company that has had an average ratio of share pledging by director supervisors in excess of 50 percent in any 3 months during the most recent fiscal year shall disclose the remuneration paid to each individual director supervisor having a ratio of pledged shares in excess of 50 percent for each such month:**

None.

**(VI) If the total amount of remuneration received by all of the directors and supervisors in their capacity as directors or supervisors of all of the companies listed in the financial reports exceeds 2 percent of the net income after tax, and the remuneration received by any individual director or supervisor exceeds NT\$15 million, the Company shall disclose the remuneration paid to that individual director or supervisor:**

None.

**(VII) Compare respectively the ratio of the total amount of the remuneration paid to directors (including independent directors), general manager and vice general managers of the Company and all companies covered in the consolidated financial statements in the past two years to after-tax net income shown through the individual or respective financial statements along with explanations of the policies, standards and composition for remuneration payment, procedures to fix remunerations and the interrelationship between the business performance and future risks**

1. The Company paid remuneration paid to directors (including independent directors), president and executive vice presidents exactly on the grounds of their functions and general salary payroll criteria, with reference to the results of performance evaluation.
2. Total remuneration paid during 2016 and 2015 was 413,129 thousand dollars and 298,256 thousand dollars respectively, and the percentage of the after-tax net income during 2016 and 2015 was 0.87% and 0.52% respectively.
3. Based on the Company laws and articles of incorporation, the Company has set up a compensation policy of officers and managers, which includes monthly salary, performance bonus, and retirement benefits. The monthly salary is determined by taking into account the job duty, performance and competence, as well as the industry compensation benchmark. Furthermore, the policy is proposed by the Chairman, audited by the Remuneration Committee, and taken effect after the Board's approval.

## IV. Implementation of Corporate Governance

**Implementation of Corporate Social Responsibility (CSR) : The systems, measures and implementation by the Company toward Environmental Protection, Communities Participation, Social Contributions, Social Services, Social Welfare, Consumer Interests, Human Rights, Safety & Health affairs and others corporate social responsibility. (Table 2-2-2)**

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
<p>I. Implementation of Corporate Governance</p> <p>(I) Whether the Company has defined corporate social responsibility policies within the Company; the progress and effectiveness of such policies?</p>	✓		<p>(I) A. In order to implement CSR and promote the balance and sustainable development for economy, society and ecology, the Company established “Cathay Financial Holdings Corporate Social Responsibility Committee” in 2011. In order to cope with the CSR issue that is increasingly important in the world, the Company transformed the aforementioned Committee into “Cathay Financial Holdings Corporate Sustainability Committee” after approved by the Chairman in 2014 and by the board in 2015. Meanwhile, the Company also amended the organizational regulations of the Committee and “Principles Governing Corporate Sustainability of Cathay Financial Holdings” pursuant to the latest version of “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” for the Company and businesses run by each subsidiary and overall operation to follow.</p> <p>B. In order to improve the planning and management of corporate sustainability, the corporate sustainability committee of the Company is under the board after adjustment, and the performance of corporate sustainability will be reviewed periodically in the board. Our Chairman assigned the Presidents of Cathay Financial Holding Co., Ltd. and its subsidiaries to serve as the Committee members of the “Corporate Social Responsibility Committee.” The Committee is summoned every season to study and work out a variety of policies to fulfill the social responsibilities and superintend performance in implementation by the subsidiaries of the Corporation.</p>	No significant difference
<p>(II) Whether the Company holds corporate social responsibility (CSR) education training periodically?</p>			<p>(II) The CSR education training of the Company is divided into internal training and external training. Internal training is conducted through our colleagues reporting the CSR trends to high ranking managers every season in the Committee. External experts will be invited to give a speech in the topic of corporate sustainability, and the speech is open to internal colleagues. As for the external training, the Company instantly follows information of education training through responsive unit, such as the classes held periodically by “Center for Corporate Sustainability.” The Company will assign personnel from key departments to participate.</p>	

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
(III) Whether the Company establishes a dedicated unit (concurrently engaged in) to promote corporate social responsibility under supervision by the high-rank management authorized by the Board of Directors who shall be responsible for reporting the status thereof to the Board of Directors?	✓		(III)  A. The Company’s Corporate Sustainability Committee stipulates the “Organizational Principles Governing Corporate Sustainability Committee” pursuant to Article 4 of “Principles Governing Corporate Sustainability of Cathay Financial Holdings.” The Committee is under the board. There is one Director served by the General Manager of the Company, and the members of Committee are served by General Managers of all subsidiaries. The Committee will report significant matters to the board once every six months.  B. To carry out the work the Committee established “secretariat” in each subsidiary, which is responsible for corporate sustainability business. In addition, six task forces, covering Responsible Investment”, “Sustainable Governance”, “Responsible Products”, “Employee Happiness”, “Green Operation”, and “Social Mutual Prosperity”, were formed by staff from the Company and all subsidiaries. The Committee held four meetings in 2016 to verify the operational status.	No significant difference
(IV) Whether the Company sets reasonable salary remuneration policy, combines employee performance evaluation system with the corporate CSR policy, and establishes clear and effective reward and punishment system?			(IV) The Company stipulates that the “Regulations Governing Employee Salary and Remuneration Payment”, “Regulations Governing Employee Performance Management and Development”, and “Regulations Governing Rewards and Punishments to Employees.” The company will also inspect the salary of individual employee every year in accordance with the performance and external market situation.  In order to encourage colleagues of all companies to promote corporate sustainability, “Cathay Financial Holdings Corporate Sustainability Committee” established reward mechanism to praise colleagues who are meritorious in implementing corporate sustainability. The reward is to add points to the performance evaluation. In addition, the Committee also assigns specialized department in each company, in which the business of corporate sustainability will be included into the functions of the department.	
II. Fostering a Sustainable Environment (I) Whether the Company enhances to upgrade the efficient use of available resources, and the use of environmental-friendly materials?	✓		(I)  1. Actively coping with the “Regulation of Self-Governance Statutes Governing Energy Saving and Carbon Deduction Counseling and Management of Industry and Business in Taipei”, the Company maintains the average temperature of the air-conditioner in the office above 26 °C.  2. During working days, the lighting Control System automatically turns off the lights in 12:30-13:00 and in after hours. Specialized personnel are in charge of controlling elevators in office hours and lunch break to reduce electricity consumption.	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
(II) Whether the Company establishes environmental policies suitable for the Company's industry characteristics?	✓		<p>3. Promote paperless office, adopting electronic official document system and e-mail to handle business connections and reduce paper usage.</p> <p>4. Comprehensively procure FSC copy papers, use soy inks to print important publications as well as to promote double printing, use recycled paper to print documents that are not important, discarded documents are sent to professional paper plants, and destroyed in order to provide recycled paper pulp.</p> <p>5. Procurement of energy saving products and equipment with Green Mark is the first priority. The Company has been awarded excellent "Green Procurement Enterprise" award by Department of Environmental Protection, Taipei City Government from 2010-2015. At least NT\$150 million per year is spent on purchasing energy saving products and equipment starting from 2017.</p> <p>6. Solar energy branches were established, which are Cathay United Bank Tainan Branch and Kaohsiung Mingchen Branch, in 2013.</p> <p>7. In 2014, the Company was awarded the 23rd "ROC Enterprises Environmental Protection Award – Bronze Prize" by the Environmental Protection Administration (the first financial institution who wins the award).</p> <p>8. In 2015, the newly constructed A3 plaza adopted green building design, and the Company was awarded "Gold Certification" by the Ministry of the Interior and "Golden Certification" by Leadership in Energy and Environment Design (LEED) of U.S. Green Building Council.</p> <p>9. In 2016, Cathay United Bank-Mingchen Branch was awarded Silver Certification of "Kaohsiung City Electro-Optical Smart Building Certification."</p> <p>10. We encourage our colleagues to bring their own cups to meetings and entirely stop using cup water to reduce the impact on the environment.</p> <p>11. Respond to the government policy to increase the capacity of solar energy devices, and the goal in 2017 is to increase at least 1800 KW.</p> <p>12. A rainwater recovery system, which started to operate in 2016, has been established in Cathay Landmark, and a reclaimed water recovery system has also established in the "Cathay Taoyuan Industry Dedicated Area", and the system is expected to officially operate by the end of 2017. All 434 offices, branches and posts of 9 companies including the Cathay Financial Holdings and its subsidiaries and grandson companies will conduct "water inspection operations" in 2018.</p> <p>(II)</p> <p>1. The Company stipulated "Regulations Governing Energy Saving and Carbon Reduction Operation" in 2010, effectively increasing the resource usage efficiency and reducing impact of the Company's operation on natural environment.</p> <p>2. By the end of 2011, the Company established "Cathay Financial Holdings Corporate Social Responsibility Committee", and the "Environmental Protection Team" is responsible for implementing environmental protection policy. The</p>	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
(III) Whether the Company is aware of the impact of climate change to operation activities as well as to implement inspection of greenhouse gas and formulate strategies for energy saving and carbon reduction and greenhouse gas reduction of the Bank?	✓		<p>Company also assigned energy saving and carbon reduction specialized personnel, who is in charge of promoting energy saving and carbon reduction measures.</p> <p>3. By the end of 2014, “Cathay Financial Holdings Corporate Social Responsibility Committee” is officially renamed “Cathay Financial Holdings Corporate Sustainability Committee”, which is under the board. The “Green Operation Team” is responsible for operation management and supply chain management, and actively participates in external green initiatives.</p> <p>(III)</p> <ol style="list-style-type: none"> <li>1. The Company has been actively responded to Carbon Disclosure Project (CDP) since 2006. The overall disclosure performance of the respond in 2014 was graded 85C, but 95C in 2015.</li> <li>2. The Company has responded to the “Voluntarily Energy Saving Signing Meeting for Financial, Catering, and Shoe Industry Groups” since 2012, and 5% of energy was saved in three years. The Company promoted total 27 voluntarily energy saving measures and saved 777,239 kWh.</li> <li>3. In 2013, the Company was the first company in financial industry to sign the “Greenhouse Gas Reduction Management Declaration for Cathay Financial Holdings and all Subsidiaries”, and the Company launched a three-year greenhouse gas inspection and passed British Standards Institution (BSI) ISO14064-1 inspection.</li> <li>4. All subsidiaries have been introduced in ISO50001 energy management system and ISO14001 environment management system one after another since 2013, setting up the best model of enterprise pole in financial industry as well as implementing energy saving and environment standardized management.</li> <li>5. There were 12 buildings passed the certification for energy and environment management system between 2014 and 2015. The Group sets the energy saving target at 1.5% every year.</li> <li>6. By the end of 2015, the “Green Operation Team” of Cathay Financial Holdings Corporate Sustainability Committee held a meeting and resolved that “greenhouse gas inspection operation” will be carried out in 46 operation locations of 9 companies of subsidiaries and grandson subsidiaries of Cathay Financial Holdings.</li> <li>7. In 2016, Green Operation Working Group under Cathay FHC Corporate Sustainability Committee decided to complete GHG inventory of the group representing 434 operational sites in Taiwan and set a goal of reducing carbon emissions by 5% by 2021, with 2016 as the base year.</li> </ol>	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
<p>III. Preserving Public Welfare</p> <p>(I) Whether the Company establishes the related management policies and procedures in accordance with the relevant laws and international human right conventions?</p> <p>(II) Whether the Company establishes any employee complaining mechanism and channel, and takes care of the complaint adequately?</p> <p>(III) Whether the Company provides the existence of a safe and healthy work environment; regular safety and health training to company employees?</p> <p>(IV) Whether the Company establishes the mechanism for periodic communication with employees, and notification to employees of the circumstances which might materially affect the operation in a reasonable manner?</p> <p>(V) Whether the Company establishes some effective career development training plan for employees?</p>	✓		<p>(I) To increase the respect and support from the Company and staff, the Company stipulated “Ethical Behavior Guidelines”, “Employee Code of Conduct”, and “Regulations Governing Reporting Illegal and Unethical or Dishonest Behavior Cases.” The Company also adopted with relevant laws and regulations to amend and publicly announced “Work Rules.” In addition, the content of regulations provided by labor laws is included into the inspection items in the regular law compliance self-assessment operation in order to ensure the compliance of labor laws and international human rights.</p> <p>(II) The Company established complete and clear employee complaint mechanism and channels as well as classified and protected the complainant or personnel participated in investigation to prevent them from receiving unequal treatments or retaliation. The Company stipulated the aforementioned measure in “Ethical Behavior Guidelines”, “Employee Code of Conduct”, and “Regulations Governing Reporting Illegal and Unethical or Dishonest Behavior Cases”, as well as publicly disclosing complaint channels on the Company’s official website and in the annual report.</p> <p>(III) To ensure a safe working environment to guarantee employee personal safety, the Group already established the following measures:</p> <ol style="list-style-type: none"> <li>1. First-aid personnel are required to take the related professional training. First-aid kits are provided in all working locations.</li> <li>2. Regular tests for illumination and carbon level of working environment.</li> <li>3. Health checkups and pre-job safety and health training for new hires.</li> <li>4. Health checkups and safety and health training for employees on a regular basis.</li> </ol> <p>(IV) The Company conducts bilateral communication with employees through internal communication net of the Group, employee communication event in regular basis, e-News, employee engagement investigation, official document system, department mailbox, and publishing monthly magazine as well as to respond to employee opinion in time and notify employees with important messages.</p> <p>(V) The Company established competency structure for personnel at all levels and planned training activities in accordance with ability and demand. In accordance with “Regulations Governing Employee Performance Management and Development”, supervisors and employee will jointly discuss career planning of two to three years and individual annual ability development planning, assisting employees to continue to develop abilities through regular inspections and feedbacks.</p>	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
(VI) Whether the Company stipulates policies that protect the interests of consumers and complaint procedures during the procedure of research and development, procurement, production, and service?	✓		<p>(VI) The Company and all the subsidiaries comply with laws and regulations and provisions related to consumer protection as well as stipulate consumer interest protection policies and complaint procedures as follows pursuant to Financial Holding Company Act, Regulations Governing Cross-selling Among Subsidiaries of Financial Holding Company, and other relevant provisions:</p> <ol style="list-style-type: none"> <li>1. Product/service research and development: The principle of product/service design is based on customer needs, and the Company stipulates the customer risk assessment system and the product suitability policy to help customers understand the risk tolerance. All application forms or the terms of contracts specify detail information of the product/service and inform rights and protection of personal information collection, handling and usage. Sales and advertisement documents are also reviewed internally through further discussions to quell doubts of legality. In addition, the Company also requires the sales agents to obtain professional certificates and explain in detail, allowing customers to understand the content of the product, and establishes complete consumer protection operation mechanism and policies.</li> </ol> <p>Cathay United Bank started to engage in the insurance agent business on April 29, 2016 and continues to provide insurance products and related services of Cathay Life Insurance and Cathay Century Insurance. CUB will strengthen marketing procedures control of the sales of insurance policies and premiums collection to protect customers' rights and interests.</p> <ol style="list-style-type: none"> <li>2. Procurement: This includes outsourcing matters that involves with personal information. The Company conducts monitor and management activities against suppliers such as the on-site inspection and the retaining records and reports in regular basis in order to ensure that the operation of suppliers complies with the contracts and prevent the leakage of personal information.</li> <li>3. Operation: The Company established the personal information management committee and stipulated the personal information protection policy to supervise the personal information management and control measures as well as the implementation of the project in order to protect customers' interests. Each subsidiary also established "Information Security and Personal Information Management Committee" to plan and implement personal information protection projects and establish management system. In order to ensure that all employees implement the information security management system and the law compliance in daily operation, the Company provides with education, training, and regulation promotion courses in regular basis.</li> <li>4. Service procedure: The Company established the service quality committee to stipulate the service policy and review the service strategy and projects of each</li> </ol>	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
(VI) Whether the Company stipulates policies that protect the interests of consumers and complaint procedures during the procedure of research and development, procurement, production, and service?	✓		<p>subsidiary. The “Service Quality Team”, established by each subsidiary, is responsible for planning, promoting and controlling projects that improve service quality. We strive for listening to our customers and embracing the customer-oriented service philosophy and goal.</p> <p>If the customers have any questions, recommendations, or complaints regarding any product or service provided by each company, besides contacting operational units during business hour, they may express their opinions and thoughts through the customer service hotline or the email posted on the website of each subsidiary or through leaving online messages. The Company will assign personnel to serve customers and provide with the fast disposition and response to customers. In order to specifically reflect the voice of customers, Cathay Life Insurance stipulated the “Resolution Procedures for Consumption Disputes”, and Cathay United Bank stipulated the “Regulations Governing the Disposition of Customer Disputes for Business Units” and standard operation procedures to increase the attention of all units on consumption dispute dispositions and improve the efficiency and quality of consumption dispute resolution..</p> <p>Each company stipulates a policy of treating customers fairly with principles in accordance with the “Principles of Treating Customers Fairly” promulgated by FSC, which in consistent with Cathay Financial Group’s service principles of “Start from the heart, treat customers with integrity, touch customers, and create value”, The Policy shapes a value system and code of conduct for the whole corporation to comply with in order to establish and implement the corporate culture with the core of treating customers fairly.</p>	No significant difference
(VII) Whether the Company markets and labels products and services in accordance with the related laws and international practices?			<p>(VII) In accordance with “Principles Governing Corporate Sustainability of Cathay Financial Holdings”, the Company and all subsidiaries shall comply with Consumer Protection Act, Financial Consumer Protection Act, and Fair Trade Act when conducting the product and service marketing and labeling, as well as to meet the international standards. Any activities involving deceiving, misleading or fraud, or any other behaviors that undermine consumer confidence or damage consumer interests are not allowed.</p> <p>The marketing activities and labeling of products and services made by each company are in conformity with the Financial Consumer Protection Act and the industry regulations. For example, Cathay Life Insurance stipulates a “Business Solicitation System and Procedure” and “International Insurance Business Solicitation System and Procedure” in accordance with the “Regulations Governing Business Solicitation, Policy Underwriting and Claim Adjusting of Insurance Enterprises”, and “Regulations Governing Offshore Insurance Branches” to regulate the introduction and matching behaviors that agents or sales staff are actually engaging in for the Company. The information disclosed by each subsidiary to customers is based on the principles of</p>	

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
<p>(VIII) Whether the Company has assessed the supplier's record about environmental protection and society before trading with the supplier?</p> <p>(IX) Whether the contract between the Company and its main supplier includes the provision stating that where the supplier is suspected of violating its corporate social responsibility policies or renders remarkable effect to the environment and society adversely, the Company may terminate or rescind the contract?</p>	✓		<p>good faith and the spirit of protecting financial consumers, and each subsidiary strives to enrich information of financial consumption and ensure the authenticity of the content.</p> <p>(VIII) Consider the risks to the environment and the society caused by services or products provided by suppliers, as well as to reduce the operation risk caused by supply chain interruption through effective management of suppliers. In 2015, internal procurement team of Cathay Financial Holdings formulated supplier management. Suppliers shall follow the followings regulations for assessment, and violation will cause the loss of contact qualification:</p> <ol style="list-style-type: none"> <li>1. Environmental protection regulations</li> <li>2. Regulations governing occupational safety and health management</li> <li>3. Labor rights regulations</li> <li>4. Ethical norms regulations</li> </ol> <p>(IX) In August, 2012, the company added CSR clauses in the contracts with suppliers, in which requires suppliers to comply with laws and regulations governing environmental protection, labor conditions, labor safety and health, and labor rights. The Company requires suppliers to jointly fulfill CSR with actual conducts. If a supplier is confirmed violating or failing to meet the norms, the Company may set a period and urge the supplier to fulfill or improve. If the supplier fails to fulfill or improve within that period, the Company may terminate or rescind the contract.</p>	No significant difference
<p>IV. Enhancing Information Disclosure</p> <p>Whether the Company discloses relevant and reliable information relating to corporate social responsibility on its website or Market Observation Post System?</p>	✓		<p>(I) In order to disclose CSR information to the public, the Company sets up "CSR District" on the official website and has been published "CSR Report" every year since 2012. Cathay Charity Foundation started to reveal "Cathay Charity Group Annual Report" from 2009, in which records the implementation of CSR of the Company and charity business of the Foundation.</p> <p>(II) The Company published Chinese and English version of "2015 Cathay Financial Holdings CSR Report" in 2016. This report is the fifth CSR Report of the Company, in which comprehensively discloses specific behaviors by Cathay to implement corporate sustainability. This report is also disclosed on the official website (<a href="https://www.cathayholdings.com/holdings/web/csr/TE_1-2-3.aspx">https://www.cathayholdings.com/holdings/web/csr/TE_1-2-3.aspx</a>). In 2017, the Company will publish "2016 CS Report."</p> <p>(III) For international liability investors, the Company also actively collect international questionnaires to communicate with the outside world.</p> <p>(IV) The Company also actively participated in the external invitation of corporate sustainability speeches in 2016, sharing the practical experience of internal corporate sustainability to the outside world in order to raise the awareness of corporate sustainability among industries in Taiwan.</p>	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
V.			If the Company has established corporate social responsibility principles based on “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies”, please describe any discrepancy between the principles and their implementation: The practical implementation of the Company’s CSR has no discrepancy with the principles.	
VI			Other significant information that is beneficial to realize the implementation of CSR (such as the system and measures adopted by the Company and the implementation toward environmental protection, communities participation, social contributions, social services, social welfare, consumer interests, human rights, safety & health affairs and others social activities): The Company has been cultivating in CSR and adjusting the middle and long-term corporate sustainability plans of the Group coping with the international trend and discussion result with the interested party in regular basis. The Company gradually implements behaviors and goals in the aspects of responsible investment, sustainable governance, responsible product, employee happiness, green operation and social mutual prosperity as well as information disclosures in accordance with laws. In addition, in order to be the best sustainable financial institution in Asia Pacific, the Company implements CSR both inside and out. Internally, the Company implements corporate sustainability governance. Externally, the Company affects suppliers through procurement in upstream as promotes the concept from aspects of loans and investments by using cash flow influence in downstream. The result in 2016 was excellent, and the key excellent performances are as follows: <ul style="list-style-type: none"> <li>➤ Cathay Financial Holdings was selected “2016 All-Asia Executive Team in Asia (except for Japan)” by “Institutional Investor”, which makes Cathay Financial Holdings the only financial institution to receive such award. The prizes won include the Best Chief Executive Officer in Insurance Industry in Asia, the Best Professional of Investor Relation in Insurance Industry in Asia, the Best Investor in Insurance Industry in Asia, and the Best Investor Earnings Call.</li> <li>➤ Cathay Financial Holdings was selected “Top 5% of TWSE/GSMT Listed Companies” in “Corporate Governance Evaluation.” The Company was listed in the “TWSE Corporate Governance 100 Index.”</li> <li>➤ Cathay Financial Holdings was selected as an emerging market component stock of the “Dow Jones Sustainability Index (DJSI)” for two consecutive years.</li> <li>➤ Cathay Financial holdings was awarded top 10 “Excellence in Corporate Social Responsibility” for four consecutive years and won the historical high the fifth place among all industries.</li> <li>➤ Cathay Financial Holdings won the Champion in the ratings for financial holding companies for the first time in the “2015 Ratings for the Overall Operational Performance of Financial Holding Companies” jointly held by Taiwan Financial Management Association and Business Today Magazine.</li> <li>➤ Cathay Financial Holdings won six prizes in “Taiwan Corporate Sustainability Award”, including the corporate comprehensive performance prize of “The Most Prestigious Sustainability Awards-Top Ten Domestic Corporate” for three consecutive years and the Best Performance of Specific Category in “Innovative Communication”, “Social Communion”, “Talent Development”, and “Top 50 CSR Report in Taiwan - Gold Prize.” President Chang-Ken Lee won “The Outstanding Corporate Sustainability Professionals.”</li> <li>➤ Cathay Financial Holdings was honored with the “Outstanding Green Procurement Unit” by the Environmental Protection Administration.</li> <li>➤ Cathay Financial Holdings, Cathay Life Insurance, Cathay United Bank, and Cathay Century Insurance received “Sports Corporation Certification” from the Sports Administration, Ministry of Education.</li> <li>➤ Cathay Life Insurance won two Gold Prizes in the “Sponsor” and “Promotion” categories of the “Sports Driving Force” held by the Sports Administration, Ministry of Education for eight consecutive years and won three sports corporation certifications in “Long-term Sponsorship Prizes” for three consecutive years.</li> <li>➤ Cathay Life Insurance was awarded the “Award for Active Promotion of Micro-Insurance” and “Excellent Sales Performance Award” for three straight years.</li> <li>➤ Cathay Life Insurance won two excellent prizes in the category of improving life quality in the “2016 Global Human Resources Development Award” held by the International Federation of Training and Development Organizations (IFTDO). Cathay Life Insurance is the only life insurance company to receive such award.</li> <li>➤ Cathay Life Insurance was awarded fourth place in the “Best Excellent Learning Organization Award” held by the “Association for Talent Development (ATD).” Cathay Life Insurance is the only corporation winning such award.</li> <li>➤ Cathay Life Insurance received an excellent service award in “Evaluation of the Service Industry in Taiwan” held by “Commercial Times.”</li> <li>➤ Cathay Life Insurance won first place in the Life Insurance Category of “Service No.1 Award” by Next Magazine for twelve consecutive years.</li> <li>➤ Cathay Life Insurance won multiple gold prizes of “Wealth Financial Award” for two consecutive years and was awarded the gold prize of the “Best Financial Technology Insurance Award” held by Wealth Magazine.</li> </ul>	

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
<ul style="list-style-type: none"> <li>➤ Cathay United Bank was awarded “Excellent Healthy Working Place Management Unit Prize” and “Championship Prize” by Taipei City Government.</li> <li>➤ Cathay United Bank was awarded first place for the Large Working Place Group of “Excellent Group Performance Award” for healthy weight management in Taipei City by Taipei City Government.</li> <li>➤ Cathay United Bank was awarded “Excellent Financial Service Prize” for the 2016 Excellent Solar Energy System Award by Bureau of Energy, Ministry of Economic Affairs.</li> <li>➤ Cathay United Bank was awarded Excellent Prize of the “Best Corporate Finance Prize”, the “Best Trust Finance Prize”, and Outstanding Prize of the “Best Risk Management Prize” of the 8th Excellent Financial Business Elite Award held by the Taiwan Academy of Banking and Finance.</li> <li>➤ Cathay United Bank was awarded the first place of “Service No. 1 Award” by Next Magazine.</li> <li>➤ Cathay Century Insurance won the Bronze Medal of “Public Liability Insurance - Insurance Company Group” of the “Good Insurance, Action Micro Film Selection” and the Best Innovative Popularity Prize held by “Committee for the Management of Insurance Development Funds.”</li> <li>➤ Cathay Century Insurance won the national top prize in “Excellent Corporation Category” and the “Best Product Category” of the 13th National Brand Yushan Award held by Republic of China National Enterprise Competitiveness Development Association.</li> <li>➤ Cathay Century Insurance won the Excellent Prize of the “Best Image” for five consecutive years and Outstanding Prizes of the “Most Recommended”, the “Best After-sales Service” and the “Best Profession” of the Insurance Quality Award held by “RMIM.”</li> <li>➤ Cathay Securities Corporation won “2016 National Talent Development Award” by the Ministry of Labor, Executive Yuan.</li> <li>➤ “Fast Stock Selection App” of Cathay Securities Corporation won the “Internet Service Category of Digital Content Product Award” held by Industrial Development Bureau, Ministry of Economic Affairs.</li> <li>➤ Cathay Securities Corporation won First Place of the “OTC 2016 Recommendation for Guiding the Number of Companies to Be TPEX Listed and Listed as Emerging Stocks” by TPEX.</li> </ul>				
<p>VII. If the Company’s Corporate Social Responsibility Reports have met the assurance standards of relevant certification institutions, they shall be stated below:  “Cathay Financial Holdings 2015 Corporate Social Responsibility Report” was entrusted to PwC to conduct limited assurance in accordance with Assurance Standards No. 1 “Assurance Cases of Auditing or Reviewing Non-Historical Financial Information” (stipulated in accordance with International Standard on Assurance Engagements (ISAE) 3000) promulgated by Accounting Research and Development Foundation. In addition, the inspection on the data of greenhouse gas emissions disclosed in the Report was entrusted to British Standards Institution in accordance with the standard of ISO14064-3:2006.</p>				

Note 1: Regardless “Yes” or “No”, the status shall be stated in the Remarks section.

Note 2: Where the Company has prepared a Corporate Social Responsibility Report, the summary thereof may not be required only if this report specifies that please refer to the Corporate Social Responsibility Report, or may be replaced by the index page number.

Note 3: Financial Holding Companies that are not listed in the TWSE do not have to fill in “Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s)”

## V. Professional Fees to the Independent Auditor

Range of Professional Fees to the Independent Auditor (Table 3)

Unit: NT\$ thousand

Accounting firm name	Names of Auditors	Audit Fee	Non-audit Fee					Subtotal	Taiwan Certified Public Accountant Audit Period (Note 1)	Remarks
			Designing regulations	Business registration	Human resources	Others (Note 2)				
Ernst & Young	Bob Chang	7,019	--	--	--	1,023	1,023	2016/1/1 ~ 2016/12/31	1. Opinion on the Reasonableness of Expense Allocation 2. Opinion on Capital Increase by Cash 3. Opinion on Classification 4. Other matters	
	James Wang									

Note 1: If the CPAs or public accounting firms for our banks were replaced during the year, the duration of their audit engagement should be separately disclosed, and the reason for replacement should be explained in the remark section, and information such as audit and non-audit fees paid should be disclosed in said sequence.

Note 2: Please list non-audit fees according to service categories. If "other fees" of non-audit fees are more than 25% of non-audit fees, the service details should be disclosed in the remarks section.

## VI. Information of Independent Auditor replacement

None.

## VII. The facts about the Company chairman, president, managerial officer in charge of financial or accounting affairs having served with the CPA Office or the affiliation thereof over the past year

None of the Company chairman, president, managerial officer in charge of financial or accounting affairs has served with the CPA Office or the affiliation thereof over the past year.

**VIII. Facts about the director or supervisor, managerial office, or a same person or a same affiliated enterprise having held the equity of a same financial holding corporation with voting power exceeding the specified ratio which should be declared under Article 11 of the Managerial Regulations: The facts of equity transfer and change in equity pledge (Table 4)**

Facts of change in equity which should be declared as required (I)

Title (Note 1)	Name	2016		The year till April 18, 2017	
		Increase (decrease) in the number of shares held	Increase (decrease) in the number of shares pledged	Increase (decrease) in the number of shares held	Increase (decrease) in the number of shares pledged
Chairman	Hong-Tu Tsai	3,858,386 (Preferred Share)	0	0	0
Juristic (corporate) person director	Chen-Sheng Industrial Co., Ltd.	0	0	0	0
Juristic (corporate) person director	Chia Yi Capital Co., Ltd.	2,816,824 (Preferred Share)	0	0	0
Juristic (corporate) person director	Cathay Life Insurance Co., Ltd. Employees' Welfare Committee	0	0	0	0
Juristic (corporate) person director	Cathay Medical Care Corporate	0	0	0	0
Juristic (corporate) person director	Liang-Ting Industrial Co., Ltd. (Discharged from the post on June 8, 2016)	0	0	(Note 3)	(Note 3)
Juristic (corporate) person director	Cathay Real Estate Development Co., Ltd. (Discharged from the post on June 8, 2016)	0	0	(Note 3)	(Note 3)
Director	Cheng-Ta Tsai	0	0	0	0
Director	Cheng-Chiu Tsai	0	0	0	0
Director	Peter V. Kwok	0	0	0	0
Director	Chi-Wei Joong	0	0	0	0
Director	Tsu-Pei Chen	0	0	0	0
Director	Tiao-Kuei Huang	14,827 (Preferred Share)	0	0	0
Director	Chang-Ken Lee	5,000 (Preferred Share)	0	0	0
Director	Ming-Ho Hsiung	25,000 (Preferred Share)	0	0	0
Director	Jeff Chang (Discharged from the post on June 8, 2016)	0	0	(Note 3)	(Note 3)
Director	Yu-Tsai Tsai (Newly appointed on June 8, 2016) (Discharged from the post on August 23, 2016)	0	0	(Note 3)	(Note 3)
Independent Director	Min-Houng Hong	0	0	0	0
Independent Director	Tsing-Yuan Hwang	0	0	0	0
Independent Director	Feng-Chiang Miao (Newly appointed on June 8, 2016)	0	0	0	0
Independent Director	Andrew Ming-Jian Kuo (Discharged from the post on March 31, 2016)	0	0	(Note 3)	(Note 3)
Major shareholder and the same related party	Wan Pao Development Co., Ltd.	0	15,500,000	0	(202,000,000)
Major shareholder and the same related party	Lin Yuan Investment Co., Ltd.	0	20,500,000	0	(159,000,000)
The same related party	Chia Yi Capital Co., Ltd.	0	0	0	0
The same related party	Wan Ta Investment Co., Ltd.	0	0	0	0
The same related party	Tung Chi Capital Co., Ltd.	0	0	0	0
The same related party	Lin Chi Industrial Co., Ltd.	0	0	0	0
The same related party	Weng-Chuan Lin	0	0	0	0
The same related party	Mei-Hui Wang	0	0	0	0

Title (Note 1)	Name	2016		The year till April 18, 2017	
		Increase (decrease) in the number of shares held	Increase (decrease) in the number of shares pledged	Increase (decrease) in the number of shares held	Increase (decrease) in the number of shares pledged
The same related party	Weng-Chin Lin	0	0	0	0
The same related party	Weng-Chen Lin	0	0	0	0
The same related party	Hsiu-Te Lin	0	0	0	0
Presidents	Chang-Ken Lee	5,000 (Preferred Share)	0	0	0
Senior Executive VP	Tzung-Han Tsai (Discharged from the post on July 26 2016)	0	0	(Note 3)	(Note 3)
Chief Auditor	Chih-Jung Kung (Newly appointed on August 5, 2016)	5,000	0	0	0
Chief Auditor	Ching-Ming Pan (Discharged from the post on August 5 2016)	0	0	(Note 3)	(Note 3)
Chief financial Officer	Grace Chen	25,000 (Preferred Share)	0	0	0
Senior Executive VP	David P. Sun	5,000 (Preferred Share)	0	0	0
Chief Investment Officer	Sophia Cheng	0	0	0	0
Senior Executive VP	Chung-Yi Teng	0	0	0	0
Chief Risk Officer	Po-Tsang Hsieh	34,751 (Preferred Share)	0	0	0
Chief Information Officer	Chia-Sheng Chang	0	0	0	0
Senior Executive VP	Jian-Hsing Wu (Newly appointed on January 18, 2016)	24,000 (Preferred Share)	0	0	0
Senior Executive VP	Shang-Chi Liu (Newly appointed on July 26, 2016)	0	0	25,000 (Preferred Share)	0
Senior Executive VP	Alan Lee (Discharged from the post on June 29, 2016)	0	0	(Note 3)	(Note 3)
Executive VP	Tsung-Hsien Tsai	0	0	0	0
Executive VP	Deh-Yen Weng	5,000 (Preferred Share)	0	0	0
Executive VP	Shu-Ying Wu	0	0	0	0
Executive VP	Ta-Ching Hung	25,000 (Preferred Share)	0	0	0
Executive VP	Hsiao-Yuan Ching	0	0	0	0
Executive VP	Chao-Hsiang Lin	0	0	0	0
Chief Compliance Officer	Chun-Chi Hsu	0	0	0	0
Executive VP	Ching-Yuan, Kung	0	0	0	0
Executive VP	Francis Peng (Newly appointed on January 29, 2016)	10,000 (Preferred Share)	0	0	0
Executive VP	Hsiang-Hsin Tsai	6,000 (Preferred Share)	0	0	0
Executive VP	Ching-Lu Huang (Newly appointed on April 1, 2016)	7,000 (Preferred Share)	0	0	0
Executive VP	Chih-Fong Wang (Discharged from the post on August 11 2016)	0	0	(Note 3)	(Note 3)
Executive VP	Yu-Chin, Cheng (Discharged from the post on August 11 2016)	0	0	(Note 3)	(Note 3)
Senior VP	Huan-Chen Chang	0	0	0	0
Senior VP	Chang-Chao Liao	0	0	0	0
Senior VP	Shan-Chih Liu	4,000 (Preferred Share)	0	0	0
Senior VP	Fu-Min Wang	5,800 (Preferred Share)	0	0	0
Senior VP	Chen-Tung Chang	24,000 (Preferred Share)	0	0	0

Title (Note 1)	Name	2016		The year till April 18, 2017	
		Increase (decrease) in the number of shares held	Increase (decrease) in the number of shares pledged	Increase (decrease) in the number of shares held	Increase (decrease) in the number of shares pledged
Senior VP	Shao-Ling Weng	3,000 (Preferred Share)	0	0	0
Senior VP	Gwang-Ying She	0	0	0	0
Senior VP	Sheng-Hsiung Tsai	24,000 (Preferred Share)	0	(24,000) (Preferred Share)	0
Senior VP	Chin-Chi Chen	0	0	0	0
Senior VP	Xu-Jie Yao	0	0	0	0
Senior VP	Yu-Lung Huang (Newly appointed on January 29, 2016)	0	0	0	0
Senior VP	Hua-Hsin Yang (Newly appointed on July 26, 2016)	0	0	0	0

Note 1: Any of the aforementioned personnel who fill up this Table if holding over 1% of the total shares of the financial holding corporation shall be remarked as a major shareholder and shall respectively enumerate such fact.

Note 2: In the event that the opposite party of share transfer or share pledge is a related party, please additionally fill up the following table.

Note 3: Not required to declare information of change in equity.

Note 4: In the event that the changes of shares occurring are preferred stocks, such shares are marked as (preferred), and those without a mark are ordinary shares (the Company issued of new preferred stocks in a cash capital increase in 2016, and December 8 of 2016 is the capital increase basis date for the preferred stocks).

Note 5: Since the preferred stocks issued by the Company do not contain voting rights, the changes in equity of the same person or the same concerned person in this Table do not include preferred stocks in accordance with the regulation that the calculation is made based on the total number of outstanding voting shares provided in Article 16 of Financial Holding Company Act.

#### Information of change in equity (II)

Name (Note 1)	Causes leading to transfer in equity (Note 2)	Date of transaction	Counterparts of transaction	The relationship between the transaction counterparts and the financial holding corporation's director, supervisor and shareholders over 10% in shareholding	Number of shares	Prices of transaction
None						

Note 1: Entries of the names of the financial holding corporation's directors and supervisors, managerial officers and those where the same person or the same related party holds the voting powers of the issued shares which exceed the ratios specified under Article 11 of the Managerial Regulations.

Note 2: Entries of acquirement or disposal.

#### Information of equity pledge (III)

Name (Note 1)	Causes leading to change in pledge (Note 2)	Date of change	Counterparts of transaction	The relationship between the transaction counterparts and the financial holding corporation's director, supervisor and shareholders over 10% in shareholding	Number of shares	Amount pledged (redeemed)
None						

Note 1: Entries of the names of the financial holding corporation's directors and supervisors, managerial officers and those where the same person or the same related party holds the voting powers of the issued shares which exceed the ratios specified under Article 11 of the Managerial Regulations.

Note 2: Entries of pledge or redemption.

## IX. Information of Related Parties of the top ten shareholders (Table 4-1)

Name (Note 1)	Shares held by themselves		Shares held by spouses, minor children		Total of shares held in the names of others		Names and the relationship among the top ten shareholders in the relationship of related parties or spouses, blood relatives within the second degree of kinship. (Note 3)		Remarks
	Number of shares	Ratio of shareholding (Note 2)	Number of shares	Ratio of shareholding (Note 2)	Number of shares	Ratio of shareholding (Note 2)	Name	Relationship	
Wan Pao Development Co., Ltd. Representative: Weng-Chuan Lin	2,232,827,425	16.67%	0	0%	0	0%	Lin Yuan Investment Co., Ltd.	With the same person as the representative	
							Wan Ta Investment Co., Ltd.	With the same person as the representative	
Lin Yuan Investment Co., Ltd. Representative: Weng-Chuan Lin	1,949,889,809	14.56%	0	0%	0	0%	Wan Pao Development Co., Ltd.	With the same person as the representative	
							Wan Ta Investment Co., Ltd.	With the same person as the representative	
Labor Pension Fund Supervisory Committee - Labor Retirement Fund under the new system Representative: Eng-Ching Tsai	245,922,573	1.84%	0	0%	0	0%	(Note 4)		
Citibank (Taiwan) as Directed Trustee For GIC-Government of Singapore	173,663,348	1.30%	0	0%	0	0%	None		
Nan Shan Life Insurance Company, Ltd. Representative: Y.T. Du	164,119,000	1.23%	0	0%	0	0%	None		
Wan Ta Investment Co., Ltd. Representative: Weng-Chuan Lin	140,801,304	1.05%	0	0%	0	0%	Wan Pao Development Co., Ltd.	With the same person as the representative	
							Lin Yuan Investment Co., Ltd.	With the same person as the representative	
TransGlobe Life Insurance Inc. Representative: Teng-Te Peng	133,116,000	0.99%	0	0%	0	0%	None		
Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds	129,266,306	0.96%	0	0%	0	0%	None		
Labor Pension Fund Supervisory Committee - Labor Retirement Fund under the old system Representative: Eng-Ching Tsai	126,895,631	0.95%	0	0%	0	0%	(Note 4)		
JP Morgan Chase Bank N.A. Taipei Branch in custody for Saudi Arabian Monetary Agency	117,173,529	0.87%	0	0%	0	0%	None		

Note 1: All top ten shareholders should be enumerated in full. In case of juristic (corporate) person shareholders, the names of all such juristic (corporate) person shareholders and their representatives should be enumerated respectively.

Note 2: The shareholding ratios should be calculated based on the own names, names of spouses, minor children respectively.

Note 3: On the aforementioned shareholders, including juristic (corporate) persons and natural persons (individuals), the

relationship among them should be disclosed based on the rules for financial statements of the financial holding company.

Note 4: Labor Pension Fund Supervisory Committee - Labor Retirement Fund under the new system and Labor Pension Fund Supervisory Committee - Labor Retirement Fund under the old system are with the same person as the representative.

Note 5: The calculation of the number of shares and shareholding ratio includes ordinary shares and preferred stocks.

## X. Total Shareholding Ratio in Each Invested Enterprise (Table 5)

Date: April 20, 2017

Unit: thousand shares; %

Investees (Note 1)	Held by the Company		Held by Directors, Supervisors, Managers, and Directly/Indirectly Controlled Businesses		Total Investment	
	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding
Cathay Life Insurance Co., Ltd.	5,431,527 (Note 2)	100%	0	0	5,431,527	100%
Cathay United Bank Co., Ltd.	7,209,981	100%	0	0	7,209,981	100%
Cathay Century Insurance Co., Ltd.	320,205 (Note 3)	100%	0	0	320,205	100%
Cathay Securities Corporation	533,000	100%	0	0	533,000	100%
Cathay Securities Investment Trust Co., Ltd.	150,000	100%	0	0	150,000	100%
Cathay Venture Inc.	300,000	100%	0	0	300,000	100%
Cathay Conning Asset Management Co., Ltd.	46,800	50%	0	0	46,800	50%
Taiwan Depository and Clearing Corporation	1,463	0.41%	598	0.17%	2,061	0.58%

Note 1: Investees of Cathay Financial Holding Co., Ltd. and the subsidiaries.

Note 2: Include 125,000 thousand shares of preferred stock of Cathay Life Insurance.

Note 3: Include 31,250 thousand shares of preferred stock of Cathay Century Insurance.

## Four. Capital Overview

### I. Capital and Shares

#### (I) Capital Source (Table 6)

Unit: thousand shares; NT\$ thousand

Date	Issue price	Registered Capital		Total Paid-in Capital		Remarks	
		Number of shares	Amount	Number of shares	Amount	Source of Capital	Others
2001/12	None	12,000,000	120,000,000	5,838,615	58,386,157	Share swap with Cathay Life Insurance	None
2002/4	None	12,000,000	120,000,000	6,095,872	60,958,728	Share swap with Cathay Century Insurance and Cathay Bank	
2002/12	None	12,000,000	120,000,000	8,453,163	84,531,631	Share swap with United World Bank	
2003/1	None	12,000,000	120,000,000	8,307,489	83,074,891	De-capitalization due to cancellation of treasury stocks Tai-Tsai-Bao-Zi No. 0920005950 (02/24/2003)	
2005/2	54.15	12,000,000	120,000,000	8,318,644	83,186,447	Corporate bond conversion	
2005/4	54.15	12,000,000	120,000,000	8,474,933	84,749,335	Corporate bond conversion	
2005/8	51.94	12,000,000	120,000,000	8,482,094	84,820,937	Corporate bond conversion	
2005/10	51.94	12,000,000	120,000,000	8,524,223	85,242,234	Corporate bond conversion	
2006/4	51.94	12,000,000	120,000,000	8,526,886	85,268,865	Corporate bond conversion	
2006/8	50.84	12,000,000	120,000,000	9,072,936	90,729,366	Corporate bond conversion and capitalization of retained earnings FSC, Jin-Kuan-Yin-(6)-Zi No.09500406660 (09/21/2006), Share swap with The Lucky Bank	
2006/10	48.43	12,000,000	120,000,000	9,092,588	90,925,878	Corporate bond conversion	
2007/2	48.43	12,000,000	120,000,000	9,224,080	92,240,796	Corporate bond conversion	
2007/4	48.43	12,000,000	120,000,000	9,277,019	92,770,192	Corporate bond conversion	
2008/8	None	12,000,000	120,000,000	9,737,537	97,375,372	Capitalization of retained earnings FSC, Jin-Kuan-Yin-(6)-Zi No.09700330020 (08/27/2008)	
2009/10	None	12,000,000	120,000,000	9,670,877	96,708,774	De-capitalization through cancellation of treasury shares FSC, Jin-Kuan-Yin-Kong-Zi No.09800513790 (10/28/2009)	
2010/9	None	12,000,000	120,000,000	10,154,421	101,544,213	Capitalization of retained earnings FSC, Jin-Kuan-Yin-Kong-Zi No.09900344130 (09/14/2010)	
2011/8	None	12,000,000	120,000,000	10,357,510	103,575,097	Capitalization of retained earnings FSC, Jin-Kuan-Yin-Kong-Zi No.10000293110 (08/25/2011)	
2012/9	None	12,000,000	120,000,000	10,865,385	108,653,850	Capitalization of retained earnings FSC, Jin-Kuan-Yin-Kong-Zi No.10100291270 (09/12/2012)	
2013/9	36	12,000,000	120,000,000	11,218,385	112,183,850	Capital increase by cash FSC, Jin-Kuan-Yin-Kong-Zi No. 10200271410 (09/26/2013)	
2013/11	None	12,000,000	120,000,000	11,964,962	119,649,620	Capitalization of retained earnings FSC, Jin-Kuan-Yin-Kong-Zi No.10200327950 (11/29/2013)	
2014/8	None	18,000,000	180,000,000	12,563,210	125,632,101	Capitalization of retained earnings FSC, Jin-Kuan-Yin-Kong-Zi No.10300240490 (08/20/2014)	
2016/12	60	833,300	49,998,000	13,396,510	133,965,101	Capital increase by cash FSC, Jin-Kuan-Cheng-Fa-Zi No.1050024898 (12/28/2016)	

Note 1: Data from the current year and before the printout date.

Note 2: The effective date and the approval letter with reference number should be noted for capital increases.

Note 3: If shares are issued at less than par value, such information shall be prominently indicated.

Note 4: If monetary claims against the company or technology needed by the company are offset against share payments, such information shall be specified and the type and amount of such offset shall also be noted.

Note 5: If a private offering, please indicate prominently.

Unit: thousand shares

Share Type	Registered Capital			Remarks
	Outstanding shares	Un-issued shares	Total	
Common stock	12,563,210	5,436,790	18,000,000	Listed stocks
Preferred shares	833,300	0	833,300	Listed stocks

## (II) Shareholder structure (Table 7)

### 1. Common stock

April 18, 2017

Shareholder structure	Government authorities	Financial institutions	Other juristic (corporate) persons	Individuals	Foreign institutions and juristic (corporate) persons	Total
Quantity						
Number of employees	19	299	1,245	379,861	1,619	383,043
Number of shares held	589,626,647	420,371,234	5,239,271,497	2,745,548,704	3,568,392,046	12,563,210,128
Ratio of shareholding	4.6933%	3.3460%	41.7033%	21.8539%	28.4035%	100%

### 2. Preferred shares

April 18, 2017

Shareholder structure	Government authorities	Financial institutions	Other juristic (corporate) persons	Individuals	Foreign institutions and juristic (corporate) persons	Total
Quantity						
Number of employees	2	44	171	32,460	45	32,722
Number of shares held	58,333,000	564,366,636	156,439,575	52,022,288	2,138,501	833,300,000
Ratio of shareholding	7.0003%	67.7267%	18.7735%	6.2429%	0.2566%	100%

**(III) Fact of equity scattering (Table 8)**

## 1. Common stock

At NT\$10 par value  
April 18, 2017

Shareholding levels	Number of shareholders	Number of shares held	Ratio of shareholding
1 to 999	165,558	40,422,911	0.32%
1,000 to 5,000	137,559	309,432,902	2.46%
5,001 to 10,000	35,846	255,617,946	2.03%
10,001 to 15,000	15,231	187,285,094	1.49%
15,001 to 20,000	7,255	128,282,016	1.02%
20,001 to 30,000	7,706	189,291,527	1.51%
30,001 to 50,000	5,782	224,065,202	1.78%
50,001 to 100,000	4,182	289,731,896	2.31%
100,001 to 200,000	1,815	247,280,750	1.97%
200,001 to 400,000	869	239,076,536	1.90%
400,001 to 600,000	298	143,648,090	1.14%
600,001 to 800,000	154	107,522,858	0.86%
800,001 to 1,000,000	111	99,921,725	0.80%
Over 1,000,001	677	10,101,630,675	80.41%
Total	383,043	12,563,210,128	100.00%

## 2. Preferred shares

At NT\$10 par value  
April 18, 2017

Shareholding levels	Number of shareholders	Number of shares held	Ratio of shareholding
1 to 999	21,831	3,913,464	0.47%
1,000 to 5,000	9,767	15,869,613	1.91%
5,001 to 10,000	546	3,920,419	0.47%
10,001 to 15,000	154	1,949,795	0.23%
15,001 to 20,000	83	1,463,367	0.18%
20,001 to 30,000	107	2,539,017	0.31%
30,001 to 50,000	38	1,485,720	0.18%
50,001 to 100,000	37	2,691,192	0.32%
100,001 to 200,000	46	7,021,036	0.84%
200,001 to 400,000	28	8,150,907	0.98%

Shareholding levels	Number of shareholders	Number of shares held	Ratio of shareholding
400,001 to 600,000	16	8,028,582	0.96%
600,001 to 800,000	6	4,197,000	0.50%
800,001 to 1,000,000	15	13,494,000	1.62%
Over 1,000,001	48	758,575,888	91.03%
Total	32,722	833,300,000	100.00%

**(IV) List of major shareholders (Table 9)**

Names of major shareholders	Shares	Number of shares held	Ratio of shareholding
Wan Pao Development Co., Ltd.		2,232,827,425	16.67%
Lin Yuan Investment Co., Ltd.		1,949,889,809	14.56%
Labor Pension Fund Supervisory Committee - Labor Retirement Fund under the new system		245,922,573	1.84%
Citibank (Taiwan) as Directed Trustee For GIC-Government of Singapore		173,663,348	1.30%
Nan Shan Life Insurance Company, Ltd.		164,119,000	1.23%
Wan Ta Investment Co., Ltd.		140,801,304	1.05%

Note: Listing the names of shareholders with more than a 1% shareholding ratio (the calculation of shareholding ratio includes ordinary shares and preferred shares)

**(V) Per share information (including market price, book value, earnings, share dividend) from 2015 to 2016 (Table 10)**

Item		Year	2015	2016	As of 03/31/2017
Market Share Price (Note 1)	Highest		56.50	50.50	51.20
	Lowest		38.60	33.60	46.55
	Average		48.47	39.18	48.67
Share Book Value (Note 2)	Before payout		36.22	39.10	34.69
	After payout		34.22	(Note 8)	(Note 9)
Earnings Per Share	Weighted Average No of Shares		12,563,210 (thousand shares)	12,563,210 (thousand shares)	12,563,210 (thousand shares)
	Earnings Per Share (Note 3)	Before Adjustment	4.58	3.79	0.85
		After Adjustment	4.58	3.79	0.85
Per Share Dividend	Cash Dividend		2.00	(Note 8)	(Note 9)
	Stock Dividend	From Retained Earnings	0	(Note 8)	(Note 9)
		From Special Reserve	0	(Note 8)	(Note 9)
	Accumulated Unpaid Dividend (Note 4)		0	0	(Note 9)
ROI Analysis	Price/Earnings Ratio (Note 5)		10.58	10.34	14.31
	Price/Dividend Ratio (Note 6)		24.24	(Note 8)	(Note 9)
	Cash Dividend Yield (Note 7)		4.13	(Note 8)	(Note 9)

Note 1: Please list the market share prices, including the highest, lowest and average for the year. Average market share price should be calculated by applying the turnover value and the total turnover volume for the year.

Note 2: Please use the number of the issuing shares in the year end as the base with the distribution decision resolved at the shareholders' meeting held in the following year.

Note 3: For retroactive adjustment made for stock dividends, both before and adjustments earnings per share should be disclosed.

Note 4: For securities issued with terms that entitle the holder to accumulate the unpaid dividend during the current year, for receiving in an earning-generating fiscal year, the accumulated unpaid amount shall also be disclosed.

Note 5: Price/Earnings Ratio = average share market price / earnings per share.

Note 6: Price/Dividend Ratio = average market price / cash dividends per share.

Note 7: Cash Dividend Yield = cash dividends per share / average share market price.

Note 8: Distribution for earnings in 2016 had not yet been resolved by the shareholder's meeting.

Note 9: Not applicable to the quarters.

**(VI) Dividend Policy and Implementation**

1. Dividend policies set under the Articles of Incorporation

- (1) In order to continue the business expansion and to enhance the profit earning capability, as well as to reserve the capital needed based on the long-term financial planning for perpetual operation and stabilized development, the Company has adopted a residual dividend policy.
- (2) The Company shall pay all taxes, as required by the law and applicable regulations, from the current year's earnings and make a regulatory required deduction for prior years' losses and contributions to legal and special reserves when there are positive earnings. Residual earnings shall then be added to the starting retained earnings as the distributable base. The earnings

distribution, after being distributed first to the dividends that preferred shares may be distributed in the current year, should be proposed by the Board and sent for approval at the shareholders' meeting, at which time the allocation of earnings distribution should range from 30-100% of the total distribution.

- (3) After the allocation of stock distribution, which is made based on the capital needed by the Company's business plan, the residual earnings shall be distributed in cash with a portion no less than 10% of the total distribution for that fiscal year.
2. Distribution of dividend proposed in the current shareholders' meeting: At NT\$2.0 per share as cash dividend.

#### **(VII) Impact to 2017 Business Performance and EPS Resulting from the Proposal of Stock Dividend Distribution Made at the Recent Shareholders' Meeting**

Per the Letter of Tai-Tsai-Cheng-(I)-Zi No. 00371 (02/01/2000), the Company need not disclose the impact as no 2017 financial forecast was provided.

#### **(VIII) Remuneration of Employees, Directors and Supervisors**

1. The percentage or range of remuneration to the employees, directors and supervisors are delineated under the Articles of Incorporation:  
0.01% to 0.05% of profit of the current year is distributable as employees' compensation and no higher than 0.05% of profit of the current year is distributable as remuneration to directors. However, the company's accumulated losses shall have been covered.
2. The basis for estimating the amount of employee and director/supervisor remuneration, shall take into account the number of shares to be distributed as stock bonuses, and the accounting treatment of any discrepancy between the actual distributed amount and the estimated figure for the current period:  
The basis for estimating the amount of employee remuneration is taken from the average of the actual bonus paid in the past three years and divided by number of months to derive a monthly basis; or applies the percentage stated under the Articles of Incorporation for expense recording. Compensation paid to the directors shall follow the basis explained under "Cathay Financial Holdings Co., Ltd., Regulations Governing Remuneration Paid to the Directors" (no such basis shall be applied when there is a net loss). The estimated figure shall be accounted as an operation expense for the current fiscal year. Accounting treatment for any discrepancy between the final approved figures from the shareholders' meeting and the estimated figures shall follow the principles under the Statements of Financial Accounting Standards.
3. Remuneration distribution approved by the Board:
  - (1) The remuneration amount of employees, directors and supervisors distributed in cash or shares. If there are any discrepancies between the proposed value of the employee cash/stock bonuses, and director/supervisor compensation approved by the board of directors, in relation to the estimated figures in the period where the expenses are recognized, the discrepant value, its reasons, and its status shall be disclosed: As estimated for the current term, the cash remuneration to employees would come to NT\$4,919,982 and NT\$1,800,000 as remuneration to directors.
  - (2) The remuneration amount of employees distributed in shares and the ratio of such amount accounting for the combined number of individual finance report net income and the total remuneration amount of employees: no remuneration of employees will be distributed in shares this fiscal year.
4. The actual distribution of employee and director/supervisor remuneration for the previous fiscal year (with an indication of the number, value and stock price of the shares distributed) shall be declared. If there is any discrepancy between the actual distribution and the recognized employee bonuses and director/supervisor compensation, the discrepancy, its cause, and its status must also be listed:

- (1) Employee remuneration: NT\$5,902,605, which tallies with the original proposal from the board meeting. In Year 2016, the Company had a total of 207 employees, with NT\$ 28,515 distributed to each and every employee.
- (2) Board remuneration: NT\$2,100,000, which tallies with the original proposal from the board meeting.

**(IX) Share Buyback by the Financial Holdings Company**

Our company did not buy back shares of our own company in recent years.

**II. Issuance of Corporate Bonds**

None.

**III. Issuance of Preferred Shares (Table 13)**

Item	Issuing date	January 17, 2017 (Initial Issuance) (Note 3)
Face value		NT\$10
Issue price		At NT\$60 par value
Number of shares		833,300 thousand shares
Total		NT\$49,998,000,000
Rights and obligations	Distribution of dividends and bonuses	Annual Interest rate of 3.8% (7-year IRS rate 1.06%+2.74% , non-accumulated)
	Distribution of the residual property	Prior to ordinary shares but shall not exceed the issuance amount.
	Exercise of voting rights	Shareholders of preferred shares do not have the right to vote and to be elected, but they have the right to vote in the shareholders' meeting for preferred shares or in the shareholders' meeting that involves with the rights and obligations of shareholders of preferred shares.
	Others	<ol style="list-style-type: none"> <li>1. The Company has discretion over the dividend distribution of preferred shares. The Company may decide not to distribute dividends of preferred shares if there are no earnings in the annual accounts or the earnings are insufficient to distribute dividends of preferred shares, or the distribution of dividends of preferred shares will cause the capital adequacy ratio to be lower than the minimum requirement by laws or competent authority or other necessary consideration. The shareholders of preferred shares may not object to the decision.</li> <li>2. 7-year IRS interest rate will be reset on the next day of maturity and in every seven years. The interest rate reset pricing base date is the business day of Taipei financial industry two days prior to the reset date. The interest rate index for 7-year IRS is the arithmetic mean of the 7-year interest rate exchange pricing provided by "PYTWDFIX" and "COSMOS3" of Reuters at 11:00 a.m. of the Taipei financial industry business day of the interest rate pricing base date. If the said pricing is not available on the pricing base date, the issuance institutions may determine the pricing based of the principles of good faith and reasonable market price.</li> <li>3. Where the Company issues new shares for cash, shareholders of preferred stocks and common shares enjoy equal pre-emptive rights.</li> </ol>

Outstanding preferred shares	The number recovered or converted shares	0	
	The balance of not recovered or not converted shares	NT\$49,998,000,000	
	Terms for recovery or conversion	The Company may recover all or some preferred shares with the original issuance price on the date after the date of seven full years of issuance.	
Market Share Price	As of 04/20/2017 (Note 4)	Highest	\$63.00
		Lowest	\$60.50
		Average	\$61.88
Other rights of bondholders	Converted or optioned amount as of the publishing date of the annual report	Not applicable	
	Regulations Governing Issuance, Conversion or Option of Shares	Please refer to the Articles of Incorporation of the Company.	
The impact of issuance terms on the equities of shareholders of preferred shares, the possible dilution of equities, and the impact on the equities of current shareholders		None	

Note 1: Status of corporate bonds, including undergoing public offering and private placement of preferred shares. The publicly offered preferred shares are those entered into effect (approved) by Financial Supervisory Commission; the privately offered preferred shares are those approved by the Board.

Note 2: The number of columns is adjusted by the number of issuances or application approvals.

Note 3: If a private offering, please indicate prominently.

Note 4: Data from the current year and before the printout date.

#### IV. Issuance of Global Depositary Receipts (Table 14)

Issuing date		July 29, 2003 (Initial Issuance) (Note 4)	November 9, 2004 (Seasonal Issuance) (Note 4)	Year 2005 to April 30, 2009 (Through ECB conversion) (Note 4)
Item				
Issuance & Listing	Issuance: Europe, Asia, and the U.S.A. Listing: Luxembourg Stock Exchange			
Total Amount	US\$521,605,500	US\$494,528,116	The calculation of the number of units is based on the conversion price, ECB exchange rate, and the GDR unit converted from the ECB	
Issue Price Per GDR	US\$11.63	US\$19.4	Based on the conversion price and exchange rate of the ECB	
Units Issued	44,850,000 units	25,491,140 units	3,216,324 units	
Underlying Securities	Common and treasury shares held by Cathay Life Insurance	Treasury shares of the Company	New common shares issued by the Company	
Common Shares Represented	448,500,000 shares	254,911,400 shares	32,163,240 shares	
Rights & Obligations of GDR Holders	Same as those of the common shareholders			
Trustee	The Bank of New York Mellon			
Depositary Bank	The Bank of New York Mellon			
Custodian Bank	Trust Department, Mega International Commercial Bank			
Outstanding Balance (Note 5)	7,468,863 units			
Apportionment of Expenses for Issuance & Maintenance	Issuing expenses are paid by Cathay Life Insurance and the Company. Expenses (including the listing fee, information disclosure and other fees) occurred during the listing period are covered by the Company in general.	Borne by the Company		
Terms and Conditions in the Deposit Agreement & Custody Agreement	Based on the relevant laws and regulations of the R.O.C., the GDR holders have the rights and responsibilities that are stipulated in the Deposit Agreement. The rights and responsibilities of the depository and custodian agencies are stipulated under the custody agreement.			
Closing Price Per GDR (Note 3)	2016	Highest	US\$15.66	
		Lowest	US\$9.95	
		Average	US\$12.11	
	As of 04/20/2017	Highest	US\$16.73	
		Lowest	US\$14.83	
		Average	US\$15.70	

Note 1: Corporate bonds include both public and private offerings. The publicly offered bonds are those approved by the Board. The privately offered bonds are those approved by the Board.

Note 2: The number of columns is adjusted by the number of issuances or application approvals.

Note 3: Those who have issued Global Depositary Receipts, the market closing prices for the security in the current year and before the printout date of this Report should be listed. If listed in multiple exchanges, all bourses should be shown.

Note 4: If a private offering, please indicate prominently.

Note 5: Outstanding balance as of 04/20/2017.

**V. Issuance of Employee Stock Option Plan**

None.

**VI. Issuance of New Restricted Employee Shares**

None.

**VII. Merger and Acquisitions or Transfers of other Financial Institutions**

None.

## VIII. Implementation of the Capital Utilization Plans

### (I) The Plan

- Issue Series A Preferred Share in a Cash Capital Increase in 2016:
  1. Capital utilization plan: strengthening the self-capital and the capital adequacy ratio, and making strategic investments or capital injection of subsidiaries.
  2. Approval date and document: Jin-Kuan-Cheng-Fa-Zi No. 1050024898 (12/28/2016).
  3. Total capital needed for the plan: NT\$49,998,000,000.
  4. Source of Funds: Issuance of 833,300 thousand shares in a domestic cash capital increase with NT\$10 of face value per share and NT\$60 of the issuance price per share. The estimated amount of money raised is NT\$49,998,000 thousand.
  5. Planned uses of capital and the planned schedule:

Unit: NT\$ thousand

Plan Item	Completed Date	Total Capital Needed	Use of Capital
			2016
			4th Quarter
Subscribe to the non-cumulative perpetual subordinated debts of Cathay Life Insurance to strengthen the financial structure	2016/12/31	35,000,000	35,000,000
Enrich working capital and strengthen capital structure	2016/12/31	14,998,000	14,998,000
Total		49,998,000	49,998,000

#### 6. Effects:

The Company estimated issuing Series A Preferred Share in a cash capital increase for NT\$49,998,000 thousand. NT\$35,000,000 thousand is for the subscription of subordinated corporate bonds in private placement by Cathay Life Insurance, and NT\$14,998,000 thousand is for enriching the working capital of Cathay Financial Holdings. The subscription for the non-cumulative perpetual subordinated debts of Cathay Life Insurance is mainly for enriching the regulatory capital and increasing capital adequacy. The estimated possible effects are as follows:

#### (1) Increase the regulatory capital and capital adequacy of subsidiary Cathay Life Insurance

The Company subscribes the non-cumulative perpetual subordinated debts of Cathay Life Insurance to increase the regulatory capital and capital adequacy. If calculating by the capital adequacy ratio of 288.1% and issuance of NT\$35,000,000 thousand in the first half of the year, the capital adequacy for Cathay Life Insurance after subscription will increase the capital adequacy by 27.40% to 315.50%.

#### (2) Strengthen the financial structure, increase the competitiveness against other companies, and be beneficial to the expansion of the overall development of the Group in the future.

After the completion of capital increase, the Company estimates that the capital increase will effectively increase capital adequacy and strengthen capital structure. If calculating by that the capital adequacy is 129.9% in the first half of the year and the issuance of NT\$49,998,000 thousand of Series A Preferred Share in a cash capital increase, the capital adequacy for Cathay Financial Holding Group will increase by 12.2% to 142.10%.

## (II) Implementation Status

The issuance of NT\$49.998 billion in Series A Preferred Share in a cash capital increase was completed on December 8, 2016. As of March 31, 2016, the subscription of NT\$ 35 billion of the non-cumulative perpetual subordinated debts of Cathay Life Insurance was completed as planned. The remaining NT\$14.998 billion was planned to be used for enriching working capital. However, after taking the overall market dynamics and relating fund application schedule into consideration, the Company is still conducting relating fund planning. The execution for the relating fund application program is as follows:

Plan Item	Implementation Status		As of 20/04/2017	Remarks
Subscribe to the non-cumulative perpetual subordinated debts of Cathay Life Insurance to strengthen the financial structure of the subsidiary.	Capital used (NT\$ thousand)	Planned	35,000,000	Completed the subscription of NT\$ 35,000,000 thousand of the non-cumulative perpetual subordinated debts of Cathay Life Insurance as planned. The execution ratio is 100%.
		Actual	35,000,000	
	Implementation Status	Planned	100.00%	
		Actual	100.00%	
Enrich working capital and strengthen capital structure	Capital used (NT\$ thousand)	Planned	14,998,000	The remaining NT\$14.998 billion was planned to be used for enriching working capital. However, after taking the overall market dynamics and relating fund application schedule into consideration, the Company is still conducting relating fund planning.
		Actual	0	
	Implementation Status	Planned	100.00%	
		Actual	0.00%	

## Five. Overview of Operations

### I. The content of business

#### (I) The scope of business

##### ■ Cathay Financial Holding Co., Ltd.

#### 1. The content of principal business:

The Company is a financial holding company and the scope of its business is limited to investment in and management of enterprises in which it has invested under the Financial Holdings Company Act. Financial holding companies may invest in the following business:

- (1) Financial Holding Company
- (2) Banking
- (3) Bills finance
- (4) Credit cards
- (5) Trust
- (6) Insurance
- (7) Securities
- (8) Futures
- (9) Venture capital investment
- (10) Investment in foreign financial institutions at the approval of the competent authority
- (11) Other banking related business as recognized by the competent authority

#### 2. Proportion:

Revenues in 2016		Amount (NTD\$1,000)	Proportion (%)
Return on investment recognized under equity method	Cathay Life Insurance	28,335,506	57
	Cathay United Bank	17,226,707	34
	Cathay Century Insurance	2,470,471	5
	Cathay Securities Corporation	257,565	1
	Cathay Venture	192,483	-
	Cathay Securities Investment Trust	296,762	1
	Cathay Conning Asset Management Co., Ltd.	(14,863)	-
	Subtotal	48,764,631	98
Other revenues		1,800,203	3
Other expenses and loss		(599,464)	(1)
Total		49,965,370	100

#### 3. New financial products and services under planning

The main business of the Company is investment and management of investees. For information of the development of new financial products and services, please refer to the following parts of the subsidiaries.

■ **Cathay Life Insurance Co., Ltd.**

1. The content of principal business:  
Cathay Life Insurance Co., Ltd. is a life insurer and is engaged in the sales of life insurance policies and related products.
2. Proportion:

Business type	Proportion (%)
Life insurance	75
Accidental injury insurance	2
Health insurance	12
Annuity	0
Investment-linked insurance	11
Total	100

3. New financial products and services under planning:

When we look to the future, the Company will set “Innovative Management and Excellent Service” as our operational theme, have an insight into current trends, seek for innovation and changes with forward thinking, comprehensively improve management efficiency and provide products and services beyond customers’ expectations in order to extend the lead. In the business perspective, we will develop diverse and delicate services, refine all mobile financial tools, and integrate virtual and physical channels to meet the most urgent demand of customers. In the financial perspective, we maintain strict risk control and proper liquidity, continue to control the costs for foreign exchange hedging, and seek for diversification of reign investment positions. In addition, we also aggressively strive for the relaxation of regulations (such as allowing firms to invest in foreign unlisted equities and implementing stock reverse business cycle mechanism in capital adequacy ratio system) and conduct asset allocation in response to the global economic changes and by upholding the CSR investment spirit. In the integrated marketing perspective, we will gradually integrate mobile system, precisely manage customer information, and provide advanced and comprehensive financial wealth management service based on the advantages in quality and diverse products and services of the Group in order to increase the customer loyalty to the Group. We will also comprehensively promote efficient operations, in which we will utilize expenses efficiently and strengthen the cost control. Meanwhile, we will use scientific management tools to build a professional mobile service team, as well as integrating the sources of the Group to improve the operational efficiency of the Company. Additionally, in order to seize business opportunities in overseas markets and accumulate growth momentum, our Company will continue to invest in the markets of China and Vietnam, implement localized operations and evaluate expansion into other overseas markets. We will march toward the goal of “The Best Financial Institution in the Asia-Pacific Region” at a steady pace.

■ **Cathay United Bank Co., Ltd.**

1. The content of principal business:
  - (1) Consumer banking
  - (2) Automatic Channel Business
  - (3) Credit card
  - (4) Wealth management
  - (5) Trust
  - (6) Corporate banking
  - (7) International banking
  - (8) Digital banking services
  - (9) Investment and treasury marketing
  - (10) Overseas operations

2. Proportion:

Business type	Proportion (%)
Corporate banking	29
Consumer banking	28
Wealth management	36
Investment and other	7
Total	100

3. New financial products and services under planning:

- (1) Cathay Financial Holdings will uphold the stable operating principle and continue to strengthen the financial structure and optimize capital allocation. We will also establish a customer-demand-oriented development strategy and value proposition and strengthen customer loyalty to achieve profit goals.
- (2) We will build a digital financial environment, actively open online application functions for multiple financial businesses, and promote the analysis and application of financial big data. In addition, we will also develop an operation mode that can provide customers with comprehensive financial services through collaboration with other industries.
- (3) Cathay Financial Holdings will grasp the development trend of mobile payment, develop new types of payment businesses, rapidly promote token service in mobile phone credit cards like Apple Pay, and provide customers with integrated diverse cash flow services and value-added services for the Group to further create differentiation and improve competitiveness.
- (4) We will continue to develop new types of financial products and services, improve customers' digitization experience through the effective integration of virtual and actual channels, cultivate the profession of personnel through comprehensive training programs and educational training to strengthen competitiveness, and work toward our goal of "strategic planning in the Asia-Pacific region and race to the summit."
- (5) We will integrate professional resources within the Group and effectively optimize the cross-selling performance through integrated virtual and physical channel marketing to cultivate and improve connections with customers and the overall satisfaction.

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

1. The content of principal business

Cathay Century Insurance is a property insurer that sells different types of insurance policies (including injury and health) and related products.

2. Proportion:

Business type	Proportion (%)
Automobile insurance	63
Fire insurance	14
Flood insurance	3
Construction insurance	3
Other insurance	17
Total	100

3. New financial products and services under planning

- (1) Personal insurance
- (2) Commercial insurance
- (3) Comprehensive insurance
- (4) Special channel insurance

## ■ Cathay Securities Corporation

1. The content of principal business:
  - (1) Securities underwriting
  - (2) Dealing of securities on central exchange
  - (3) Brokerage trading of securities on central exchange
  - (4) Dealing of over-the-counter securities
  - (5) Brokerage trading of over-the-counter securities
  - (6) Margin financing and stock lending
  - (7) Registrar and transfer services
  - (8) Securities lending (except for book-entry central government bonds)
  - (9) Wealth management - financial products advisory or sales services
  - (10) Wealth management - conduct asset allocation for customers with trust method
  - (11) Brokerage trading of foreign securities – sub-broker
  - (12) Introducing futures brokering
  - (13) Futures business
  - (14) Other securities-related business approved by the regulator
2. Proportion:

Business type	Proportion (%)
Brokerage	64
Proprietary trade	31
Underwriting	5
Total	100

3. New financial products and services under planning
  - (1) Cathay Financial Holdings will strengthen the structure of corporate customers, provide stable multi-product strategic trading services to foreign investors, cultivate corporate customer services, and establish a market status in the area of research on specific industry.
  - (2) We will develop mobile app and establish digital branches to enhance the experience of all-online services.
  - (3) We will start discretionary investment business, unlimited purpose loans, two-way securities lending and financial management trusts in order to provide customers with diverse product services and revenues.
  - (4) Cathay Financial Holdings will integrate order and service demand, establish one-stop service center, improve customer service, and increase operational efficiency.
  - (5) Issue or underwrite bonds and related instruments denominated in CNY. Support the service quality plan of the Cathay Financial Holdings in launching the full-range customer service improvement plan for enhancing customer satisfaction with service.

## ■ Cathay Securities Investment Trust Co., Ltd.

1. The content of principal business:
  - (1) Securities Investment Trust
  - (2) Discretionary investment
  - (3) Securities investment consulting
  - (4) Futures trust
  - (5) Other business approved by Financial Supervisory Commission

2. Proportion:

Business type	Proportion (%)
Management fee income – mutual funds	73
Management fee income – private placement funds	-
Management fee income – futures trust funds	-
Management fee income – discretionary investment	26
Sales commission incomes	1
Service fee incomes – discretion consulting contracts	-
Total	100

3. New financial products and services under planning:

- (1) We will utilize financial technologies to provide products and service with better quality, which will improve customer loyalty and further reach the goal of steadily growing asset scale.
- (2) Due to the importance retirement issue, we will continue to develop fund products that are favored by retired people living overseas, discretionary-like products aiming at wealth management after retirement, and investment plans that meet the investment option mechanism on labor pension fund.
- (3) As the relaxation of relating regulations, we plan to develop online account-opening system for fund customers.
- (4) We will develop an advance edition of value averaging mechanism that collects payments at low points in order to meet the customized demand.

■ **Cathay Venture Inc.**

1. The content of principal business:

Cathay Venture is a venture capital investment firm principally engaged in the investment of companies not yet listed on the exchange or OTC market but that is highly promising, and assists investees in development for creating investment return.

2. Proportion:

Operating income	Proportion (%)
Securities sales and investment income	97.1
Interest and other income	2.9
Total	100

(II) **Business plan of the year**

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

Over the past year, despite facing significant political and economic changes, such as the presidential election and interest rate rising in the United States, U.K. withdrawing from European Union, and the economic growth in China slowing down, Cathay Financial Holdings still upholds the sustainable operating idea of creating the maximum value for our shareholders, customers and employees and operates steadily and properly. The overall performance in profits of Cathay Financial Holdings is better than the average amount of the industry. In the future, Cathay Financial Holdings will respond to the global political and economic changes with a more cautious attitude and develop the transformation and innovation of the Group as well as to accelerate the expansion of layouts with a more flexible strategy. The business plan for 2017 is as follows:

**1. Continue to optimize organizational and business structure to provide better services to customers:**

Guided by the core values of “Integrity, Accountability and Creativity,” Cathay Financial Holdings will continue to optimize organizational operations and to seek for the integration of operational performance as the basis for sustainable development.

Each subsidiary will continue to strengthen the core products and service capacity, secure the competitive advantages in the existing business area, as well as build a comprehensive intelligent financial technology environment, increase the interaction and connection with customers, and optimize customer experience. Meanwhile, we also continue to focus on the value-oriented businesses and products and promote channel revolution to strengthen business capacity and provide customers with a more diverse, convenient and safer financial service.

In addition, each subsidiary will also actively improve the infrastructures of each business and optimize internal control and law compliance system to meet the supervision requirements that are becoming stricter and seek for the corporate sustainability.

## **2. Gradually perfect regional operations and achieve the vision of being “a leading financial institution in the Asia-Pacific region”:**

In the strategic vision of being a “leading financial institution in the Asia Pacific region,” Cathay Financial Holdings will continue to evaluate the strategic investment opportunities domestically and internationally. Through the self- and equity acquisitions, Cathay Financial Holdings aims to establish a comprehensive cross-border financial service and discover local business opportunities with niche by connecting regional layout and serves as the financial reinforcement for Taiwanese companies developing in overseas

As for Mainland China, apart from the opening of Cathay United Bank Shenzhen Branch in 2016, Cathay Financial Holdings will continue to carefully evaluate the establishment of branches and offices or subsidiaries as well as to integrate resources of the Group to jointly cultivate insurance and asset management market with cooperation partners.

As for the markets in Southeast Asia and in Europe and America, Cathay Financial Holdings already established branches and offices in nine countries of the Association of Southeast Asian Nations (“ASEAN”), and the network in ASEAN market becomes more comprehensive. In the future, we will actively develop local corporate consumption financial market and expand the operating scale as well as to continue to cultivate the value of this platform to connect Taiwan and overseas markets. As for the overseas asset management business, Conning Holdings Limited (“Conning”) will serve as the development basis. By combining the development advantages of Cathay Financial Holdings in Asian market, we aim to establish an asset management platform across Europe, America and Greater China region and ignite the business momentum of the third engine of growth for the Group.

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

#### **(I) Business Plan of the year**

##### **1. Business development strategy**

- (1) Strengthen organizational development, improve the quality of personnel, implement training of new employees, and augment the functions of supervisors.
- (2) Cultivate young generation through cooperative education to maintain relationships with schools in order to preserve the organizational development force.
- (3) Integrate Group resources to provide comprehensive financial and wealth management services and to improve the overall operational efficiency of the Group.
- (4) Continue to pursue growth in China and Vietnam markets with an emphasis on localization while continuing to work toward being “The Best Financial Institution in the Asia-Pacific Region”.

##### **2. Product development strategy**

- (1) Continue to strengthen the sale of protection-oriented products to offer customers more protection.
- (2) Utilize big data to analyze customer types in order to satisfy the diverse demand in the

market and establish the leading brand of the products.

- (3) Combine the applications of technologies and develop new types of products to provide customers with new experiences.

### 3. Customer service strategy

- (1) Strengthen mobile digital financial services and combine electronic and mobile technologies to improve service quality and efficiency.
- (2) Effectively utilize resources of the Group and the advantages of cooperation with other industries to manage different groups of customers and meet customer satisfaction.
- (3) Expanding the functions of telephone customer service and provide diverse online trading channels to meet the customer usage convenience.
- (4) Provide VIP delicate service experiences to corporations and support corporations to expand business.

### 4. Back Office Support:

- (1) Combine video and audio resources and mobile learning mechanism to enhance training effects and build a learning organization.
- (2) Develop talent pools to nurture and retain high-potential employees and cultivate next generation leaders.
- (3) Perfect career blueprints, enhance talent training, improve performance remuneration system, and accelerate the momentum for organization upgrade.
- (4) Optimize assistant devices to support all marketing managers in order to improve user experience and service efficiency.

## ■ Cathay United Bank Co., Ltd.

### 1. Consumer banking

- (1) Maintain the customer-oriented operation mode and enhance the customer-grouping strategy to provide customers with one-stop integrated financial services based on different natures and demands of different customer groups.
- (2) Actively utilize digital financial technologies, integrate actual and digital channels, and earn the connections with all types of depository customers to improve business performance, increase profitability, and core competitiveness of the bank, which further increase the demand funds of the bank and stabilize deposit basis.
- (3) Continue to adopt stable measures, enhance loan quality, optimize the operational structure of customer groups, and improve capital usage efficiency. Actively expand the application scope of digital channels and continue to increase loan balance with higher yield to improve profits of the bank.

### 2. Automatic Channel Business

- (1) We exclusively acquire ATM financial service of Taipei Rapid Transit Corporation, which maintains an exclusive advantage. We will also replace old ATMs with new ones and plan self-service area to improve usage efficiency and continue to operate the image of quality brand of the Bank.
- (2) To extend our services, we continue to collaborate with Hi-Life and expand the scope of collaboration with Family Mart. Apart from installing ATMs in the stores to strengthen the service posts of the bank, we will also negotiate the cash flow service and digital payment applications.

### 3. Credit card

- (1) Collaborate with the leading corporation in gas station and airline industry by issuing “Formosa Co-Brander Card” and “Eva Airline Co-Brander Card” to cultivate drivers and top class flight passengers, meet diverse consumption demands and substantial rewards to consumers.
- (2) Release mobile bonus exchange platform to improve the convenience of bonus exchange and optimize card experiences, which further improves customer loyalty.

- (3) Continue to utilize data to analyze customers' consumption preference and meet the demands of different customer groups through the most suitable channel and discounts, as well as effectively increase the number of credit cards issued and credit card transactions.
4. Wealth management
    - (1) Uphold the core value of "adding value for customers and safeguard customer's assets," enrich diverse product lines, develop differentiated portfolio recommendations and provide family asset inheriting services to perfect comprehensive asset management for customers.
    - (2) Meanwhile, implement the risk control during sales procedure, strengthen the professionalism of financial consultants and the interface of digital channel to optimize the wealth management experience of customer.
  5. Trust
    - (1) Develop insurance claims trust, elderly care trust and all types of customized personal trust products, provide customized trust services to high asset group in compliance with wealth management and personal banking business; provide prepayment trust service to firms like hotels in compliance with the compulsory trust provisions provided by laws.
    - (2) By the end of 2016, the market share of insurance claim trust remained at No.1 spot in the industry, and the scale of charitable trust increased to NT\$30.08 billion, which was also at No.1 spot in the industry.
  6. Corporate banking
    - (1) Continue to cultivate domestic target customer groups and expand key markets overseas as well as focus on risk management and improve the overall loan asset quality.
    - (2) As of December 31, 2016, the loan balance of corporate financing was NT\$659.5 billion, an increase of NT\$163.3 billion compared to the same term in previous year.
  7. International banking
    - (1) Actively establish correspondent posts in ASEAN and Greater China area to increase the efficiency of fund service in the network in Asia. We also combine competitive remittance projects and cash management and trading financing products to attract more potential customers and lay the cornerstone of the customer base in foreign exchange market.
    - (2) Continue to strive for the stable development of foreign exchange business. In 2016, the balance of foreign exchange deposit was US\$13.34 billion, an increase of 24.3% compared to 2015. The asset balance of corporate trading financing was US\$509 million, an increase of 15.2% compared to 2015.
  8. Digital banking services
    - (1) Simplified the layout and menu of the e-Bank and add personal homepage function to improve operation fluency that allows customers to complete transactions with easy and rapid manner.
    - (2) My MobiBank, with the nature of portable device and push notification function, increases debit and credit notification services for foreign currency accounts, which allows customers to immediately grasp account and wealth management messages. In addition, My MobiBank also provides fingerprint login function in response to the digital trend, which allows customers to log into mobile bank through Touch ID and shorten customer's login time.
    - (3) KOKO new concepts of banks service introduces new digital deposit account along with limited edition of Duncan- cartoon financial cards. This service improves the digital service experience of customers through differentiated interest rate for demand savings deposit, transfer discount, small amount fund investment and KOKO Store wealth management lectures.
  9. Investment and treasury marketing
 

Conduct monitor measure for complex products with high risks like TRF in compliance with competent authority. The amended "Regulations Governing Internal Operating Systems and

Procedures for Banks Conducting Financial Derivatives Business” stipulate the minimum initial margin requirements and margin call mechanism shall be established when a bank provides non-professional institutional investors and high net worth corporate investors with financial derivatives transaction services other than structured products in order to perfect control mechanism and sales procedure.

#### 10. Overseas operations

- (1) Actively grasp the development opportunity in Asian markets, continue to cultivate two key markets in the Greater China area and Southeast Asia, and will provide customers with quality services with complete financial service network.
- (2) In Southeast Asian markets, the Bank already established branches and offices in 9 Southeast Asian countries, including Vietnam, Cambodia, Singapore, Malaysia, the Philippines, Laos, Thailand, Myanmar, and Indonesia, which makes the us the Taiwanese bank with the most posts. We will continue to strengthen the cross-border platform integration to provide localized services.

#### ■ Cathay Century Insurance Co., Ltd.

##### 1. Business policy of the year

Looking forward 2017, the Company will accelerate the digitization transformation program under the operational theme of “Cathay E Movement Initiates a New Era.” The service efficiency will be improved through mobilized channel marketing, claim procedure reform, professionalism turnover, and the establishment of big data application, which lays a solid foundation for the digital operation in the future. Meanwhile, the Company will continue to work toward delicacy management, optimize business structure, innovate products, and strengthen risk management to improve operational performance and customer satisfaction. Regarding the 2017 operation keys, the Company sets out 4 operational policies as follows:

##### (1) Business policy

- A. For business organization, we will work toward the goal of miniaturization and establish regional claims center to improve service efficiency. We will also increase the productivity of field staff and the professionalism in commercial insurance for business staff to improve business productivity.
- B. Continue to strengthen on the introduction of quality insurances and pay attention to cost control to improve operating profits and implement the policy of laying equal attention on quality and quantity.
- C. The product development and design attend simultaneously the development trend and demand of virtual and physical channels. We also develop innovative and competitive products.

##### (2) Risk management and financial investment policy

- A. Maintain the most suitable RBC level and good repayment capacity; properly arrange reinsurance contracts, increase the volume of reinsurance contracts in order to balance business introduction and risk diversification.
- B. Strengthen law compliance and implement the improvement recommendation from external evaluation institutions; continue to refine risk quantization technology, promote the Company’s risk management mechanism in order to strengthen risk monitor function in operation procedures; emphasize on the reasonableness of product price to avoid price competition and maintain stable insurance profits.
- C. Grasp the international political and economic situation, properly plan the allocation of assets, and improve the efficiency of fund utilization and investment performance.

##### (3) Insurance service policy

- A. Continue to develop all types of e-systems and APP functions, simplify operation procedures, and shorten operation time through electronic dispositions (such as are insurance automatic claims system, establishment of visualized operation system for claims), and provide high efficiency services to improve customer satisfaction.

- B. Utilize big data application technology for the application on customer information analysis and usage-based insurance and promote digital car insurance coping with e-transformation program.
- C. Take six aspects of demand, including responsible investment, sustainable governance, sustainable products, caring for employees, green operation and mutual prosperity with society as the goal of operation management, and internalize the concept of sustainable operation into all levels of the organization.

(4) International operations policy

- A. Develop OIU property insurance and reinsurance business, expand business opportunities in international markets, enlarge market scale and expand business domain of the financial holdings group.
- B. Continue to expand the insurance market scale in Vietnam, strengthen operation indicators, expand channels with good quality, study and develop localized products, look for profit increase, and cultivate the image of the local brand.

2. Expected sales amount and the basis

The estimated insurance income is NT\$ 21.1 billion after taking the adjustment and growth of the Company's business structure and insurance renewal into consideration.

3. Important production and marketing policy

- (1) Increase the integrated marketing force of financial holdings through electronic procedure, continue to reduce the size of the business organization and strengthen development in external channels in order to accelerate the increase of production of business units.
- (2) Continue to strengthen information management and use of digitalization, optimizing the efficiency of operation procedures in order to promote the competitive advantage and service quality and improve customers' loyalty to and satisfaction with the Company.
- (3) Strengthen the operation of regional claims center, implement profession classification management to improve service efficiency; business unit efficiently reduces organizational management level to improve operational efficiency of the organization.
- (4) Strengthen business quality control, efficiently control costs, and sophisticate profit-oriented system to strengthen operating profitability.
- (5) Overseas subsidiaries will continue to cultivate and expand the existing branches and sub-branches and increase channels with good quality and promote operational performance.

■ **Cathay Securities Corporation**

- 1. Establish pure online digital platform to attract large amount of customers and expand the scale of brokerage business.
- 2. Provide an integrated service of quality products, platforms, and activities to domestic and foreign corporations.
- 3. Start new types of business to increase income sources.
- 4. Promote internal cross-selling, establish cross-border team for sub-brokerage business, and maintain growth momentum.
- 5. Utilize core technologies to develop diverse products and markets and product modularization to improve operational performance.
- 6. Utilize resources of the Group, promote cross-selling in underwriting business, strive for large indicator cases, and strengthen the business of returning to Taiwan for listing.
- 7. Implement law compliance and strengthen risk management mechanism

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

- 1. Integrate the globalized asset management resources of the Group and improve international vision
- 2. Activate trading in secondary market and expand ETF and the scale through the development of ETF trading strategy and the operation of market maker
- 3. Introduce post-retirement wealth management and female wealth management services

4. Conduct capital increase in Cathay Venture Inc.

■ **Cathay Venture Inc.**

1. Investment Strategy:
  - (1) Actively make strategic allocation in start-up financial technology companies, invest in start-up financial technologies and teams, especially the companies and teams that can optimize the financial service capacity of the Group; increase investment in biotechnology and health and medical care, such as the future trend like new medicines, medical equipment and devices, precision medicine and immune therapy; and continue to invest in quality companies that possess advantages in regional development domestically and internationally.
  - (2) Enhance the overall profits of the Group by introducing the good investment deals and industry development information to the affiliates.
2. Investment stage: discover quality companies with growth potential and high recognition in capital markets in the seeding stage, creation stage, expansion stage and maturity stage, and gradually enlarge the investment amount of individual cases.
3. Geographical location of investment: Focusing on companies in the Greater China Region with global reach.

**(III) Industry Overview**

Looking back at the prior year, in spite of the interference of Brexit, the global economy gradually exhibited a growth with the oil price rebound and a large-scale quantitative easing program in European markets. Since the beginning of 2017, the market has been paying attention to the policies of the new administration in the United States. Although the trade protectionism remains a concern, stimulus measures in the United States, e.g. tax reduction and infrastructure expenditure, are expected to be effective. And the economic growth in emerging markets shall continue. Looking ahead, Cathay Financial Holdings will prudently respond to the changes in global economy, carefully evaluate the investment opportunities, and continuously maintain stable growth. An outlook on life insurance and banking business are set forth below.

With a large-scale quantitative easing program in European markets and China's decelerating economic growth, many nations across the globe have in turn proposed stimulus packages to break through the economy stalls. The global economy did not recover as expected and instead exhibited a faint growth. As a result, the operating environment that life insurance faces is still challenging. However, with the new government policies, e.g. the development of FinTech, the investment in social welfare and in long-term nursing industry, and the grant to life insurance to conduct overseas strategic investments, have enabled life insurance companies to expand the business and to improve the efficiency of capital use.

Regarding the prospect of banking industry, the return on assets for domestic banks in 2016 was 0.68% and the return on equity was 9.24% because of global economic turmoil. The profits of all Taiwanese banks slightly decreased. However, the NPL ratio of banking sector in Taiwan was only 0.23%, indicating an excellent risk control performance under global market uncertainty. Looking to the future, the FSC deregulation in oversea expansion and financial technology, are expected to help the banking sector to improve competitiveness.

## (IV) Research and Development

### ■ Cathay Life Insurance Co., Ltd.

#### 1. Research and development spending in the last 2 years and the results:

##### A. Spending on research and development

The budgets on research and development in the last two years are shown in the table below:

Unit: NT\$ thousand

Year	2017 (Estimate)	2016	2015
Amount	75,407	56,081	52,755
Growth rate (%)	32%	6%	6%

##### B. Results of research and development

- (1) Product innovation: Actively develop innovative products to satisfy diverse demands of customers and secure the status of the leading brand in the market while coping with the change in market demand; Cathay Life Insurance is the only insurance company to have been awarded the “Excellence Award for Product Innovation” of the “Taiwan Insurance Excellence Awards” six consecutive times.
- (2) Customer service: Professional team of “e Mobile Sales Person” provides the most complete “Comprehensive Mobile Insurance Service,” which brings quality and instant and convenient services to customers; continues to actively care about customers and strengthen relationships with customers, enlarges the collection of customer opinions and improves customer satisfaction in order to refine service quality.
- (3) Overseas expansion: The Company is an industry pioneer in exploring the insurance market in Mainland China and Vietnam, and established the subsidiaries of Cathay Life Insurance in 2005 and 2008 in Mainland China and Vietnam, respectively. The Company continues to make operating plans for overseas markets and evaluates the chances of entering into new ones, marching towards the goal of “the best financial institution in Asia Pacific.”

#### 2. Research and development plan in the future

- (1) Business: Develop diverse and delicate service, improve all mobile financial tools, and combine virtual and physical channels to satisfy customer demands and improve customer satisfaction.
- (2) Finance: Maintain strict risk control and proper liquidity, continue to control the costs of foreign exchange hedging, and seek for diversification of foreign investment position. In addition, actively strive for relaxation of laws and regulations (such as allowing firms to invest in foreign unlisted equities and implementing stock reverse business cycle mechanism in capital adequacy ratio system) and conduct asset allocation in response to the global economic changes and by upholding the CSR investment spirit to improve fund application efficiency and sustainable operation.
- (3) Integrated marketing: Gradually integrate mobile system, precisely manage customer information, and provide advanced and comprehensive financial wealth management service based on the advantages in quality and diverse products and services of the Group in order to increase the customer loyalty to the Group. We will also comprehensively promote efficient operation, in which we will utilize expenses efficiently and strengthen the cost control. Meanwhile, we will use scientific management tools to build a professional mobile service team, as well as integrating the sources of the Group to improve the operational efficiency of the Company.
- (4) Overseas operation: Apart from continuing to invest in the markets of China and Vietnam and implementing localized operations, the Company also evaluate expansion into other overseas markets. We will work toward the goal of becoming “a Leading Financial Institution in the Asia-Pacific Region” at a steady pace. A budget of NT\$75.407 million will be allocated to research and development.

■ **Cathay United Bank Co., Ltd.**

1. Research and development spending in the last 2 years and the results:

(1) The budgets on research and development in the last two years are shown in the table below:

Unit: NT\$ thousand

Year	2017 (Estimate)	2016	2015
Amount	424,740	284,548	390,406
Growth rate (%)	49.27%	-27.11%	21.83%

(2) Result of research and development in 2016

Unit: NT\$ thousand

Name of major project	Investment
KOKO	7,142
Design of integrated framework	48,088
Customer information inquiry/account overview	22,397
Interactive marketing	19,762
Research on the upgrade of core system	13,785

2. Research and development plan in the future

Plan/project in the most recent year	Progress	Additional budget required (NTD\$1,000)	Estimated time of completion	Factors critical to the success of research and development
Payment Hub	In progress (80% incomplete)	29,483	2017/6/30	Meet the needs of users
NEW MMB	In progress (80% incomplete)	20,962	2017/6/30	Meet the needs of users
Digital platform optimization	Planning	46,126	2017/12/31	Meet the needs of users
KOKO	Planning	7,120	2017/12/31	Meet the needs of users

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

1. Research and development spending in the last 2 years and the results:

(1) Spending on research and development

Unit: NT\$ thousand

Year	2017 (Estimate)	2016	2015
Amount	4,200	3,991	5,198
Growth rate	5.2%	-23.2%	-4.1%

(2) Research and development result in the last 2 years

- A. The Company has been actively promoting digital mobilization in recent years. In March 2012, Our Company introduced “My MobiCare App,” which is an emergency tool that can be used during traffic accidents and helps users to record the scene of a traffic accident and protect their interests with regard to claims or reconciliation. Our Company has been optimizing the functions of the app. As of the end of 2016, there were a total 3,019 accidents reported and 309,064 people used the “insurance inquiry” function, 162,610 people used the “claims application” function, and 7,309 people used the “claims put on record” function, which were all increased compared to 2015. Our company launched the first overseas travel service app, called “My Trip Asst App,” which became the first in the industry in November 2014. With the assistance of the app, customers can learn about the content of service when they are overseas and receive instant guidance on all kinds of travel emergencies. They can obtain the documentation on accidents at the earliest time and secure their interest in making claims. As of the end of 2015, there were a total of 72,436 downloads and a total of 39,051 people who used the insurance inquiry function. Improve customer service quality and the working efficiency of internal employees through the application of new technologies.
- B. The Company actively engages in the service of damage prevention and control. In April 2014, we established a traffic safety website “Accident-Free Institution” and introduced an actual stimulation testing that is the only testing in Taiwan that applies “driver adaptive diagnosis” technology and “hazard perception” through the collaboration with the professors from authority traffic study institutions in Taiwan - Department of Transportation and Logistics Management, National Chiao Tung University and Central Police University, which provides customers with customized car accident prevention service. In 2016, the Company also introduced a brand new “driver overall evaluation testing.” We acquired officially authorized data from Institute of Transportation, MOTC and established an innovative online testing service - “driving testing.” This new testing expands the knowledge and skill testing for drivers, integrates three major services as one, and comprehensively evaluates psychological, reaction and knowledge and skill perspectives. The starting point was to build comprehensive traffic safety thinking and to become a professional damage prevention service for traffic safety. We also have the first accident prevention service for corporate motorcades, which prepares customized training materials based on different demands of different motorcades (such as bus transportation industry, freight industry or other corporate customers) and arranges the annual educational training for corporate motorcades. As of the end of 2016, there were more than 3,300 people participated in the training.
- C. Our company submitted 53 new products for assessment in 2016. Apart from the diverse and differentiated new products, we also satisfy the needs of the public and create marketing advantages for our products. In recent year, the Company also invested in the development of green insurance products, including the only “green car insurance” introduced in 2013, the first “bicycle insurance project” in the industry in 2014, and “mango agricultural product insurance” in 2016 in response to the climate change issue and aiming to reduce financial burdens for farmers. In addition, the Company insured the first offshore wind power case in Taiwan to support the transformation of green and renewable energy industry. We not only help corporations to avoid environment and social risks, but also accomplish the goal of sustainable operation and development.
- D. “Accident-Free Campus,” the first campus damage prevention project started by the Company in 2012, promotes the concept of “preventive campus safety.” As of the end of 2016, we have completed on-site safety tests in 73 schools, provided subsidies for safety mattress in 33 schools in rural areas (with the total donation amount of almost \$3.6 million), held 69 campus events, in which there were 509 classes and 14,091 students participated in. We hope that these events can bring a more comprehensive safety care and awareness to students and deliver the concept of “prevention” to schools efficiently in order to prevent any unnecessary tragedies and accidents from happening.

E. Apart from receiving the excellent credit ratings of “twAA+” from Taiwan ratings, “A-” from S&P, and “A3” from Moody’s, the Company also received domestic and international awards, including the national top prize in “Outstanding Corporation Category” and “The Best Product Category” of the National Brand Yushan Award, “Golden Torch Award,” and “Digital and Diverse Channel Technology Prize” of the “Asian Role Model Insurance Company Award,” which indicate that our performance is recognized by others.

2. Research and development plan in the future

- (1) Continue to develop mobile services. Use mobile platform device and technology. Optimize current marketing and service models. Improve operational efficiency and service quality.
- (2) Stay in touch with development trends of the society and develop new products (such as UBI insurance and green insurance) based on market conditions and recent events. Also, develop comprehensive policies that cross insurance boundaries to satisfy the diverse needs for insurance among the consumers.
- (3) To gather more types of customer opinion and survey customer satisfaction with our company’s products and services, we will continue to engage professional market research firms to gather relevant information as our reference in improving our service process.

■ **Cathay Securities Corporation**

1. Spending on research and development in the last two years and budget for the future.

Unit: NT\$ thousand

Year	2017	2016	2015
Amount	4,000	1,260	2,484
Growth rate	217%	-49%	141%

2. Research and development result in the last 2 years

- (1) Off-site back up mechanism: creating off-site back up for online order placement for stage core trading servers.
- (2) Improving the functions of e-commerce platform: Push Notification service, cloud subscription service, cloud stock selection function.
- (3) Mobile service platform function improvement: Fingerprint identification function, mobile trading system for Android, sub-brokerage App.
- (4) Creating the system for the Hong Kong subsidiary.
- (5) Creating an overseas futures system.
- (6) Creating a wealth management trust system, major customer order placing system, OSU business and system.
- (7) Creating a telephone order taking concentration center.
- (8) New system development ordered by Taiwan Stock Exchange and Taiwan Futures Exchange.
- (9) In conjunction with the revision of Personal Information Act, enhance protection mechanism on customer data to ensure the security of customer data.

3. Research and development plan in the future

- (1) Strengthen information security: Introduce E-mail APT and terminal APT safeguard mechanism, DDOS safeguard mechanism, penetration testing and app anti-resistance and interpretation mechanism.
- (2) Cope with the new trading system of TWSE: Develop and establish and develop systems of two-way security lending, dollar-cost-averaging share buying, loans without limited purpose.
- (3) Cope with new trading systems and after-hour futures trading of TAIFEX and establish systems.
- (4) Develop and establish online account opening system.
- (5) Develop and establish discretionary business system.
- (6) Promote the functions for the mobile service platform.
- (7) Create centralized securities depository STP and mobile passbook system.
- (8) Hong Kong subsidiary system: Develop and establish foreign stock trading system and proprietary system.

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

1. Spending on research and development in the last two years and budget for the future.

Unit: NT\$ thousand

Year	2017	2016	2015
Amount	11,680	12,000	20,000
Growth rate	-2.7%	-40%	62.87%

2. Results of research and development

- (1) Develop and establish a website for post-retirement wealth management planning
- (2) NDLP anti-data leaking and Email encryption release mechanism
- (3) Development and establishment of anti-money laundering and terrorism financing risk assessment system.
- (4) Automatic examination on stock transaction taxation in fund/fiduciary account system.
- (5) Develop the function of automatic bank statement faxing for customers
- (6) Increase the function of irregular payment amount in fixed terms for overseas funds
- (7) Development and establishment of adaptive functions for the content of electronic bills.

3. Research and development plan in the future

Plan in the most recent year	Progress	Additional budget required (NTD\$1,000)	Estimated time of completion	Factors critical to the success of research and development
Upgrade the investment audit control system	In progress (5% completed)	15,000	December 2019	Clear and complete demands from managers, traders and risk management personnel, the types of funds and investment products to be issued by the Company in the future, cooperation from all relating departments
Modifying functions of ETF fund system	In progress (70% completed)	1,600	September 2017	The extent of familiarity and optimization with the operation procedure among managers, sales, and operations department
Annual information security strengthening program	Planning (0% completed)	1,230	December 2017	Perform vulnerability scanning, malicious traffic attack and defense, gate-end email and cyber attack and defense
Upgrade the fund bookkeeping and accounting system	In progress (15% completed)	500	December 2018	Familiarity of the new system structure and the development of new program tools, seamless transition between the old and new system, user participation and cooperation
E-office and items for improving customer services	Planning (0% completed)	1,400	December 2017	Advanced planning of e-commerce. Understanding the time saving in human processing and procedure to evaluate the benefit
Establish online account opening system	In progress (75% completed)	1,000	April 2017	Simply the procedure for opening an account for new customers, improve convenience, efficiency and security, establish operation interface that is easy to use and provide customers with an online account opening application system

## **(V) Long and Short-term business development plan**

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

#### **1. Short-term business development plan**

Currently, the insurance operation is in a rapid-changing environment, and the Company is facing the challenges of changing supervisory environment, investment black swans frequently appear, the competition in the market share for premium, and the change of population structure. Therefore, the Company draws up the short-term operational program:

- (1) Continue to uphold the value-oriented operation principle, maintain healthy enterprise constitution, and strengthen the sale of long-term products in installments.
- (2) Use whole-channel to enhance customer experience, utilize big data analysis, and precisely operate customer groups.
- (3) Establish comprehensive product lines in response to the change in social environment to satisfy customer demands.

#### **2. Long-term business development plan**

Founded more than half a century ago, the Company has become the No. 1 brand in the life insurance industry. The Company has drawn up long-term business development plans to secure leading advantage in the future as followed:

- (1) Invest in key technology and improve operational efficiency  
Introduce the application of financial technologies, expand customer groups, and improve service quality and administrative efficiency.
- (2) Create value service and improve customer loyalty  
Introduce technology as a comprehensive assistant to our sales person, increase interactions with customers, and cultivate emotional connections through selling highly professional products.
- (3) Build an instant system to improve operation quality  
Develop data instant analysis system, strengthen core capacity of computation, and establish rapid responding balance management mechanism.
- (4) Pay attention to overseas markets and increase profits  
Continue to cultivate current markets in Mainland China and Vietnam and pay attention to the expansion opportunities in other overseas life insurance markets.

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

#### **1. Short-term business development plan**

- (1) Consumer finance: Continue to promote cross-selling collaboration mode with subsidiaries within the Group, expand basis of customers and operational scale, utilize data mining technology and improve trend forecast models, focus on the cultivation of target customers and provide them with customized products and services based on their natures to increase the overall contribution of customers.
- (2) Credit cards: Grasp the massive business opportunity of mobile payment, introduce mobile phone credit card binding, seek for strategic collaboration partners, and develop innovative cash flow services and diverse payment modes with mobile service platform.
- (3) Trust: Improve “prepayment instant trust” services. Apart from assisting firms to comply with laws and regulations as well as protecting consumer’s rights and interests, we also provide customers with integrated services and create diverse service income through cash flow services like card acquiring and WebATM provided by the Bank.
- (4) Corporate finance: Expand basic customer groups, put the development priority on cash management, cross-border trading and corporate wealth management businesses to increase the number of quality customers, improve loan business of the Bank, and expand the cross-selling opportunities in corporate and personal finance and maintain the overall momentum for profits.
- (5) International banking: The Company will grasp business opportunities in Renminbi transactions and in interior China in order to expand its foreign exchange operation, as well as establishing networks in Southeast Asian market to grasp the trend.

- (6) Digital bank: Aims at the demand of customers of younger generation and develop innovative financial service that is user-oriented, strengthen QR Code and NFC functions, expand service scope to improve customer usage rate and experience satisfaction and improve the overall operation efficiency.
- (7) Investment and financial products: Increase the ratio of 100% principle-guaranteed products or products with high principle-guaranteed ratio, implement the connection between KYC and KYP, measure customers' risk-bearing capacity and willingness to reduce the risk of customer complaint.
- (8) Overseas operations: Continue to optimize the operational management for overseas posts, ensure the sound operation of overseas branches and offices and integrate and apply domestic and overseas resources of the bank to perfect the overseas management structure and mode.

## 2. Long-term business development plan

- (1) Consumer finance: Continue to follow the operational direction of customer-oriented, combine Fintech, collect and integrate the tracks of customers in digital channels to instantly provide proper products and services, and provide customers with comprehensive cash flow service experience through a sound collection and payment platform along with events in virtual and physical channels.
- (2) Credit cards: Develop new types of payments, expand wider application scenario, strengthen transaction security as well as continue to discover consumer demand and optimize product structure, preference and interests and discounts to improve the competitiveness of the brand.
- (3) Trust: Continue to promote "Charity Nature Trust" business and assist nationals to make good use of trust to implement property protection; use new technology to plan and design innovative products, improve system functions, optimize operation processes, and provide the best service in wealth management, trust, and custody for customers in accordance with changes in trust laws, technical web service models, and market trends.
- (4) Corporate finance: Integrate the networks of overseas branches and offices, improve functions of e-banking, optimize the interface of cross-border products and platforms; collaborate with overseas equity participation banks to develop business opportunities, provide further localized operational management, and create more synergy benefits.
- (5) International finance: Connect domestic and overseas branches and sub-branches and partners platform, expand trading financing and cash management business, as well as continue to expand the establishment of internationalized system, developing distance transaction platforms and strengthening customer loyalty in order to increase foreign currency deposits and exchange of business.
- (6) Digital banking: Grasp the trend of financial product digitization and provide customized financial products through cross-industry cooperation with digital platform. Duplicate successful experiences in the operation of digital channels and increase advantage in developing into a regional bank in Asia.
- (7) Investment and financial products: Provide diverse product services, assist sales of channel units to increase customer coverage, and strengthen risk management platform to implement the overall sales risk control.
- (8) Overseas operations: expand the profits and market share in overseas markets, implement localized operation and management, and grasp the growth opportunities in Greater China and Southeast Asia. Uphold the attitude of "integrity", the ambition of "accountability," and "innovation" thinking, introduce the thinking of digital finance, and steadily work towards the goal of becoming a leading financial institution in the Asia-Pacific region.

## ■ Cathay Century Insurance Co., Ltd.

### 1. Short-term business development plan

#### (1) Business strategy

- A. Continue to improve the effectiveness in introducing group and external channel sales. Effectively improve sales quality and control expenses to create higher market share and profit at the same time.
- B. Strengthen the delicacy management of sales organization to increase the depth and width

of sales.

- C. Develop quality customers of small and medium enterprises and strengthen the introduction momentum of commercial insurance types and work towards the goal of balanced development in insurance types.

(2) Product strategy

- A. Provide differentiated customer service and continue to develop unique and marketable products, and design products that segregate markets and increase the competitiveness of the company.
- B. Understand the nature of different channels. Design simple, project-oriented products as the door openers of channel sales to speed up channel development.
- C. Perform insurance premium tests on a regular basis to improve premium competitiveness and profitability.

(3) Service strategy

- A. The company promotes digital operation and is committed to the development in all types of mobile device and new information system. The company improves service quality and efficiency.
- B. Promote claims reform project, implement regional claims center, and simplify claims service procedure to improve claims service satisfaction.
- C. The company promotes damage prevention customer service and corporate damage prevention, provides differentiated damage prevention service, and improves the added value of insurance.

2. Long-term business development plan

- (1) Continue to enlarge market size and aim for leadership in the industry.
- (2) The company seeks innovation in service to improve operational efficiency in a comprehensive way and to reinforce its superior brand image so that it can be the best property/casualty insurance company in the minds of customers.
- (3) Align ourselves with the business development strategy of the financial holdings and march toward the goal of becoming the best property-casualty insurance company in the Asia-Pacific region.

■ **Cathay Securities Corporation**

1. Short-term business development plan

- (1) Implement the “Summit Project” and explicitly state the core value of “integrity, accountability, innovation”, review the quality of service and improve performance regularly, and create a positive work environment for higher performance.
- (2) Develop diverse products, including sub-brokerage, OSU, loans without limited purpose, and dollar-cost-averaging products, to increase diverse revenue.
- (3) Expand business to domestic and foreign institutional investors, provide integrated services of quality products, platform and activities to domestic and foreign investors to increase orders placed by institutional investors.
- (4) Cultivate customers with digital thinking, promote digital marketing, and strengthen pure online service experience.
- (5) Utilize arbitrage strategies of expanding the scale and develop diverse trading markets in warrant business to maintain steady profits; proprietary futures business will extend arbitrage technique to work towards the development of diverse market, diverse products, and product modularization to increase operation income.
- (6) For sub-brokerage, promote internal cross-selling, cultivate corporate customers and customers with high net-value through the collaboration with underwriting department to provide comprehensive wealth management services; establish cross-border team to provide services to corporations in Mainland China and Southeast Asia and maintain growth momentum.
- (7) Establish overseas operation team, utilize resources of overseas subsidiaries, and introduce indicator corporations to return to Taiwan and to be listing; develop Group cross-selling, jointly strive for large stocks listing in TWSE and TPEX, and increase auction surcharge revenue.

2. Long-term business development plan
  - (1) Utilize group resources, strengthen a joint cross-selling mechanism, and increase the penetration rate of group customers in integrated marketing of securities.
  - (2) Look for niche business opportunities to fortify the platform for securities and financial products and services of the group.
  - (3) Look for overseas business opportunities, and expand the business territory to Asian.

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

1. Short-term business development plan
  - (1) Improve the delicacy and precision of the sale of discretionary-like policies
  - (2) Continue to cultivate dollar-cost-averaging business to increase average debit amount per person and market share through consistent wealth management education and innovative debit strategy research.
  - (3) Utilize the timing that securities firms opening dollar-cost-average ETF business to encourage individual investors to invest.
  - (4) Continue to improve digital marketing platform and widely utilize it in channel service.
2. Long-term business development plan
  - (1) Utilize Group resources and the top asset management team on Cathay Asset Management Platform to provide long-term, stable performance, achieve the expected return rate of customers, and improve operational performance.
  - (2) Cultivate internal and external channels of the Group, utilize resources, and display the maximum efficiency of the channel.
  - (3) Promote customer classification management, classify customers with levels of contributions to provide differentiated services and increase the purchase energy of quality customers.
  - (4) Continue to cultivate discretionary business in corporate institutions and government bonds and actively strive to promote the investment option mechanism on labor pension fund.

■ **Cathay Venture Inc.**

1. Short-term business development plan
 

Cope with the development trend in the industry and the market, invest in competitive Fintech, biotechnology, health medication, and other quality companies that have advantages in regional development domestically and internationally.
2. Long-term business development plan
  - (1) The company will build up professional talent in different fields, strengthen the investment team, and increase the return on investment.
  - (2) The company will cooperate with not only internal but also external strategic partners to create better investment opportunities.

## II. Cross-business & Cross-selling Benefits

Cathay Financial Holdings has been actively consolidating the resources of its subsidiaries to reduce operating costs and enhance capital efficiency, and strengthening cross-selling so that subsidiaries can pool their resources. By doing so, the company substantially enhances customer satisfaction and maximizes shareholder value. Cathay Financial Holdings and each subsidiary regard the performance of cross-selling as an important operation index. Taking the 2016 results as examples, 21% of Cathay Life Insurance's first-year-premium was from the bancassurance of Cathay United Bank. For the credit card business of Cathay United Bank, 17% of new cardholders were from Cathay Life Insurance. Moreover, Cathay Life Insurance and Cathay United Bank together contributed to 62% of Cathay Century Insurance's overall business for the period.

Cathay Financial Holdings will continue to lie in the business principle that focus on customer needs and aim for seamless integration of channels and products to meet individual demands of customers. In terms of product development, by observing and studying evolution in the financial industry and the regulatory environment around the world, we continuously develop and introduce innovative products to our customers. In terms of channel, we strive to create a more gratifying one-stop shopping

experience for our customers by integration of marketing information and optimization of service processes.

In short, Cathay Financial Holdings will persistently apply a more customer-oriented mindset in the future to increase customer value, and provide the most suitable products and services based on customers' demands and preferences. We expect to create high synergy with group resources through a more systematic and efficient cross-selling mechanism.

### III Industry and Market Overview

#### (I) Major products and Regional office

Major products	Regional base/office
Life Insurance (including life, endowment, health/medical, annuity, accident, group, etc.)	Taiwan, Mainland China and Vietnam
Banking (deposits, loans, credit cards, foreign exchange, trusts, etc.)	Taiwan, Hong Kong, Mainland China, Singapore, Vietnam, Cambodia, Laos, Malaysia and Philippines
Property and Casualty Insurance (automobile, fire, flood, engineering, health and casualty etc.)	Taiwan and Vietnam
Securities (brokerage, proprietary trading, underwriting, financial instrument)	Taiwan and Hong Kong
Securities Investment Trust/Asset Management	Taiwan, Hong Kong, Mainland China, Europe, United States and Japanese

#### (II) Future market supply and demand

- Under political and economic turmoil in 2016, e.g. United States presidential election, the Brexit, and China economic slowdown, the global economy did not recover as expected and instead exhibited an asthenical growth. Cathay Financial Holdings will actively respond to market dynamics and carefully evaluate the investment opportunities, with a cautious attitude toward global political and economic situation. Life Insurance

##### 1. Supply

The FSC encourages life insurance companies to investing in financial technology (also know as FinTech). In light of an intensely competitive environment and an era of digital finance, Cathay Life Insurance continues to embrace innovation and change by making the stride forward steadily.

##### 2. Demand

In the event of the aging society, the health management become more and more value in Taiwan society. Nowadays, people pay more attention to elderly care, health protection and retirement pension plan. Such trends better guide life insurers to develop related products to meet customers' needs.

##### 3. Future prospects

With the global economy recovering, Taiwan's economy in 2017 is expected to gain growth momentum. In addition, the government's deregulation in long-term care and overseas expansion, is expected to increase the sector's competitive advantage.

- Banking

##### 1. Supply

(1) The banking sector in Taiwan has strived to establish digital environment by launching the mobile payment and applying big data analytics, hoping to bring customers with more convenient and safer financial services.

(2) The banking industry in Taiwan has been highly competitive in decades because of homogeneity in products and services. As a result, innovative products and differentiated services will be the critical niche for banks in Taiwan. One way to break through the status quo

is to make strategic alliances with non-bank industries to provide more innovative financial service for the customers.

## 2. Demand

Global economy is expected to gradually recover in the future year. Further, the stabilizing price of crude oil and commodity will be helpful for future economy growth.

## 3. Future prospects

Cathay Financial Holdings has maintained sound operation and optimize the efficiency of capital use, even though facing the global economy turmoil and intense domestic competition. Meanwhile, Cathay Financial Holdings continuously designs products from a customer-oriented perspective. In addition, Cathay United Bank continues to seek growth in Mainland China and ASEAN markets using local business strategies to work toward becoming a leading financial institution in the Asia-Pacific region. Cathay United Bank also aims to improve customers' experience through the combination of virtual and physical access. And we commit to develop all employee's expertise through training programs. By doing these, Cathay Financial Holdings wishes to maintain the competitiveness in banking sector.

# ■ Property and Casualty Insurance

## 1. Supply

- (1) With the advancement of FinTech, the property insurance industry continues building up digital platform and launching mobilized services in order to provide customer-oriented services.
- (2) With the environmental awareness, 'Green insurance products', addressing the climate change, e.g. green automobile insurance and green building insurance, have been deserved more and more emphasis.

## 2. Demand

The government's new policy, "Commodity Tax Cut for Vehicle/Motorcycle Trade-in", has been expected to bring momentum to the automobile insurance market, while the 'Investment Revitalization Program', 'Green Energy Policy', and 'Key Industry Development Policy' (focusing on five major industries, including ASVDA(Asia Silicon Valley Development Agency), biotechnology, green technology, intelligent machines, national defense and aerospace) will pique the demands for more types of commercial insurance.

## 3. Future prospects

The international economy is expected to recover steadily in 2017. Circumstances are favorable to the steadfast growth of the property insurance market, while the government deregulated the investment policies and supported the FinTech.

# ■ Securities Business

## 1. Supply

With the trend of digitalization and mobilization prevailing, the number of operational branches and staff all declined throughout 2016. The number of branches drop from 1,086 in 2011 to 953 in 2016, while the number of employees decreased from 19,575 in 2010 to 15,939 in 2016. Meanwhile, the number of ETFs increased from 36 in 2011 to 62 in 2016, with the transaction weight increasing from 7.3% to 9.0% in the same period. The FSA new policies, including security lending, lending for unrestricted purposes, and enlarging the scope of targets for day-trading of spot shares, are expected to increase the investment targets for investors and generate new income sources for brokerage firms.

In recent years, Cathay Securities Corporation has focused on digitalization and product diversification, hoping to expand its online customer base. Its market share in brokerage business rose to 1.89% in 2016, ranking 11th in the sector. Concurrently, Cathay Securities Corporation's re-consigned trading business ranks 1th among peers, with the market share 20.4% in 2016. In the age of financial digitization, Cathay Securities Corporation commits to develop the mobile appliances and digital devices to strengthen the service quality.

## 2. Demand

In 2016, the average daily trading volume for the Taiwan stock market was NT\$98.7 billion, the

lowest in the last three years. With the decrease of trade volume in the market, the proportion of orders via electronic devices has climbed to the percentage of 48.4% in 2016, reflecting that the investors gradually accept the approach of electronic orders. Meanwhile, the amounts of IPOs in 2016 plummeted to 24.8 billion, the lowest since 2012. It reveals that the the average scale of IPO has declined. Cocurrently, the number of SPOs is 115 and average amounts of SPO is NT\$53.2 billion in 2016, both the lowest since 2009. This phenomenon can be attributed to the economic uncertainty in Taiwan and the low capital need of Taiwanese enterprises.

However, with the global economy recovery in 2017, the operation performance for domestic enterprises has been more stable. Cathay Securities Corporation would like to grasp this opportunity to assist in capital raising and create various investment targets for customers.

### 3. Future prospects

The rise of interest rates initiated by the US, increased political risk in Europe zone, and relaxed monetary policy in Japan, all lead to the uncertainties in economy in 2017. In the face of such volatility and uncertainty in the financial environment, Cathay Securities Corporation has always adhered to the principle of innovation. The brokerage business with electronic digital platforms is expected to secure more customer base, while the lending for unrestricted purposes and the systematic investment plans for individual stocks and ETFs are expected to generate more revenue source.

Cathay Securities Corporation's underwriting business has reposed to government policy, assisting foreign enterprises to enter the Taiwanese capital market. Further, in terms of financial trading business, Cathay Securities Corporation will expand the scale of warrants issued. In long term, Cathay Securities plans to leverage its extensive network in Taiwan, Hong Kong, and mainland China to further expand the business of corporate clients and high net-worth individuals.

## ■ Investment Trust

### 1. Supply

The Brexit, Fed's rate hike, and the Presidential election in US, have impacted global investors' confidence. These uncertainties may led to the shrinking of the scale of Taiwan's mutual fund market. However, the ETF is the only fund type with growth. Such growth might be attributed to its high transparency, liquidity and the low fee. Nine of the ten ETF funds launched by Cathay Securities Investment Trust, are equipped with the dynamic "Bull and bear market two-way operation", while coveraging the markets in Japan, China, the U.S. and Taiwan. The successful launch of such ETF related products makes Cathay Securities Investment Trust become the second largest trust fund and the largest AUM among domestic counterparts.

### 2. Demand

Cathay Securities Investment Trust has been the leader in Fintech layout among the peers in asset managing sector. Cathay Securities Investment Trust continues upgrading its digital platform in order to increase the penetration rate of the online users. With the advent of the aging society and prolonging of life expectancy, the demand for retirement pension management has been increased. Cathay Securities Investment Trust has introduced retirement wealth management products, aiming to assist investors in reserving retirement funds.

### 3. Future prospects

As Fintech Comes of Age, Cathay Securities Investment Trust devotes itself to deploying online products and services and optimizing the digital services. By utilizing FinTech in channel, Cathay Securities Investment Trust may attract more potential investors and maintain its competitive edge. Meanwhile, in the last years, combined with the Cathay Group's brand image, Cathay Securities Investment Trust has launched Investment Linked Policies (ILPs) and other wealth management-related products to accommodate the needs of an aging society in Taiwan.

## (III) The Business Objectives of Cathay Financial Holdings

Cathay Financial Holdings has operated following the concept of sustainable development and maximized the value for our shareholders, customers and employees. We focuses on three long term strategies in the

future. First, building the asset management business as the growth engine for Cathay Financial Holdings. Secondly, expanding the overseas presence in the Asia Pacific region. Thirdly, developing Financial Technology, also known as FinTech. By doing so, Cathay Financial Holdings hopes to create a competitive advantage and become the best financial institution in the Asia-Pacific region. The future business objectives are elaborated in detail as following:

### 1. **Create the asset management business as the growth engine**

In addition to banking and life insurance business, Cathay Financial Holdings has been establishing a global asset management platform by connecting the operation between Conning Holdings Corp, Cathay Securities Investment Trust and CDBS Cathay Asset Management. By integrating these subsidiaries' resources and providing client-tailored services, Cathay Financial Holdings plans to offer the financial service that satisfies each stage of our customers' life. The recent actions in the past year are set forth below.

- (1) Expanding the scale of Asset under Management(AUM): Cathay Financial Holdings' AUM as December 2016, has been more than US\$100 billion in size.
- (2) Introducing various products that meets customer needs: With Conning's investment advisory services, Cathay Securities Investment Trust is striving for complete the production line to satisfy the needs of investors, e.g. Cathay China Umbrella Fund.
- (3) Strengthening our investment ability: Cathay Financial Holdings will optimize the investment capacity and search for good investment opportunities in the future.

### 2. **Expanding the overseas presence and achieving the vision of “As a Leading Financial Institution in the Asia-Pacific region”**: Increasing overseas profit contribution has been the main objective for Cathay Financial Holdings. In addition to China, the Southeast Asia market has been in significant economic growth. Cathay Financial Holdings has been eager to tap into this market to share the growth with local market. By doing these, Cathay Financial Holdings hopes to transit from a local player to a regional player to finally achieve the vision of “being a leading financial institution in the Asia Pacific region.” Cathay Financial Holdings' overseas layout is stated in detail as following.

- (1) Completing the second phase of equity investment in Bank Mayapada Internasional Tbk: Cathay Life Insurance acquired 15.1% stake in Bank Mayapada Internasional Tbk (“Bank Mayapada”), totaling 40% of the investment equity. Cathay Financial Holdings and Bank Mayapada plan to carry out closer cooperation after equity investment.
- (2) Further expanding our coverage in the ASEAN countries where we have no presence: Cathay Financial Holdings already has branches/offices in nine of ten ASEAN countries. For the markets where we only have representative offices, e.g. Myanmar and Thailand, Cathay Financial Holdings continues searching the opportunities to expand the presence, hoping to complete our network in Asia-Pacific and provide a better service to Taiwanese companies. In addition, in the markets where Cathay Financial Holdings' banking subsidiary locates, Cathay Financial Holdings continues searching for potential investment opportunities in insurance and asset management, hoping to complete the financial products that we provides.
- (3) Collaborating with our strategic partner in Mainland China: Cathay Lujiazui Life Insurance has been supported by Shanghai Lujiazui Finance & Tradezone Development Co., Ltd, our strategic partner. Cathay Lujiazui Life Insurance currently has presence in 31 cities in China, which is the largest Taiwanese life insurance company in Mainland China. Cathay Insurance(China) increased its capital from RMB 0.8 billion to RMB 2 billion and that Ant Financial, an affiliate of Alibaba Group Holding Ltd., the sole subscriber for all of the new capital issued in 2016. Through cooperation with Ant Financial, Cathay Insurance (China) and Ant Financial will enter the internet-related insurance, including in the areas of e-commerce and internet finance.

### 3. **Generating a competitive advantage in digital finance**: In the past years, financial technology has become a critical topic in financial sector. The evolution of internet-based finance and non-financial firms' encroachment into financial services, via the internet, mobile, and social network, have threatened the traditional financial industry. Cathay Financial Holdings is well prepared to meet the

challenge.

- (1) Introducing convenient and safe internet-based finance: Cathay Financial Holdings already launched Smart Lending, KOKO, and mobile app, and Apple Pay.
- (2) Creating business value from big data analytics: Cathay Financial Holdings and our all subsidiaries separately establish the Department for Digital Bank, responsible for optimizing customer satisfaction and developing customer relationship management.
- (3) Looking for international partners in FinTech: Cathay Financial Holdings actively interacts and works with international Fintech companies. In 2016, Cathay Financial Holdings announced that it has joined Plug and Play Tech Center, the world's largest global technology accelerator, as a Corporate Anchor Partner in its FinTech Program. Through the collaboration with Plug and Play, Cathay Financial Holdings will have the opportunity to be an integral part of the global fintech ecosystem and can more effectively engage with fintech startups, investors and other corporate members.

#### **(IV) Future threats and opportunities**

##### **■ Cathay Life Insurance:**

###### 1. Opportunities

- (1) With the trend of financial technology, the FSC actively promotes and relaxes regulations, encouraging life insurance companies to utilize the mobile technology to build a digital environment, beneficial for the operation of life insurance companies and the consumers.
- (2) To promote strategic investment in Asian-Pacific region, the FSC deregulated the amount limit on life insurance companies investing in real estates overseas, helpful for the efficiency of capital use.
- (3) To cope with the aging society, the FSC encourages life insurance companies to develop innovative products and services and invest in long-term nursing industry..

###### 2. Threats

- (1) The interest rate in the market still remains low. And life insurance companies continues facing the negative interest spread, causing the challenges for product design and investment.
- (2) The investment of life insurance companies is under risk because of the fluctuations in Taiwan stock market

##### **■ Cathay United Bank:**

###### 1. Opportunities

- (1) Cathay United Bank has a large customer base, a wide range of resources, nationwide branches and ATMs. Such niches makes Cathay United Bank eligible to support its customers with timely, suitable, and convenient service.
- (2) The government actively promotes and relaxes regulations on the limit of domestic and overseas lending and being positive to the adoption of "Bank 3.0". Such policies may lead to the business expansion and innovation among Taiwanese banks.
- (3) With continuous promotion for regulations, the penetration ratio of electronic payment is raised from 26% in 2012 to 30% in 2016.
- (4) Cathay United Bank has launched Apple Pay, the mobile credit card encoding service, which is beneficial to take the preemptive opportunities in the market.
- (5) The FSC recently promotes "The e-payment ratio multiplication 5-Year Plan", intending to attract banks and non-bank companies to invest more in new payment devices.
- (6) In 2017, the global economy is expected to gradually recover. The corporate demand in funds and the investment intention in the market are expected to rise as well, which are beneficial for the promotion of corporate loan business and development of new loans of banks.

###### 2. Threats

- (1) Because of the speed of the law adjustment, the saturated financial market, the low interest rate environment, the competitiveness of the financial industry is facing bottlenecks. Meanwhile, because of the overlap and homogeneity in banking sector, the traditional commercial banks'

performance fall behind the Asia-Pacific region banks.

- (2) Banks are facing challenges from new financial service providers as the digital finance business is developing rapidly.
- (3) Credit cards return to the original role as a payment instrument, and the main source of revenues comes from fee income. However, the competition in the market is intense. Certain banks continue to increase the promotion of credit card, which increases operating costs and decreases profits for the banking sector.
- (4) Since the development of all types of electronic and mobile payment is diverse, the costs to integrate payment across various platforms are high.
- (5) Non-bank companies enter the payment area, which increases the difficulty in customer promotion as well as decreases operating profits.

■ Cathay Century Insurance:

1. Opportunities

- (1) Since the demand for purchasing new automobiles is raised by the tax reduction measure of replacing old automobiles with new ones, the main business of Cathay Century Insurance focuses automobile insurance. Therefore, Cathay Century Insurance could continue expanding the business and increasing momentum.
- (2) Recently, Cathay Century Insurance has actively developed the digitization technology, including online insurance platform and mobile apps, in order to improve operating efficiency and deepen customer relation management, and further strengthen the brand awareness.
- (3) Cathay Century Insurance is optimistic about online insured insurance because the FSC gradually permits the types of insurance that can be insured online, continues to relax regulations, and further promotes FinTech application.

2. Threats

- (1) Other companies actively integrating marketing resources. For example, Nan Shan Life Insurance acquired AIG and Fubon Insurance successfully promotes cross-selling. Such actions relatively threaten the competitive advantage of Cathay Century Insurance.
- (2) Recently, Hotai Motor to buy Zurich's general insurance assets in Taiwan. If Hotai Motor completes a chain service of motor business, its overwhelming automobile market share and repair cost control capacity are expected to bring a great pressure in the competition of automobile insurance business.
- (3) With increasing indemnity payments by the court and the rise of consumer claims, the loss ratio of automobile third party liability insurance is increasing. Such condition may have the impact on the operating performance of the sector as the third party liability insurance accounts for the highest percentage in all products.

■ Cathay Securities:

1. Opportunities

- (1) Cathay Securities Corporation integrates the resources of subsidiaries in the group to serve high net worth customers and institutional clients, to extend service quality, to improve customer satisfaction, and to develop business opportunities in underwriting and new financial instruments.
- (2) Electronic trading is a strategic that Cathay Securities Corporation has adopted. It invested a great deal of resources in developing the trading platform, interface, and online securities platform so that it can satisfy the customer demand by mobile trading and real-time information feedback.
- (3) As the leading company in the re-consigned trading business in 2016, Cathay Securities Corporation is easy to generate the global publicity. Through the development experience of re-consigned trading business, Cathay Securities Corporation further connects the domestic and overseas customers and further explores potential business opportunities.
- (4) We have achieved a complete experience of a mobile solution development with the app service. Cathay Securities Corporation expects to optimize and ensure the complete experience is delivered to customers.

## 2. Threats

- (1) The low transaction volume in securities market has an impact on the financing business in the primary market and in the secondary market.
- (2) The saturated market, intense competition, and increasing discount rate in brokerage surcharge have impacts on the revenues of brokerage business.
- (3) As technology changes rapidly, Cathay Securities Corporation commits to develop the financial technology to secure its competitive advantage.

### ■ Cathay Investment Trust

#### 1. Opportunities:

- (1) The asset management platform of Cathay Financial Holdings integrates top asset management teams from Cathay Securities Investment Trust, Conning, Cathay Securities Investment Consulting, and CDBS Cathay Asset Management Corporation. Each subsidiaries could share the resources and professionals with each other.
- (2) The scale of AUM in Cathay Securities Investment Trust is the largest among the peers in Taiwan. Cathay Securities Investment Trust has fair brand image, trust by the consumers.
- (3) Cathay Securities Investment Trust continues to develop diverse products to comply with the social trend and meet the demand of the investors for post-retirement wealth management.

#### 2. Threats:

- (1) The scale of domestic and overseas fund markets have decreased in the last years. And the business of systematic investment plans for individual stocks and ETFs also declined.
- (2) Compared with local funds, the products of offshore funds is complete and with higher sales bonus. And the regulation governing the oversea fund portfolio is more flexible.
- (3) The margin has been declined due to rising channel rebates.
- (4) Recently, the number of newly introducing ETF is increasing, and the operating costs of ETF marketing is also raised, which lead to intense competition and increase the difficulty of product development.

## IV. Employee Profile

### ■ Cathay Financial Holding Co., Ltd.

1. Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year		2015	2016	As of 02/24/2017
Employees	Senior Managers	10	11	11
	Managers	32	34	34
	Specialists	121	141	136
	Junior Specialists	20	21	21
	Total	183	207	202
Avg. Age		36.47	36.71	36.94
Average years of services		9.07	8.93	9.19
Education	Doctorate	1.67%	1.45%	0.99%
	Master	68.89%	67.15%	66.34%
	Bachelor	28.33%	29.95%	31.19%
	High School	1.11%	1.45%	1.48%
Professional Certifications or Qualifications Received by Employees		See chart below		

## 2. Certifications and Qualifications Received by Employees

Certifications and Qualifications	Exam Administrator	Number of employees
Qualification Exam for Securities Specialist	Securities and Futures Institute	4
Qualification Exam for Senior Securities Specialist	Securities and Futures Institute	8
Qualification Exam for Securities Investment Analyst	Securities and Futures Institute	9
Qualification Exam for Futures Specialist	Securities and Futures Institute	5
Qualification Exam for Securities Investment Trust and Consulting Professional	Securities and Futures Institute	11
Qualification Exam for Stock Affair Specialist	Securities and Futures Institute	8
Proficiency Test for Financial Planning Personnel	Taiwan Academy of Banking and Finance	13
Basic Proficiency Test for Bank Lending Personnel	Taiwan Academy of Banking and Finance	2
Basic Proficiency Test for Bank Internal Controls	Taiwan Academy of Banking and Finance	4
Qualification Exam for Personal Insurance Representative	The Life Insurance Association of the R.O.C.	84
Qualification Exam for Intermediate Professional Courses for Personal Insurance Representative	The Life Insurance Association of the R.O.C.	1
Qualification Exam for Foreign Currency Non-Investment Type Insurance	The Life Insurance Association of the R.O.C.	17
Qualification Exam for Non-Life Insurance Representative	The Non-Life Insurance Association of the R.O.C.	26
Proficiency Test for Trust Operations Personnel	Trust Association of R.O.C.	32
Qualification Exam for Investment-orientated Insurance Product Representative	Taiwan Insurance Institute	12
Fellow of Life Management Institute (FLMI)	Life Office Management Association (LOMA)	8
Chartered Financial Analyst (CFA)	CFA Institute	1
Financial Risk Manager (FRM)	GARP	2
Taiwan Certified Public Accountant	The Examination Yuan of R.O.C.	2
Professional Capacity of Bonds Specialist	Securities and Futures Institute	2
Sales Personnel of Futures Trust Fund Distributor	Securities and Futures Institute	1
Qualification Test for Sales Personnel of Structured Products	Taiwan Academy of Banking and Finance	2
Test for Internal Control and Internal Audit of Banks	Taiwan Academy of Banking and Finance	3
Basic Proficiency Test for Bank Internal Controls	Securities and Futures Institute	2

Certifications and Qualifications	Exam Administrator	Number of employees
Professional Capacity Test for Basic Foreign Exchange Personnel	Taiwan Academy of Banking and Finance	1
Certified Financial Planner (CFP)	Financial Planning Association of Taiwan (FPAT)	1
Project Management Professional (PMP)	Project management institute	2
Qualification of Associate of Society of Actuaries (ASA)	Society of Actuaries	3

### 3. Continuing Professional Training Received by Employees

Item	Number of Training Received by Employees
General Management	136
Professional Courses	289
Auditor Continuing Training	7
2017 Total Training Expense	NTD\$7,586,558

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

- Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year		2015	2016	As of 02/24/2017
Employees	Back-Office Personnel	5,539	5,567	5,581
	Front-Office Personnel	24,701	25,133	25,106
	Total	30,240	30,700	30,687
Avg. Age		43.50	43.53	43.61
Average years of services		11.91	11.90	11.92
Education	Ph. D.	0.01%	0.01%	0.01%
	Master	6.18%	6.58%	6.68%
	Bachelor	45.92%	47.38%	47.72%
	High School	42.98%	41.97%	41.84%
	Others	4.91%	4.06%	3.75%
Professional Certifications or Qualifications Received by Employees		See chart below		

2. Certifications and Qualifications Received by Employees

Certifications and Qualifications	Exam Administrator	Number of employees
Qualification Exam for Securities Investment Analyst	Securities and Futures Institute	89
Proficiency Test for Financial Planning Personnel	Taiwan Academy of Banking and Finance	1,166
Qualification Exam for Personal Insurance Representative	The Life Insurance Association of the R.O.C.	26,067
Qualification Exam for Non-Life Insurance Representative	The Non-Life Insurance Association of the R.O.C.	10,955
Proficiency Test for Trust Operations Personnel	Trust Association of R.O.C.	5,223
Insurance Assessor for Life Insurance	Life Insurance Management Institute of the R.O.C.	587
Claim Adjuster for Life Insurance	Life Insurance Management Institute of the R.O.C.	574
Qualification Exam for Investment-orientated Insurance Product Representative	Taiwan Insurance Institute	19,530
Fellow of Life Management Institute (FLMI)	Life Office Management Association (LOMA)	129
Chartered Financial Analyst (CFA)	CFA Institute	14
Financial Risk Manager (FRM)	GARP	18
Taiwan Certified Public Accountant	The Examination Yuan of R.O.C.	13
Architect	The Examination Yuan of R.O.C.	2
Fire Protection Engineer	The Examination Yuan of R.O.C.	1
Real Estate Appraiser	The Examination Yuan of R.O.C.	9
Taiwan Bar Exam	The Examination Yuan of R.O.C.	12
The Associate, Life and Health Claims (ALHC)	International Claim Association	6
Fellow of The Institute of Actuaries of Japan	The Institute of Actuaries of Japan	1
Fellow of the Society of Actuaries	Society of Actuaries	7
Associate of the Society of Actuaries	Society of Actuaries	32
Administration Personnel for Life Insurance	Life Insurance Management Institute R.O.C.	37
Fellow of The Actuarial Institute of R.O.C.	The Actuarial Institute of the R.O.C.	11
Associate of The Actuarial Institute of R.O.C.	The Actuarial Institute of the R.O.C.	28
Certified Internal Auditors (CIA)	Institute of Internal Auditors (IIA)	11
Certified Information Systems Auditor (CISA)	Information Systems Audit and Control Association (ISACA)	3
Certified Financial Planner (CFP)	Financial Planning Association of Taiwan	148
A member of Royal Institution of Chartered Surveyors (RICS)	RICS	22

Certifications and Qualifications	Exam Administrator	Number of employees
Project Management Professional (PMP)	Project management institute	17
SAS basic programming designer	SAS Institute	7
SAS forecast model establishment designer	SAS Institute	2
Insured service certification - life insurance	Taiwan Insurance Institute	1,910
Insured service certification - property insurance	Taiwan Insurance Institute	1
Oracle Certified Master, Java SE 6 Developer(OCMJD)	ORACLE	1
Oracle Certified Professional, Java EE 5 Web Component Developer(OCPJWCD)	ORACLE	31
Oracle Certified Professional, Java EE 5 Business Component Developer(OCPJBCD)	ORACLE	1
Certified Information System Security Professional (ISC) <sup>2</sup> (CISSP)	CISCO	1
IBM Certified System Administrator –AIX6.1 series and above (CSA)	IBM	15
Microsoft Certified IT Professional-Windows Server(MCITP)	MICROSOFT	1
IBM Certified Application Developer–DB2 Universal Database V8.1 series and above (CAD)	IBM	5
IBM Certified Advanced Database Administrator –DB2 Universal Database V8.1 series and above for Linux, Unix and Windows(CADA)	IBM	4
Microsoft Certified IT Professional-Microsoft SQL Server (MCITP)	MICROSOFT	1

### 3. Continuing Professional Training Received by Employees

Item	Number of Training Received by Employees
General Management	47,529
Professional Courses	363,985
Auditor Continuing Training	71
2017 Total Training Expense	NTD\$125,073,000

■ **Cathay United Bank Co., Ltd.**

1. Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year		2015	2016	As of 02/24/2017
Employees	Bank Associates	8,928	10,042	10,058
	Drivers, mechanics, guards	7	9	8
	Total	8,935	10,051	10,066
Avg. Age		36.32	36.19	36.70
Average years of services		8.77	8.15	8.18
Education	Ph. D.	0.06%	0.08%	0.09%
	Master	18.67%	17.70%	17.68%
	Bachelor	79.64%	77.35%	77.56%
	High School	1.57%	4.84%	4.64%
	Others	0.06%	0.03%	0.03%
Professional Certifications or Qualifications Received by Employees		See chart below		

2. Certifications and Qualifications Received by Employees

Certifications and Qualifications	Exam Administrator	Number of employees
Proficiency Test for Financial Planning Personnel	Taiwan Academy of Banking and Finance	1,688
Basic Proficiency Test for Bank Lending Personnel	Taiwan Academy of Banking and Finance	3,042
Basic Proficiency Test for Bank Internal Controls	Taiwan Academy of Banking and Finance	6,351
Basic Proficiency Test for International Banking Personnel	Taiwan Academy of Banking and Finance	2,595
Qualification Exam for Personal Insurance Representative	The Life Insurance Association of the R.O.C.	6,290
Qualification Exam for Non-Life Insurance Representative	The Non-Life Insurance Association of the R.O.C.	6,303
Proficiency Test for Trust Operations Personnel	Trust Association of R.O.C.	5,894
Qualification Exam for Investment-orientated Insurance Product Representative	Taiwan Insurance Institute	2,766

3. Continuing Professional Training Received by Employees

Item	Number of Training Received by Employees
General Management	1,485
Professional Courses	30,101
Auditor Continuing Training	38
2017 Total Training Expense	NTD\$68,154,690

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

1. Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year		2015	2016	As of 02/24/2017
Employees	Head Office	545	548	542
	Branches	1,507	1,501	1,485
	Total	2,052	2,049	2,027
Avg. Age		37.62	38.19	38.30
Average years of services		7.92	8.58	8.75
Education	Master	10.97%	11.57%	11.79%
	Bachelor	77.34%	77.40%	77.26%
	High School	11.40%	10.83%	10.80%
	Others	0.29%	0.20%	0.15%
Professional Certifications or Qualifications Received by Employees		See chart below		

## 2. Certifications and Qualifications Received by Employees

Certifications and Qualifications	Exam Administrator	Number of employees
Qualification Exam for Non-Life Insurance Representative	The Non-Life Insurance Association of the R.O.C.	1,992
Qualification Exam for Personal Insurance Representative	The Life Insurance Association of the R.O.C.	1,580
Underwriter and Claim Adjuster for Property Insurance	The Non-Life Underwriters Society of R.O.C.	374
Underwriter and Claim Adjuster for Life Insurance	Life Insurance Management Institute of the R.O.C.	55
Fellow of Life Management Institute (FLMI)	Life Office Management Association (LOMA)	1
Fellow of The Actuarial Institute of R.O.C.	The Actuarial Institute of the R.O.C.	7
Associate of The Actuarial Institute of R.O.C.	The Actuarial Institute of the R.O.C.	5
Non-life actuaries of China	China Association of Actuaries	2
Non-life preliminary actuaries of China	China Association of Actuaries	1
Associate actuary of casualty insurance in the US	Casualty Actuarial Society	2
Qualification Exam for Securities Investment Analyst	Securities and Futures Institute	9
Chartered Financial Analyst (CFA)	CFA Institute	3
Certified Information Systems Auditor (CISA)	ISACA	1
Financial Risk Manager (FRM)	GARP	2
Certified Internal Auditors (CIA)	Institute of Internal Auditors (IIA)	1
Project Management Professional (PMP)	Project Management Institute	6
Certified Public Accountant (CPA)	American Institute of Certified Public Accountants	1
Occupational Safety and Hygiene Officer	Council Of Labor Affairs Executive Yuan	5
Taiwan Certified Public Accountant	The Examination Yuan of R.O.C.	2
Taiwan Bar Exam	The Examination Yuan of R.O.C.	2
Fire Protection Engineer	The Examination Yuan of R.O.C.	18
Structural Engineer	The Examination Yuan of R.O.C.	1
Hydraulic Engineer	The Examination Yuan of R.O.C.	1
Civil Engineer	The Examination Yuan of R.O.C.	1

### 3. Continuing Professional Training Received by Employees

Item	Number of Training Received by Employees
General Management	451
Professional Courses	9,087
Auditor Continuing Training	34
Language Courses	26
2017 Total Training Expense	NTD\$29,061,000

#### ■ Cathay Securities Corporation

1. Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year		2015	2016	As of 02/24/2017
Employees	Administration staff	180	176	184
	Sales Personnel	420	457	456
	Total	600	633	640
Avg. Age		39.20	40	40.15
Average years of services		4.03	4.4	4.42
Education	Ph. D.	0.00%	0.00%	0.16%
	Master	24.83%	27.00%	27.34%
	Bachelor	69.83%	68.10%	67.66%
	High School	5.34%	4.90%	4.84%
Professional Certifications or Qualifications Received by Employees		See chart below		

2. Certifications and Qualifications Received by Employees

Certifications and Qualifications	Exam Administrator	Number of employees
Qualification Exam for Securities Specialist	Securities and Futures Institute	254
Qualification Exam for Senior Securities Specialist	Securities and Futures Institute	345
Qualification Exam for Futures Specialist	Securities and Futures Institute	291

3. Continuing Professional Training Received by Employees

Item	Number of Training Received by Employees
General Management	870
Professional Courses	3,158
Auditor Continuing Training	172
2017 Total Training Expense	NTD\$5,988,469

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

1. Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year		2015	2016	As of 02/24/2017
Employees	Managers	39	39	40
	Associates	230	232	228
	Total	269	271	268
Avg. Age		37.80	40.71	40.87
Average years of services		5.40	6.70	6.80
Education	Master	45.40%	47.95%	47.39%
	Bachelor	52.40%	49.81%	50.37%
	High School	2.20%	2.24%	2.24%
Professional Certifications or Qualifications Received by Employees		See chart below		

2. Certifications and Qualifications Received by Employees

Certifications and Qualifications	Exam Administrator	Number of employees
Chartered Financial Analyst (CFA)	CFA Institute	12
Qualification Exam for Securities Investment Analyst	Securities and Futures Institute	16
Qualification Exam for Futures trading Analyst	Securities and Futures Institute	4
Certified Financial Planner (CFP)	Financial Planning Association of Taiwan	1
Certified Internal Auditor, R.O.C. (CIA)	The Institute of Internal Auditors-Chinese Taiwan	2
Financial Risk Manager (FRM)	GARP	2
Qualification Exam for Securities Specialist	Securities and Futures Institute	66
Qualification Exam for Senior Securities Specialist	Securities and Futures Institute	150
Qualification Exam for Securities Investment Trust and Consulting Professional	Securities and Futures Institute	145
Qualification Exam for Securities Investment Trust and Consulting Regulations	Securities and Futures Institute	60
Proficiency Test for Trust Operations Personnel	Trust Association of R.O.C.	145
Qualification Exam for Futures Specialist	Securities and Futures Institute	157

3. Continuing Professional Training Received by Employees

Item	Number of Training Received by Employees
General Management	319
Professional Courses	575
Auditor Continuing Training	19
2017 Total Training Expense	NTD\$3,180,892

■ **Cathay Venture Inc.**

1. Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year		2015	2016	As of 02/24/2017
Employees	Senior Managers	3	6	7
	Associates	13	12	11
	Total	16	18	18
Avg. Age		40.56	42.79	42.95
Average years of services		4.50	4.64	4.80
Education	Master	81.25%	88.89%	88.89%
	Bachelor	18.75%	11.11%	11.11%
Professional Certifications or Qualifications Received by Employees		See chart below		

2. Certifications and Qualifications Received by Employees

Certifications and Qualifications	Exam Administrator	Number of employees
Taiwan Certified Public Accountant	The Examination Yuan of R.O.C.	1
Qualification Exam for Securities Investment Analyst	Securities and Futures Institute	1
Enterprise Appraiser	Chinese Association of Business and Intangible Assets Valuation	1
Certified Internal Auditors (CIA)	Institute of Internal Auditors (IIA)	1
Qualification Exam for Senior Securities Specialist	Securities and Futures Institute	4
Qualification Exam for Securities Investment Trust and Consulting Professional	Securities and Futures Institute	2
Proficiency Test for Trust Operations Personnel	Trust Association of R.O.C.	2
Qualification Exam for Futures Specialist	Securities and Futures Institute	2
Qualification Exam for Investment-orientated Insurance Product Representative	Taiwan Insurance Institute	1

Certifications and Qualifications	Exam Administrator	Number of employees
Qualification Exam for Non-Life Insurance Representative	The Non-Life Insurance Association of the R.O.C.	1
Qualification Exam for Personal Insurance Representative	The Life Insurance Association of the R.O.C.	3
Qualification Exam for Foreign Currency Non-Investment Type Insurance	The Life Insurance Association of the R.O.C.	1

### 3. Continuing Professional Training Received by Employees

Item	Number of Training Received by Employees
Professional Courses	9
Conferences	178
2017 Total Training Expense	NTD\$10,945

## V. Corporate responsibility and moral conduct

### ■ Cathay Life Insurance Co., Ltd.

Our corporate image and social responsibility are both very important to the Company and we view these as our operation principals and always make our best effort to support and arrange social welfare events, including:

1. Holding the “Lin Yuan Volunteer Group” to visit and care for the disadvantaged people.
2. Holding the “Care for the new immigrants and their next generation” campaign, which provides a range of related courses and activities.
3. Holding “Cathay Youth Excellence Scholarship” to encourage students in general and vocational schools or above to participate in solid and timely charity proposal and feature research.
4. Holding the “Summer Blood Donation Campaign”.
5. Cloudgate: sponsoring of outdoor performances, and community and campus tours
6. Holding the “Lin Yuan Life Plaza”: a series of activities.
7. Holding the “Nationwide children’s drawing contest”.
8. Holding the “Winter Warmth Event”: care for senior citizens and economically disadvantaged children in remote areas.
9. Working with NBA to promote basketball and sponsoring the Jeremy Lin Basketball Camp.
10. Sponsor “Chen, Wei Yin Baseball Camp” and Yang, Dai-Kang campus lecture to advocate baseball.
11. Organizing the “Community Tree Planting Campaign” The company enlisted volunteers of Lin Yuan and community residents to plant trees by their own hands. The company also enlisted volunteers to plant trees in vacant slots and to adopt the trees and broaden the appeal of tree planting activity by continuous care.
12. Holding events in prisons and school campuses.
13. Holding “Cathay Charity Group” charity auction event.
14. Holding “Cathay Dreams Come True Project for Students,” making total NT\$ 1 million donations to elementary schools in remote townships.
15. Conducting micro-insurance promotion events, which allows people with economic difficulties and groups of people with specific identity to have basic insurance protection.

■ **Cathay United Bank Co., Ltd.**

Cathay United Bank fulfills its corporate social responsibility and arranges various public interest activities through the Bank Foundation. Major activities in 2016 are briefly described as follows:

(1) **“Elevated Tree Program — Grow A Big Tree From A Shoot” series:**

Name of Event	Event summary	Donation Amount/Recipient	Remarks
Elevated Tree Program Scholarship	Elevated Tree Program was held in May and November, helping vulnerable children from low-income family or children suffering major accidents to pay tuitions and miscellaneous fees.	Donation amount: NT\$10 million Recipient: 7,233 students from 695 junior high schools and elementary schools in Yilan County, Taoyuan County, Hsinchu County, Miaoli County, Changhua County, Yunlin County, Chiayi County, Tainan County, Pingtung County and Taitung County.	1. Since the Program was activated in 2004, the accumulative fund of donation had exceeded NT\$135 million and helped close to 85,000 students. 2. Cathay United Bank Chu Lai Branch also responded to the Program. It has been holding “Elevated Tree Program in Vietnam” since 2008. In 2016, the Branch made a donation of VND 1.17 billion to 1,800 recipients.
Collaborate with Mennonite Christian Hospital in “Eastern Taiwan Paramedic Training Program”	As a solution to the scarcity of medical manpower, the foundation worked with Mennonite Christian Hospital in the establishment of Eastern Taiwan Paramedic Training Program. The foundation contributed NT\$ 5 million as scholarship granted to the nursing school students qualified for requirements and selected by Mennonite Hospital. As a condition, the awardees shall work at Mennonite Hospital after they graduate.	Donation amount: NT\$5 million Recipient: Subsidizing aboriginal or disadvantaged nursing school students who wish to provide nursing service in Eastern Taiwan. In 2016, we sponsored 12 nursing school students, a total amount of NT \$1.06 million of scholarships.	We collaborate with Mennonite Christian Hospital starting from 2016 and provide scholarships to qualified nursing school students in 5 years.
Elevated Tree Lecture	13 sessions were held in Taipei City, Taichung City and Taitung County.	The number of participant was close to 2,700.	Since the start of the Lecture in 2008, the accumulated number of seminars held already close 130, and the number of participants exceeded 18,000.
Love Without Barriers	In order to preserve the content of “Elevated Tree Lecture” and expand recipients, the Foundation continues to publish “Love Without Barriers” (Volume 4) that promotes parenting skills.	There were 15,000 books published. These books were sent to the branches of Cathay United Bank and offered to the public for free.	Since the first publication in 2013, the accumulated number of books published reached 60,000.
Little Sapling Writing Contest	The Foundation has organized a national writing contest with the topic of “If I were...” to encourage children to write and improve logical thinking.	Target: 5th and 6th grade students of nationwide elementary schools. Period: June 1st to July 31st. Number of Articles: 686 entries from 232 schools. Awards: Awards of outstanding awards, distinction awards, merit awards, excellence awards and selected awards with total number of 54 awards.	Since 2010, there were 4 regional and 3 national writing contest held.
Peak Sports Program	Encourage students to increase competitiveness in sports and obtain honor, and subsidize excellent sports talents in junior high schools and elementary	Donation amount: NT\$1,040,725 Recipient: Sponsored 94 athletes from 10 junior high schools and elementary schools including Chu Shan Junior High School in	The Project started from 2014.

<b>Name of Event</b>	<b>Event summary</b>	<b>Donation Amount/Recipient</b>	<b>Remarks</b>
	schools to participate in international games.	Nantou County to participate in sports games overseas. They achieved 5 Gold Medals, 4 Silver Medals, and 3 Bronze Medals.	
Sending Love to Someone Far Away - Visiting program for elementary students in remote townships.	In order to urge elementary school students in remote townships to enjoy artistic and cultural resources in the city and broaden their vision, the Foundation sponsored their tour to Taipei City.	Donation amount: NT\$973,980 Recipient: 276 students from 16 elementary schools in extreme remote townships.	The Project started from 2014.
Let Love Live On' Children's Book Donation Program	In order to satisfy the desire of children in remote townships for knowledge and eliminate urban-rural gap, the Foundation held "Let Love Live On' Children's Book Donation Program" raised used books for children from the society and donated them to charity houses, junior high schools and elementary schools and libraries in remote townships after sorting and cleaning.	5,253 books was raised and donated to 33 junior high schools and elementary schools in remote townships or libraries in townships.	Since the start of the Project in 2019, the Foundation already donated 71,279 books to 485 organizations in remote areas.

## (2) Other Charity Events:

<b>Name of the Event</b>	<b>Event Summary</b>	<b>Donation Amount / Recipient</b>	<b>Remarks</b>
Corner Concerts	Adopting the theme of "Music Transcends Boundaries" the Foundation invited musicians or students of Music Department to perform in nursing centers, charity houses and institutions for disabled.	10 events were held in places including Tamsui Dist., Hsinchu City, Taichung City, Chiayi County and Yilan County.	Since the start of the Concert in 2014, there were 27 concerts held.
Light Up the Road to Knowledge	Collaborate with Taiwan Digital Talking Book Association and hold a series of event of "Light Up the Road to Knowledge" Help visual-impaired people to learn, experience and share from different perspectives.	The program contained 8 book-reading meetings with 122 attendees, 16 computer screen reader courses with 264 attendees, and 4 hiking events with 153 attendees.	The Project started from 2016.

## (3) Artistic and Cultural Events:

<b>Name of the Event</b>	<b>Event Summary</b>	<b>Donation Amount / Recipient</b>	<b>Remarks</b>
Cathay United Art Center Exhibition	In 2016, the Art Center invited famous artists or new artists with excellent potential in Taiwan to hold 12 exhibitions with different styles and schools, which is open to the public without any charge and beneficial for community development.	The public.	Since the foundation of the Art Center in 2000, 120 exhibitions were held.

Name of the Event	Event Summary	Donation Amount / Recipient	Remarks
“Art Talk Lectures” held by Cathay United Art Center	In 2016, 12 Art Talk Lectures were held. With the themes of “Art and Soul” and “Art in Travel,” the lectures provided a more down-to-earth angle for the general public to understand art and introducing different art theories as an inspiration for the audience to establish the link between daily life and art.	The public.	In order to promote art education, Cathay United Art Center has held “Art Talk Lectures” seminars every month since 2014, which allows people who love art to have a chance to learn and understand the development and context of art while attending exhibitions. The lectures are open to the public without any charge.

**(4) Sponsoring Events:**

Name of the Event	Event Summary	Donation Amount / Recipient	Remarks
Food and Happiness Campaign	Cathay United Bank uses its core competence and contributes 0.3% of the dining expenses of credit card holders as breakfast expense for students in remote areas. The donation was made through the Foundation.	Donation Amount: NT\$3,331,840 Recipient: There are 1,072 recipients from seven schools of Hansi Elementary School, Datong Elementary School, Skikun Elementary School, and Nanshan Elementary School in Yilan County and Xinyi Junoir High School, Luona Elementary School and Tumpu Elementary School in Nantou County.	Since the start of the event in 2013, the accumulated donation amount is exceeded to NT\$10 million, helping close to 3,500 people. Over 320,000 breakfasts were delivered.
Sponsor “Bunun Goat-farming Reviving Program” and “Typhoon Nepartak Relief Project”	Help Bunun villagers in Taitung to be self-sufficient and reconstruct homes through Bunun Cultural and Educational Foundation.	Donation Amount: NT\$1 million Recipient: Villagers currently living in Taoyuan Village or Lushan Village, Yanping Township, Taitung County.	
Sponsor “scholarships for the aboriginal students at Tatung Institute of Technology baseball team” program	Stipulate scholarship regulations to donate living scholarships to aboriginal students in the baseball team of Tatung Institute of Technology in order to encourage them to improve their skills.	Donation Amount: NT\$0.5 million Recipient: 35 aboriginal baseball players in the baseball team of Tatung Institute of Technology.	
Sponsor “Yilan County's After-school Care for Disabled Students” program	Provide a comprehensive after-school cares in winter and summer vacations to disable students in Yilan County to support the family, so their parents may work in relief.	Donation amount: NTD\$347,510 Recipient: More than 500 physically and mentally disable students below the level high schools and pre-school special education classes in Yilan County.	
Sponsor “Chiayi County's Dreams Come True Project for Remote Village Students” program	Implement cares for remote townships, care about minority students or students with economic difficulties, and subsidize diverse clubs teachings (Chinese music, percussion, tea arts, etc.) in Taiping Elementary School of Chiayi County to help children to develop special skills or expertise.	Donation Amount: NT\$0.3 million Recipient: Students of Taiping Elementary School in Chiayi County	

Cathay United Bank Foundation sponsored “The 79th Tai-Yang Arts Exhibition”, a charity event co-hosted with Happy Mountain Nursing Home and Down Syndrome Foundation, Taekwondo training facilities for Peihu Elementary School in Taoyuan City. The Art Center also provided venue for the 2016 Little Prince Autism Art Exhibition and purchased autistic artists' paintings.

**(5) Group as co-sponsor of welfare activities:**

The Foundation continues to co-sponsor “Cathay Children Development Camp,” which provides comprehensive classes for children combining humanities, arts, culture, and wealth management activities. The Foundation co-sponsors “Cathay Youth Excellence Scholarship” to support high school students with excellent academic performances and students with special performances as well as to encourage students above general and vocational high schools to participate in solid and timely charity proposal and feature research. The Foundation co-sponsors “Excellent Happiness Program” for the second generation of new immigrants and collaborate with Cathay Charity Foundation and NTUE in the events of “Vietnamese (English) Camp,” “Cross-Border multi-Cultural Event” and publishing textbooks in Vietnamese for students in elementary and Junior high school under the principle of mother language education and cross-border interchanges in the homes of grandmas. The Foundation co-sponsors “Winter Warmth Program” which brings warmth from the society to students in remote townships through caring events. The Foundation co-organized the “Lin Yuan Group Charity Bazaar” along with Cathay Charity Foundation and Eden Social Welfare Foundation. The purpose of the activity is to encourage the general public to participate in public interest events in the society and care for disadvantaged groups. The location was in the plaza in front of the National Dr. Sun Yat-Sen Memorial Hall. The profit was donated to Eden Foundation for use in caring for the second generation of new immigrants and for charitable use for their families.

By the diverse activities and services mentioned above, readers can see the social responsibilities that Cathay United Bank fulfilled in the category of public interest and charity. In the future, Cathay United Bank will continue to promote all kinds of public interest and charity activities so that love and warmth are spread to all corners of the society.

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

1. Work in conjunction with Cathay Financial Group in social charity and donation in the name of corporate social responsibility. Including:
  - (1) Arts and culture: Cloud Gate Dance Theatre Performance, Nation-wide children’s drawing contest and New Century Potential Painting Exhibition.
  - (2) Sports events: The Jeremy Lin Basketball Camp and Wei Yin Chen Baseball Camp.
2. Loss prevention services received recognition and good responses from the society. Including:
  - (1) The company hosted loss prevention seminars for corporate customers to reduce their operation risks, and the seminars also resulted in an enthusiastic response.
  - (2) The company actively offered loss prevention services for schools and received good responses from all parties involved. The company not only performed safety inspection on campus playgrounds but also conducted a series of “Accident-free campus” activities by irregular ways such as games and songs that can be much easier for schoolchildren to grasp. In order to raise the loss prevention awareness on campus, the company will continue to provide loss prevention services to local schools.
  - (3) In order to establish driving safety awareness of public, the company created a website called “Zero Accident Academy” and teamed up with National Chiao Tung University and Police University to develop adaptive behavior diagnosis and hazard perception test.
  - (4) The company cooperated with Hsinchu Safety-Educational Center on “Accident Free riders” promotion in colleges, and encouraged safe driving among motorcyclists by employing hazard perception test.
3. The company promulgated various publications and applications to assist in boosting public awareness of insurance knowledge, such as the My Trip Asst app, My Mobicare app, vehicle

safety kit, tips for automobile insurance claims, quick guides for getting automobile insurance, and short films (available on VCD) about buying property insurance, brochures about fire prevention with escape plans, and store safety checklists.

4. Establish “Cathay Century Insurance Triathlon Team,” cultivate young triathlon contestants and support sports in Taiwan.

#### ■ Cathay Securities Corporation

1. The company responds to the call of the Cathay Financial Holding in advocating the idea of “Corporate Sustainability” and organized various types of public interest activities. These include:
  - (1) The company responded to the “Cathay Youth Day” activity and issued “Scholarships for the Children of Customers” to reward good students and improve customer service. To advance the development of athletic activities, the company sponsored “Three on Three Baseball Final and HBL Invitation Game.”
  - (2) To develop the culture upbringing, the company organized the campus tour of “Cloud Gate Dance Company,” “Nation-wide Children’s Painting Contest,” and “New Century Potential Painting Exhibition.”
2. The company encourages its employees to spread their charity. The company joined forces with “My Happy Farm - Milk House,” “Bluseeds,” “Essence of Life” and “Joyce Meredith McMillan Foundation” to organized the “Mothers’ Day Cake Charity Sale by Mentally Challenged Children” to give back to the society with actual activities.
3. Encourage our employee to care about social minorities. We and “Children Are Us Foundation” jointly held Christmas Charity Sale event for the third time before Christmas in 2016. We also donate wheelbarrows to the “2016 Moose Roundabout - Allow the Next Generation to Witness the Beauty” event held by IC Broadcasting Company, which allows children from vulnerable families to have a chance to learn basic sports skill.
4. Hold film display events showing movies of “Godspeed,” “The Moment,” and “Billy Lynn’s Long Halftime Walk.” We use solid actions to support domestic and foreign talents in innovative industry and make contributions to support the soft power of cultural and creative industry in Taiwan.
5. To encourage the general public to gain more financial knowledge and to offer more in-depth education in wealth management, the company joined forces with Business Today Magazine to organize the “2017 Investment Forum.” To promote academic education, the company also sponsored the “The 2016 International Conference of Taiwan Finance Association,” “The 27th NTU Securities Camp” and the “2016 NTPU Securities Camp.”

#### ■ Cathay Securities Investment Trust Co., Ltd.

1. Each year, our company participates in the social charity activities sponsored by the Taipei Foundation of Finance and donates medical transportation equipment to medical facilities in remote regions.
2. Investor training, free investment forums, and wealth management conferences targeting different market issues were provided island-wide from time to time, and it is committed to promoting investor education and cultivate the wealth management concept for our people.
3. The company organized various charity events with the group, and all employees of Cathay Securities Investment Trust actively participated in the “Giving Warmth in Winter” event organized by Cathay Charity Foundation and establish “Fun Happiness Club” to care with action and to help disadvantaged groups in the society, such as those with disabilities, orphans, seniors, single parents, and early school leavers.
4. Support the CSR strategic goal of the Group, extend the non-investable lists containing Taiwanese stocks that violate CSR to invest in all funds of Cathay Securities Investment Trust. The resolution was approved.

5. In external CSR, we have been collaborating with “Eden Social Welfare Foundation” for a long period of time. We implement social charity through volunteer services on holidays and donations.
6. In order to assist youths who are still in school to learn and experience, discover and realize career development in advance as well as actively implement CSR, we hold summer learning programs for customers or children of our employees.

**VI. Number of employees who are not in supervisor positions, the annual average employee benefit expenses, and the differences comparing to the previous year**

Item	2015	2016	Difference	Growth rate
Total expenses for non-supervisory employee benefits (NT\$)	44,892,159,662	45,227,638,520	335,478,858	0.75%
The number of non-supervisory employees	40,681	39,058	-1,623	-3.99%
Average expenses for each non-supervisor employee	1,103,517	1,157,961	54,444	4.93%

Note 1: “Non-supervisory employees” refers to general employees who do not bear the administrative responsibility for managing other employees or units.

Note 2: “Expenses for employee benefits” refers to all forms of remunerations, including salary, labor and health insurance, pensions, and other expenses for employee benefits, provided by the corporations to employees in exchange for their services in accordance with IAS 19 “Employee Benefits”.

Note 3: Total assets and operating revenues of Cathay Securities Investment Consulting do not account for a material portion of any amount of the Group. They are, therefore, not listed in the preparation scope of the 2016 Corporate Social Responsibility Report of the Company. However, Cathay Securities Investment Consulting was within the consolidated scope of the 2015 Corporate Social Responsibility Report, as well as the disclosure scope of the 2015 annual report of the Company. The 2015 data shown in the Table is the result of adjusting and deducting total employee benefits for non-supervisory employees and the number of non-supervisory employees of Cathay Securities Investment Consulting in 2015, which maintains consistency in the calculation of “Average Expenses for Employee Benefits” and has comparability.

## VII. Information System

### ■ Cathay Life Insurance Co., Ltd.

- (I) Key information system setup and maintenance:
1. IBM Power Host:
    - (1) Hardware: P 795, P822(L).
    - (2) Software: AIX, RHEL, WebSphere, DB2, FileNet, MQ and Guardium and backup software (TSM and Amavar).
    - (3) Storage: IBM DS8870 and EMC VNX5800, EMC Unity
  2. Intel x86 Server:
    - (1) Hardware: IBM X3650, X3850 and HP DL380 multi-core servers.
    - (2) Software: Windows operation system, MS SQL database, WWW system, ClearCase software configuration management system, effectiveness monitoring system Linux System, Jboss, CrystalDB and Amavar.
    - (3) Storage: EMC VNX5800 and NetApp FAS8040
- (II) Business development plan:
1. Cloud computing
    - (1) Cloud structure transformation - Establishment project for cloud core system for life insurance and active-active.
    - (2) Planning and establishment of block chain environment.
    - (3) Planning and establishment of multi-factor certification structure.
    - (4) Planning of the operating environment for actuarial system (Prophet).
    - (5) System transfer for product proposals and bancassurance zone.
  2. IBM Power Host:
    - (1) Establishment project for cloud core system for lifes insurance and active-active.
    - (2) Replacement and reestablishment project for FileNet of core business.
    - (3) B2E OTP mechanism assessment introduction project.
    - (4) Virtual Tape Library (VTL) establishment project.
  3. Intel x86 Server:
    - (1) Introduction of cloud structure and the management platform.
    - (2) Creating the next generation member website.
    - (3) Optimizing project for primary domain (9) integration and structure centralization.
    - (4) Single Sign On Project
  4. Database management
    - (1) Upgrade for the version of the database for core businesses and multi-computer cluster establishment.
    - (2) Expansion of intermediate storage devices and virtual tape silo.
    - (3) Establishment of operational management database.
    - (4) Transformation of the cloud structure for the server of CR 2.0 database.
    - (5) Evaluation and planning of transforming MS SQL database into virtual machine.
    - (6) Adjustment of customer service database system and integration of domains.
  5. Network:
    - (1) Active-active center network structure establishment project.
    - (2) Assessment and introduction of Network Performance Management (NPM) software.
    - (3) Assessment and introduction of instant messengers.
  6. Information security:
    - (1) Evaluation and introduction of distributed denial of service (DDoS).
    - (2) Introduction of gateway, terminal end and Advanced Persistent Threat (APT) defense mechanism
    - (3) Assessment and Introduction of Mobile Device Management (MDM) software.
- (III) Information Security and Emergency Back-Up Measures:

1. The backup data center's facilities were built according to that in the main data center. Furthermore, business continuity plans were also drafted to ensure critical business procedures remain intact after major breakdowns and disasters. Apply DWDM high-speed fiber optics network to synchronize information changes from main data center to backup data center to ensure all data is up to date.
2. To strengthen information security, protection systems including three layers of firewall from the inside to the outside, intrusion detection & prevention system, website vulnerability scanning and automatic weakness remedy, the latest anti-virus software and an application firewall are already in place. Moreover, additional investments and efforts are made on the server security system, periodical intrusion and vulnerability scanning, content control system, network server efficiency management and Security Information and Event Management (SIEM) to strengthen information security control and management measures. In addition, social engineering training is provided to the staff to strengthen employees' awareness of information safety and minimize the risk of information leakage as well as to protect the company's information assets, customer rights and sustainable operation of enterprise.
3. In the age of personal data protection and due to the requirements of Personal Information Protection Act, we introduce the "Information System Daily Log Management Platform," which places all system daily logs of heterogeneous platforms and application program daily log (APP Log) under centralized access management to accomplish the security of evidence and efficient statistical analysis.

■ **Cathay United Bank Co., Ltd.**

(I) Key information system setup and maintenance:

1. Mainframe:

- (1) Core banking system hardware: models of IBM RS/6000 P795 and P770.
- (2) Core banking system software: use IBM AIX as the operating system, and Oracle plus IBM DB2 for database.
- (3) Credit card system hardware: IBM 2818-S01.
- (4) Credit card system software: IBM Z/OS, CICS TS, VTAM/NCP.
- (5) Foreign exchange system hardware: IBM P770.
- (6) Foreign exchange system software: IBM OS/400 and DB2/400.

2. Microsoft open-system platform:

- (1) Hardware:
  - a. Microsoft open-system server: IBM, HP, LENOVO multi-core servers.
  - b. Storage: Hitachi Data Systems (HDS) and IBM storage.
- (2) Software:
  - a. Windows server OS
  - b. SQL DB
  - c. WWW system
  - d. Email system

(II) Future Development and Purchase:

1. Host and Server:

- (1) Disk drives integration establishment
- (2) Integrate and modernize data center through private cloud.

2. End-user Computing:

- (1) Support and enhance mobile device platform.

3. Network:

- (1) Improve the network structure of the whole Bank.
- (2) Provide new modern internet and telephone system for the whole Bank.

4. Automatic Equipment:

- (1) Set up ATM BIOS password.

(2) Establish ATM white list.

5. Information security:

- (1) Establish DDOS defense service.
- (2) Establishment of defense system against terminal malware.
- (3) Establishment of APP disassembling defense mechanism.
- (4) Upgrade vulnerability-scanning mechanism for the system and website.
- (5) Information Service and Testing, Planning and Management:
- (6) Establish information service management ITIL and tools.
- (7) Establishment planning of Testing Center.

(III) Information Security and Emergency Back-Up Measures:

1. Emergency Back-Up Measures:

(1) Mainframe:

Employ IBM PPRC remote backup solution to ensure minimum data lag by synchronizing all data changes from the origin to the remote backup data center over Wavelength-Division Multi-plexing and Dense Wavelength-Division Multiplexing (DWDM) through high-speed fiber optics channels.

(2) Microsoft open-system platform:

Use Storage Area Network (SAN) for important servers to ensure in-time remote data backup and no-interruption operation procedures.

(3) Network:

For the off-site back up for internet system, important routers and switch are established in the manner of on-site load balance, and the off-site backup center is connected via DWDM high-speed fiber network to ensure the customers' connection quality.

2. Safety protection:

For security protection, we adopt hierarchical security defense mechanism inside out from external service system, hosts of all application systems, terminal end equipment, and internet equipment, along with different information security protection systems (such as high-end firewall system, website firewall, intrusion detection system, APT defense system) to establish a comprehensive information security defense framework. Cope with the intelligent and automatic information security monitor system to effectively defend and monitor and security of internet and systems. In addition, the Bank also inspect and evaluate the computer security structure at all times, which comprehensively inspect information security, internet control system, anti-virus and anti-hacking, and recovery plan. We continue to conduct the corresponding information security defense strengthening mechanism under the principle of concurrently attending security and convenience in order to reduce the risks of data leaking and external malicious intrusion threats. We comprehensively and efficiently improve the computer and internet security to protect customers transaction service quality.

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

(I) Key information system setup and maintenance:

1. Core information system:

IBM RS/6000 mainframe

Model: Three P770.

Software: AIX, DB2, JAVA

Primary applications: all insurance quotes, claim handling, premium, financial & accounting procedures, and image system, etc.

2. Open-system deployment and maintenance:

(1) Hardware:

a. IBM X3250, X3550, X3650 and X3250M4 servers.

b. HP DL380 sever.

c. Disk driver: IBM DS8870, IBM DCS3700, IBM DS5300, IBM DS4800

- (2) Software:
  - a. MS Windows Server, Linux open source software and Jboss for the operation system of servers.
  - b. Database: SQL Server, IBM DB2  
Primary uses: internal file transfer, employee attendance, corporate website, e-commerce, and B2B information exchange between bank channels and insurance agent companies.

(II) Business development plan:

1. Reform insurance digitization service and simplify the procedure to improve efficiency. (automobile physical damage insurance, theft loss insurance, and car inspection service, member zone, friendly service zone on the official website)
2. Mobile insurance application for personal insurances (Smart Go (automobile insurance) and Easy Go (health and personal injury insurance))
3. Joint effort in promoting commercial insurances (core pricing rectification, app, transfer pricing)
4. Claims refinement (establishment of automatic claims CRSS system and upgrade of document storage and APP 2.0)
5. Combine the elements of insurance and FinTech to innovate insurance digitization service (application of block chain claims operation, application of automobile UNIGO APP (OBD), Group APIM resource sharing platform)
6. Expand the application of big data, strengthen business analysis and search for new niche.
7. Introduction of Mobile Device Management (MDM)
8. Introduction of DDOS defense measures

(III) Information Security and Emergency Back-Up Measures:

1. The company adopted the high availability (HA) structure on the same site for the IBM RS/6000 mainframe system and the storage system. In addition, the company will create an remote backup mechanism to achieve uninterrupted operation and service.
2. With virtual server technology, the company can perform fast recovery when a system malfunction happens. The company also creates a backup server for critical servers at the remote backup data center and synchronizes them with the data.
3. Establish hosts and servers in the Computer Facilities, HA mechanism is also established to Storage.
4. To enhance Internet security, solutions including firewall, vulnerability scanning, intrusion protection, SSL VPN program, Security Information and Event Management (SIEM), along with anti-virus software and Trojan remover, have been acquired and installed.
5. Gateway network data loss prevention (NDLP) system is installed to lower the risk of personal information leakage.
6. Adopting the authorization mechanism of privileged accounts and Virtual Desktop Infrastructure (VDI).
7. Establishment of mail APT defense mechanism.
8. Plan for obtaining ISO 27001 information system safety certification to improve information security.
9. Establishment of business intelligence (BI) analysis statement.

■ **Cathay Securities Corporation**

(I) Key information system setup and maintenance:

1. IBM AIX R6:
  - (1) Hardware: IBM RS6000- P8S822, P740, P720, P560, IBM AS400
  - (2) Software: AIX Version 7, AIX Version 6, AIX Version 5, IBM OS/400
  - (3) Disk driver: IBM DS5300, V7000, FastT700
2. Microsoft Windows System:
  - (1) Hardware:  
IBM X3250/X3550/X3650 and HS22 blade server, EMC STORAGE.
  - (2) Software:

- a. Operating system: MS Windows Server for the servers.
- b. Database: Microsoft SQL, Oracle database systems and IBM DB2.
- c. WWW: Websites are divided into external and internal types. All external sites are set at the Demilitarized Zone (DMZ) of the firewall.

3. Network:

(1) Hardware:

- a. Routers in the information center: The Neihu computer room uses Cisco 3845 to connect the head office with nine branch companies and Cisco 2801 to connect itself with the Internet. The IDC computer room uses Juniper 6350 to connect the head office with the nine branches.
- b. Switches in the information center: The Neihu computer room uses Cisco 3750 for the Local Area Network connection and Cisco 2960 for open mainframe connection. The IDC computer room uses Juniper 4500 for the Local Area Network connection and Juniper 4200 for open mainframe connection.
- c. PIX Firewall: The Company uses two layers of CISCO PIX firewall, which are located in the Neihu computer room with automatic backup connection to control Internet linkage in the Neihu computer room. The company uses two layers of Checkpoint UTM, which are located in the IDC computer room with automatic backup connection to control Internet linkage in the IDC computer room.

(2) Software:

- a. Use NetIQ Security Report for CISCO PIX firewall log analysis program to derive network loading report.
- b. Use Websense Enterprise to control all website browsing in the head office and the branches.
- c. The Company uses Symantec as its PC antivirus software.

(II) Business development plan:

1. Strengthen information security: Introduce E-mail APT and terminal APT safeguard mechanism, DDOS safeguard mechanism, penetration testing and app anti-resistance and interpretation mechanism.
2. Cope with the new trading system of TWSE: Develop and establish and develop systems of two-way security lending, dollar-cost-averaging share buying, loans without limited purpose.
3. Cope with new trading systems and after-hour futures trading of TAIFEX and establish systems.
4. Develop and establish online account opening system.
5. Develop and establish discretionary business system.
6. Promote the functions for the mobile service platform.
7. Create centralized securities depository STP and mobile passbook system.
8. Hong Kong subsidiary system: Develop and establish foreign stock trading system and proprietary system.

(III) Information Security and Emergency Back-Up Measures:

1. Mainframe: Core trading mainframe on-site HA backup and remote backup currently in place.
2. Network:
  - (1) For network backup, employ high availability (HA) design for important routers and switches with dedicated connecting to the remote backup data center. Also, alternate connection lines are installed in the remote backup data center and available to all business locations to ensure minimum interruption for important operation procedures.
  - (2) For Internet security: use high-end firewalls with network management and anti-virus programs to construct a complete and effective Internet security management system and ensure customer-trading quality.

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

(I) Key information system setup and maintenance:

1. Open system setup
    - (1) Hardware:
      - a. HP DL360, DL380, DL385 and IBMx3650 servers.
      - b. Storage equipment: EMC CX4-120, EMC VNX5300, EMC VNX5200, EMC VPLEX, NetApp FAS2020, NetApp FAS2240-2, EonNAS1012
    - (2) Software:
      - a. Operating system: MS Windows Server.
      - b. Database: SQL Server.
      - c. Linux system: for network monitoring and email sending system.
  2. Network and information security
    - (1) Internal network: two E1 lease lines with Load-Balance design to connect the head office and each branch directly.
    - (2) Firewall: use dual redundant Check Point firewall to control all Internet communication and set up the Demilitarized Zone (DMZ) for public websites. Juniper Firewall controls the connection with the subsidiaries of Cathay Financial Holdings.
    - (3) Network Security: install Websense to manager internal Internet access and Symantec Endpoint Protection to prevent virus attack.
    - (4) Network Data Loss Prevention (NDLP) and classified and sensitive data and classified materials transmission management.
- (II) Business development plan:
1. New APPs in mobile finance WEB and APPs
  2. Server and database integration.
  3. Strengthen anti-money laundering and terrorism financing risk assessment system.
  4. Develop and establish online account-opening function and online seal-verification function
  5. Development and establishment of automatic financial management – designated net value transaction functions.
  6. Establish real-time monitor alarm system for Host Monitor equipment.
  7. Fund/fiduciary accounting system integration and rewrite.
  8. Development of new EFT system.
  9. Introduction of DDOS defense measures
- (III) Information Security and Emergency Back-Up Measures:
1. For core system, we introduce HA structure with high availability and conducts off-site backup every day through encrypted transcription technology. We also establish host restore environment in off-site computer room and strengthen relating backup mechanism and softwares, hardwares and equipment in compliance with the expansion of business. We also conduct restoration drills to ensure the integrity of customer data and continue to provide computer services during a massive catastrophe.
  2. Introduce basic firewall protection and HA structure, Websense Internet access management, and automatic anti-virus system to strengthen information security. Also, continue future enhancement of information protection mechanism to safeguard company assets, ensure customer rights and ongoing company operation, and comply with the Personal Information Protection Act.

## **VIII. Industrial Relations**

### **(I) Employee benefit programs, retirement system, related agreements and rights protection:**

Besides the labor and health insurance coverage as required by the government, additional benefits such as group insurance, various subsidies, festival allowances, hiking activities, internal training, exam-taking reimbursements, etc. are part of our employees' benefits. In terms of retirement payments, all benefits are paid in accordance with Labor Standards Act and Labor Pension Act.

To protect the rights of employees, companies should clearly define the following according to laws and regulations, collective bargaining agreement and management needs, in the work rules: wage payment standard, working hours, vacation, leave of absence, attendance, reward and punishment, transfer, dismissal & retirement, and pension. After approved by regulators, these rules should be distributed through public notification. To promote a non-harassment and gender-equality employment measures for preventing/correcting sexual harassment with related complaint procedures and disciplinary measures were established. A sexual harassment appeal processing committee was also set up to process matters on sexual harassment complaints, investigation, and resolution.

To ensure a safe working environment to guarantee employee personal safety, the following Group measures are created:

1. First-aid personnel are required to take the related professional training. First-aid kits are provided in all working locations.
2. Regular tests for illumination and carbon level of working environment.
3. Health checkups and pre-job safety and health training for new hires.
4. Health checkups and safety and health training for employees on a regular basis.

### **(II) Losses or potential obligations arising from labor disputes measured at the best estimates of the expenditures required to settle the liabilities as of end of 2013 and before the printing date of this Report. Obligations that are not probable or not reliably measurable should be disclosed to state such facts:**

None.

### **(III) Employee Code of Service:**

All employees are required to follow the codes below as a part of their contributions to the Company's future development and to the common welfare of the entire employee population.

1. All employees must abide by applicable government laws, rules and regulations, and the Company's regulations and policies. Team spirit is highly encouraged within the Company but behavior relating to disturbances in the working environment or common welfare, such as being opinionated, agitating, quarreling, fighting physically, misleading others, etc. are strictly prohibited.
2. All work should be carried out in accordance with the instructions given, if no such instruction is available, a request for related guidance from the upper managers should be sought before further execution.
3. Instructions given by the working supervisors shall be implemented, any refusal, dodging or disagreement should be forward to the department/divisional supervisor for resolution.
4. Unless approved by the Company, no outside employment is allowed. Activities relating to jobbery will not be tolerated.
5. Other than serving for his/her departments, employees are expected to assist in the work of others when necessary and as requested by the direct supervisors. Buck passing is not allowed in this situation.
6. Unless for Company holidays or other holidays as designated by the central government, employees are required to arrive at work on time for working days. Absences without prior notice or leaving early/arriving late are disallowed.
7. All duties, unless otherwise specified, should be completed during the day without delay.
8. Absence without permission during working hours is prohibited.
9. New job assignments or relocation should be accepted without refusal.
10. All work settings should be kept in good order. Riotous activities or disturbing others or any

- forms of misconduct are prohibited.
11. No going through other's data including statements, documents, phone calling history, and computer files (including any storage). No document is to be taken outside or revealed to others without the supervisor's permission.
  12. Company customers should be treated with kindness and respect. Attitudes associated with negligence or arrogance are strictly prohibited. All customer requests should be served with full effort without delay. Explanations should be made patiently when misunderstood. Inquiries should be answered or transferred to the suitable personnel, whether in charge or not. An answer of "I do not know" is not acceptable.
  13. Business intelligence and commercial data should be kept confidential and not disclosed to others.
  14. Employees are not permitted to guarantee a loan or contract for others in the name of the Company or the job position.
  15. All Company facilities or supplies should be used with care and without waste. Wanton damage and misappropriation for personal use outside of the Company is not allowed.
  16. Avoid bad addictions, such as gambling and excessive business entertainment.
  17. Contraband or hazardous goods are banned from all the office areas. No safekeeping of personal belongings in the warehouses. No smoking or leaving ignitable goods in the file rooms.
  18. Under unusual circumstances, all important documents, statements, commercial bills, cash and computer files (including any storage) should be placed and handled properly. And notice should be sent to the nearby supervising units as soon as possible.
  19. Supervising responsibility should be divided into various layers according to the nature of the transaction. Managers in all levels should properly look after the business under his/her supervision.
  20. Employee must maintain confidentiality of their job rank and the salary and bonus they receive, and cannot reveal such information to others or ask others for such information.
  21. There shall not be extramarital affairs, sexual harassment or gender discrimination in words or in action at the workplace.

## IX. Important contracts and commitments

### ■ Cathay Life Insurance Co., Ltd.

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
Major reinsurers and reinsurance contracts	Central Reinsurance Corporation	1970/9/30~	Reinsurance contracts for traditional life, casualty, and group insurance and retro-cession policies	None
	Swiss Reinsurance Group	1970/9/30~	Reinsurance contracts for traditional life and casualty insurance policies	
	Munich Reinsurance Company	1975/4/1~	Reinsurance contracts for traditional life, casualty, and health insurance policies	
	Reinsurance Group of America	1998/9/1~	Reinsurance contracts for traditional life and health insurance policies	
	Scor Global Life Reinsurance Company	1998/1/1~	Reinsurance contracts for traditional life, casualty, and health insurance policies	

Note: If both parties of the rein contracts of traditional life and health insurance are in consent, the contracts will be automatically renewed. Other contracts are one-year contracts.

### ■ Cathay Century Insurance Co., Ltd.

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
Reinsurance Contracts (Domestic)	Central Reinsurance Corporation	1993/8/19~	Reinsurance contracts for fire, single event/catastrophe, liability, flood, and casualty insurance policies	Special exclusions and coverage limitation listed under the reinsurance contracts
Reinsurance Contracts (International)	EVEREST REINSURANCE COMPANY	2001/1/1~	Reinsurance contracts for single event/catastrophe, engineering & construction, liability, and casualty insurance policies	
	KOREAN REINSURANCE COMPANY	2002/1/1~	Reinsurance contracts for fire, single event/catastrophe, liability, flood, engineering & construction, and casualty insurance policies	
	SWISS REINSURANCE COMPANY	1993/8/19~	Reinsurance contracts for single event/catastrophe, liability, engineering & construction, and casualty insurance policies	
	SOMPO JAPAN NIPPONKOA REINSURANCE COMPANY	2002/1/1~	Reinsurance contracts for fire, single event/catastrophe, liability, flood, and casualty insurance policies	
	TRANSATLANTIC REINSURANCE COMPANY	2001/1/1~	Reinsurance contracts for fire, single event/catastrophe and liability insurance policies	
	TOA REINSURANCE COMPANY	2001/1/1~	Reinsurance contracts for catastrophe, engineering & construction, and casualty insurance policies	

■ Cathay Securities Corporation

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
Software Writing Service	Dimerco Data System Co.	2016/8/12~ (One-year warranty at the completion)	Customer relationship management system	None
Hardware equipment procurement contracts	Dimerco Data System Co.	2016/6/30~ Installation completes and warranty expires (Three years warranty)	Purchase Agreement	
Program Maintenance	Sysjust Co., Ltd.	2016/5/1 ~ 2016/6/30 (Automatically renewed for another year)	License agreement	
Program Maintenance	Sysjust Co., Ltd.	2016/7/1 ~ 107/6/30 (Automatically renewed for another year)	Sub-brokerage order placing AP+WEB version system maintenance	
Software Writing Service	SYSTEMX Corporation	2016/7/29~ (One-year warranty at the completion)	Wealth management financial products platform	
Software Writing Service	Easyuse Digital Technology Co., Ltd.	2016/6/30~ (One-year warranty at the completion)	BillHunter/MailHunter Ultimate Electronic statement and marketing E-mail system	
Program Maintenance	Da Cho Digital Co., Ltd.	2016/11/08 ~ 2017/11/09	Securities brokerage business, proprietary (securities, futures, warrant) application system	
Program Maintenance	Yi Tung Digital Technology	2016/09/01 ~ 2017/08/31 (Automatically renewed for another year)	Maintenance agreement for Speedy securities system (professional version)	
Program Maintenance	Yi Tung Digital Technology	106/01/01 ~ 106/12/31	Maintenance agreement for Speedy options and warrants system (professional version)	
Program Maintenance	Sys Just	2015/1/1 ~ 2016/12/31 (Contracts will be automatically renewed for another year when expire)	License agreement	
Program Maintenance	K Way Information	106/01/01 ~ 106/12/31	HTS ASP application software system maintenance contract	
Software Writing Service	Global Mixed-mode Technology Inc.	2015/08/01 ~ 2016/12/31	APPLE ipad mobile stock trading system	
Program Maintenance	Mitake	2015/09/01 ~ 2018/12/31	Maintenance agreement for Mitake mobile trading system	

■ Cathay Securities Investment Trust Co., Ltd.

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
Fund Custodian	Hua Nan Bank	1994/3/9~	Cathay Dragon Fund	None
	Taipei Fubon Bank	2000/6/23~	Cathay Cathay Fund	
	Taipei Fubon Bank	2000/8/7~	Cathay Taiwan Money Market Fund	
	Taipei Fubon Bank	2001/1/10~	Cathay Small & Medium Cap Fund	
	Chang Hwa Bank	2002/1/31~	Cathay Greater China Fund	
	Bank SinoPac	2001/6/11~	Cathay Assets Allocation Neutral Fund	
	Taipei Fubon Bank	2002/7/18~	Cathay Technology Fund	
	Taipei Fubon Bank	2005/12/15~	Cathay Global Aggressive Fund of Fund	
	Taipei Fubon Bank	2005/12/15~	Cathay Global Balance Fund of Fund	
	Hua Nan Bank	2008/3/14~	Cathay Global Ecology Fund	
	Bank SinoPac	2006/12/27~	Cathay Global Infrastructure Fund	
	Bank SinoPac	2009/8/27~	Cathay Man AHL Futures Trust Fund of Funds	
	Mega International Commercial Bank	2009/11/30~	Cathay Mandarin Fund	
	Chinatrust Bank	2010/5/6~	Cathay High Income Fund of Funds	
	Bank of Taiwan	2010/8/19~	Cathay Emerging Markets fund	
	Taipei Fubon Bank	2010/12/20~	Cathay Global Resources Fund	
	E.Sun Bank	2011/6/23~	Cathay China Domestic Demand Growth Fund	
	E.Sun Bank	2011/9/9~	Cathay Emerging Market High Yield Fund	
	Hua Nan Bank	2012/4/30~	Cathay China Emerging Industries Fund	
	Shin Kong Bank	2012/7/4~	Cathay Value and Superior Fund	
E.Sun Bank	2012/10/26~	Cathay New Zealand Dollar Principal Protected Fund		
E.Sun Bank	2013/1/9~	Cathay Multi-Strategy High Yield Bond Fund		
Chinatrust Bank	2013/10/24~	Cathay New Zealand Dollar 8-Years Principal Protec		
E.Sun Bank	2013/12/3~	Cathay RMB Money Market Fund		
Fund Custodian	Chinatrust Bank	2013/12/3~	Cathay Emerging China Bond Fund	None
	Mega International Commercial Bank	2014/1/23~	Cathay Global Fortune Money Market Fund	

<b>Contract Type</b>	<b>Contracting Party</b>	<b>Valid Period</b>	<b>Purpose</b>	<b>Restriction Clause</b>
	Bank of Taiwan	2014/1/23~	Cathay High-Tech Fund	
	Shanghai Commercial Bank	2014/8/6~	Cathay Global Multiple Income Balanced Fund	
	E.Sun Bank	2014/8/6~	Cathay New Zealand Dollar 2021 Principal Protected Fund	
	Hua Nan Bank	2014/12/18~	Cathay Asian Growth Fund	
	E.Sun Bank	2015/10/29 ~	Cathay FTSE China A50 Daily Leveraged 2X ETF	
	E.Sun Bank	2015/10/29 ~	Cathay FTSE China A50 Daily Inversed ETF	
	HSBC Bank (Taiwan) Limited	2015/3/20 ~	Cathay FTSE China A50 ETF	
	Chang Hwa Bank	2015/7/1 ~	Cathay European Equity Fund	
	The Shanghai commercial & Savings Bank, Ltd.	2015/9/10 ~	Cathay China High Yield Bond Fund	
	E.Sun Bank	2015/12/25 ~	Cathay Asia-Pacific Income Balanced Fund	
	Hua Nan Bank	2016/4/25~	Cathay Nikkei 225 Currency-hedged ETF Fund	
	Mega International Commercial Bank	2016/4/25~	Cathay FTSE Japan Daily Leveraged 2X ETF Fund	
	Mega International Commercial Bank	2016/4/25~	Cathay FTSE Japan Daily Inversed ETF Fund	
	Hua Nan Bank	2016/8/4~	Cathay Global High Dividend Fund	
	E.Sun Bank	2016/7/1~	Cathay TAIEX Daily Leveraged 2X ETF	
	E.Sun Bank	2016/7/1~	Cathay TAIEX Daily Inversed ETF	
	Taishin International Bank	2016/10/3	Cathay Dow Jones Industrial Average ETF	
	Taishin International Bank	2016/10/3	Cathay Dow Jones Industrial Average Daily Inversed	

Note: Contract effects on the funding date of the investment fund. The contracting party is the fund's custodian bank.

## Six. Financial Report

### I. Five Year Condensed Balance Sheet and Income Statement Summary (Table 20)

#### (I) Condensed Balance Sheet of Cathay Financial Holdings and Subsidiaries

Unit: NT\$ thousand

Year Item	2012	2013 (Note 5)	2014 (Note 6)	2015	2016	Financial Information as of 03/31/2017 (Note 3)
Cash and cash equivalents, due from Central Bank and call loans to banks	422,667,148	483,611,144	586,295,650	291,949,556	268,490,120	281,626,453
Financial assets at fair value through profit or loss	146,746,672	244,023,246	223,007,168	296,117,926	244,529,264	314,809,668
Financial assets available for sale	1,302,743,262	1,357,106,776	1,405,300,159	1,486,393,125	1,591,359,657	1,585,571,797
Derivative financial assets for hedging	2,362,366	1,300,914	665,390	447,326	232,269	280,751
Securities purchased under agreements to resell	15,749,244	12,960,817	56,515,170	55,880,471	49,524,682	61,953,035
Receivable - net	109,911,278	169,590,966	134,368,376	141,649,869	154,212,060	152,444,064
Current income tax assets	3,597,490	5,585,301	7,374,177	4,339,061	4,215,323	4,256,014
Assets held for sale - net	0	81,950	0	0	0	0
Loans - net	1,521,712,123	1,667,391,682	1,812,773,579	1,766,476,353	2,045,532,795	2,076,486,703
Reinsurance assets	14,641,999	5,740,684	6,377,012	7,000,785	8,767,841	8,364,309
Held to maturity financial assets	24,380,985	54,970,153	81,658,512	81,708,446	81,826,739	81,975,222
Investments accounted for using the equity method - net	2,235,874	3,153,320	4,545,318	25,500,488	35,209,790	35,539,192
Assets subject to restriction	0	0	0	0	0	0
Other financial assets - net	1,605,300,209	1,724,797,817	2,131,815,297	2,790,400,892	3,036,381,213	3,051,784,517
Property and equipment - net	114,634,059	103,394,363	92,877,629	97,488,736	164,114,231	165,484,947
Investment property - net	171,103,918	292,314,597	338,336,979	381,149,809	311,014,127	311,052,082
Intangible assets - net	9,393,007	9,223,432	9,283,025	56,943,768	58,597,243	57,823,449
Deferred tax assets - net	19,046,245	15,062,222	16,081,618	14,425,707	14,729,993	29,923,074
Other assets	24,726,997	26,963,277	37,562,177	71,102,715	66,400,120	60,142,386
<b>Total assets</b>	<b>5,510,952,876</b>	<b>6,177,272,661</b>	<b>6,944,837,236</b>	<b>7,568,975,033</b>	<b>8,135,137,467</b>	<b>8,279,517,663</b>
Due to Central Bank and other banks	56,934,246	56,985,225	58,816,432	41,226,909	77,493,795	141,378,470
Bankers acceptances and funds borrowed	1,456,800	1,497,500	1,585,900	0	0	0
Financial liabilities at fair value through profit or loss	9,086,346	28,754,621	108,286,154	137,471,418	115,014,826	85,619,723
Derivative financial liabilities for hedging	0	5,148	0	0	0	0
Securities sold under agreements to repurchase	22,046,517	60,931,600	62,021,921	55,523,982	59,139,059	63,502,517
Commercial papers payable	5,540,000	10,050,000	26,790,000	35,677,634	41,578,838	42,248,055
Payables	60,740,926	37,548,440	50,417,151	43,402,650	55,295,781	56,288,473
Current income tax liabilities	104	37,003	237,634	1,641,020	3,512,350	7,000,902
Liabilities directly related to assets pending for sale	0	0	0	0	0	0
Deposit and remittances	1,458,392,976	1,585,031,001	1,702,302,143	1,854,495,831	1,999,943,172	2,014,819,837
Bonds payable	89,831,007	92,417,213	107,613,949	71,800,000	51,900,000	51,900,000
Preferred share liabilities	0	0	0	0	0	0
Other financial liabilities	348,229,937	413,414,217	543,279,993	549,564,053	561,224,829	569,313,109
Provisions	3,175,688,291	3,477,440,832	3,800,562,744	4,262,002,527	4,596,525,084	4,630,696,469

Item \ Year		Year					Financial Information as of 03/31/2017 (Note 3)
		2012	2013 (Note 5)	2014 (Note 6)	2015	2016	
Deferred tax liabilities		16,307,882	18,936,804	27,171,920	34,775,271	26,362,443	36,229,328
Other liabilities		18,548,681	14,712,855	16,630,845	20,331,536	17,323,269	37,227,970
Total liabilities	Before payout	5,262,803,713	5,797,762,459	6,505,716,786	7,107,912,831	7,605,313,446	7,736,224,853
	After payout	5,270,269,483	5,815,709,902	6,530,843,206	7,133,039,251	(Note 4)	(Note 4)
Equity attributable to owners of parent		244,397,549	375,329,862	433,480,605	455,056,994	523,324,572	537,029,153
Capital stock	Before payout	108,653,851	119,649,621	125,632,102	125,632,102	133,965,102	133,965,102
	After payout	116,119,621	125,632,102	125,632,102	125,632,102	(Note 4)	(Note 4)
Capital surplus		78,508,148	89,063,184	88,782,304	88,781,174	130,448,697	130,452,105
Retained earnings	Before payout	38,591,504	136,525,509	163,029,792	230,195,428	252,687,821	263,312,832
	After payout	23,659,964	112,595,585	137,903,372	205,069,008	(Note 4)	(Note 4)
Other equity		25,823,918	30,091,548	56,036,407	10,448,290	6,222,952	9,299,114
Treasury stock		(7,179,872)	0	0	0	0	0
Non-controlled interests		3,751,614	4,180,340	5,639,845	6,005,208	6,499,449	6,263,657
Total equity	Before payout	248,149,163	379,510,202	439,120,450	461,062,202	529,824,021	543,292,810
	After payout	240,683,393	361,562,759	413,994,030	435,935,782	(Note 4)	(Note 4)

Note 1: Financial statements of the Company in 2013 to 2016 were audited.

Note 2: The Company did not conduct any revaluation of assets in 2013 to 2016.

Note 3: Financial information covering current period to March 31 2017 has been audited.

Note 4: Distribution for earnings in 2016 had not yet been resolved by the shareholder's meeting.

Note 5: The Financial Supervisory Commission revised the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies on January 09, 2014. Article 14, Paragraph 16, and Article 17, Paragraph 2, Subparagraph 4 of these regulations came into effect on January 01, 2014. The company voluntarily changed the method of subsequent measurement for investment properties from the cost model to the fair value model in 2014 and restated retrospectively the consolidated financial statements for the year ended 31 December 2013.

Note 6: 2013 International Accounting Standards No. 19 "Employee Benefits" has been applicable to the Company and our subsidiaries since January 1, 2015, and we restated retrospectively the consolidated financial statements for the year ended December 31, 2014.

## (II) Condensed Consolidated Income Statement of Cathay Financial Holdings and Subsidiaries

Unit: NT\$ thousand

Item \ Year		Year					Financial Information as of 03/31/2017 (Note 2)
		2012	2013 (Note 4)	2014 (Note 5)	2015	2016	
Interest income		126,231,055	128,631,189	141,393,913	157,079,850	168,883,110	44,464,001
Less: Interest expenses		13,504,477	14,073,643	16,271,075	17,081,656	15,405,207	3,939,214
Net interest income		112,726,578	114,557,546	125,122,838	139,998,194	153,477,903	40,524,787
Net income other than interest		264,375,388	277,572,166	282,194,679	301,266,845	385,802,281	86,401,595
Total income		377,101,966	392,129,712	407,317,517	441,265,039	539,280,184	126,926,382
Bad debt expense and provision for premiums reserve		(3,172,861)	(1,484,068)	(2,982,411)	(2,467,452)	(5,231,460)	(319,329)
Changes in insurance liabilities and provisions		(306,442,777)	(293,569,577)	(290,799,984)	(306,598,275)	(408,613,955)	(98,572,615)
Operating expenses		(51,771,789)	(54,276,711)	(57,477,088)	(65,067,110)	(75,250,084)	(17,175,853)
Profit before income tax from continuing operations		15,714,539	42,799,356	56,058,034	67,132,202	50,184,505	10,858,585
Income tax (expense) benefit		457,390	(4,778,984)	(6,426,682)	(9,249,831)	(2,145,305)	(68,363)
Net profit this term of the units in continued business operation		16,171,929	38,020,372	49,631,352	57,882,371	48,039,200	10,790,222
Profit (loss) of the unit discontinued from business operation		0	0	0	0	0	0
Net profit (net loss) this term		16,171,929	38,020,372	49,631,352	57,882,371	48,039,200	10,790,222

Item	Year					
	2012	2013 (Note 4)	2014 (Note 5)	2015	2016	Financial Information as of 03/31/2017 (Note 2)
Other comprehensive income (loss) this term (net amount after tax)	17,969,501	4,370,019	25,162,199	(45,358,364)	(4,652,382)	2,740,720
Total comprehensive income (loss) this term	34,141,430	42,390,391	74,793,551	12,524,007	43,386,818	13,530,942
Net profit attributable to the parent	16,115,633	37,816,036	49,369,162	57,513,572	47,618,813	10,625,011
Net profit belonging to non-controlled equity	56,296	204,336	262,190	368,799	420,387	165,211
Total amount of comprehensive profit (loss) attributable to the parent	34,178,647	42,083,666	74,135,650	11,939,628	43,393,475	13,701,173
Total amount of comprehensive profit (loss) belonging to non-controlled equity	(37,217)	306,725	657,901	584,379	(6,657)	(170,231)
Earnings Per Share	1.34	3.12	3.93	4.58	3.79	0.85

Note 1: Financial statements of the Company in 2013 to 2016 were audited.

Note 2: Financial information covering current period to March 31 2017 has been audited.

Note 3: Business units whose operations have been discontinued are disclosed with their net amounts after income tax.

Note 4: The Financial Supervisory Commission revised the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies on January 09, 2014. Article 14, Paragraph 16, and Article 17, Paragraph 2, Subparagraph 4 of these regulations came into effect on January 01, 2014. The company voluntarily changed the method of subsequent measurement for investment properties from the cost model to the fair value model in 2014 and restated retrospectively the consolidated financial statements for the year ended 31 December 2013.

Note 5: 2013 International Accounting Standards No. 19 "Employee Benefits" has been applicable to the Company and our subsidiaries since January 1, 2015, and we restated retrospectively the consolidated financial statements for the year ended December 31, 2014.

### (III) Condensed Consolidated Balance Sheet of Cathay Financial Holding Co., Ltd. and Its Subsidiaries-Gazette of Financial Accounting Standards of the Republic of China (2012)

Unit: NT\$ thousand

Item	Year
	Financial information from 2012 (Note 1)
	2012
Cash and cash equivalents, due from Central Bank and call loans to banks	806,579,023
Financial assets at fair value through income statements	147,145,050
Securities purchased under agreements to resell	18,517,498
Receivable	115,796,856
Loans	1,520,005,053
Financial assets available for sale	1,284,920,865
Held to maturity financial assets	24,380,985
Equity investment under the equity method	1,146,326
Other financial assets	1,184,785,896
Fixed assets (Note 2)	48,821,416

Item	Year	Financial information from 2012 (Note 1)	
		2012	
Intangible assets		9,734,376	
Other assets		273,469,460	
Total assets		5,435,302,804	
Due to Central Bank and other banks		56,934,246	
Funds Borrowed from Central Bank and Banks		1,456,800	
Financial liabilities at fair value through income statements		8,718,702	
Securities sold under agreements to repurchase		22,046,517	
Deposit and remittances		1,458,587,976	
Bonds payable		89,831,007	
Provisions for operation and liabilities		3,117,676,956	
Other financial liabilities		346,983,437	
Preferred share liabilities		0	
Other liabilities		84,482,715	
Total liabilities		5,186,718,356	
Shareholders' equity of parent	Capital stock	Before payout	108,653,851
		After payout	116,119,621
	Capital surplus	78,596,121	
	Retained earnings	Before payout	35,587,271
		After payout	20,655,731
	Others under shareholders' equity	21,995,591	
Minority shareholding		3,751,614	
Total shareholders' equity	Before payout	248,584,448	
	After payout	241,118,678	

Note 1: Financial statements of the Company in 2012 were audited.

Note 2: The Company did not conduct any revaluation of assets in 2012.

Note 3: The proposal for distribution of earnings in 2012 has not been passed by the General Shareholders Meeting.

**(IV) Condensed Balance Sheet of Cathay Financial Holding Co., Ltd. -Gazette of Financial Accounting Standards of the Republic of China (2012)**

Unit: NT\$ thousand

Item	Year	Financial information from 2012 (Note 1)	
		2012	
Cash and cash equivalents, due from Central Bank and call loans to banks		7,141,598	
Financial assets at fair value through income statements		0	
Financial assets available for sale		0	
Receivable		6,454,364	

Item	Year	Financial information from 2012 (Note 1)	
		2012	
Held to maturity financial assets		31,000,000	
Equity investment under the equity method		252,085,633	
Fixed assets (Note 2)		4,739	
Intangible assets		0	
Other financial assets		538,407	
Other assets		1,122,807	
Total assets		298,347,548	
Financial liabilities at fair value through income statements		182,100	
Payables		5,940,874	
Payable corporate bonds		47,312,376	
Preferred share liabilities		0	
Other financial liabilities		0	
Other liabilities		79,364	
Total liabilities	Before payout	53,514,714	
	After payout	60,980,484	
Capital stock	Before payout	108,653,851	
	After payout	116,119,621	
Capital surplus		78,596,121	
Retained earnings	Before payout	35,587,271	
	After payout	20,655,731	
Others under shareholders' equity		21,995,591	
Total shareholders' equity	Before payout	244,832,834	
	After payout	237,367,064	

Note 1: Financial statements of the Company in 2012 were audited.

Note 2: The Company did not conduct any revaluation of assets in 2012.

Note 3: The proposal for distribution of earnings in 2012 has not been passed by the General Shareholders Meeting.

**(V) Condensed Consolidated Income Statement of Cathay Financial Holdings Corporation and Its Subsidiaries-Gazette of Financial Accounting Standards of the Republic of China (2012)**

Unit: NT\$ thousand

Item	Year	Financial information from 2012 (Note 1)	
		2012	
Net interest income		112,816,241	
Net income other than interest		265,946,167	
Bad debt expenses		(3,172,002)	
Provisions for insurance liabilities		(307,361,510)	

Item	Year	Financial information from 2012 (Note 1)
		2012
Operating expenses		(51,208,522)
Consolidated pre-tax gain from continued business operations		17,020,374
Consolidated after tax gain from continued business operations		17,058,037
Profit (loss) of the unit discontinued from business operation (after taxation)		0
Extraordinary gains/loss (after taxation)		0
Accumulated effects of change in accounting principle (after taxation)		0
Consolidated total earnings	Attributable to shareholders of parent	17,001,741
	Attributable to minority shareholders	56,296
Earnings per common share (NTD)		1.42

Note 1: Financial statements of the Company in 2012 were audited.

Note 2: Profit (loss) of the unit discontinued from business operation, extraordinary gains/loss and accumulated effects of change in accounting principle have been discontinued are disclosed with their net amounts after income tax.

Note 3: The proposal for distribution of earnings in 2012 has not been passed by the General Shareholders Meeting.

**(VI) Condensed Income Statement of Cathay Financial Holding Co., Ltd. -Gazette of Financial Accounting Standards of the Republic of China (2012)**

Unit: NT\$ thousand

Item	Year	Financial information from 2012 (Note 1)
		2012
Investment income under the equity method		17,585,528
Other revenues		1,195,048
Investment loss under the equity method		0
Operating expenses		(466,002)
Other expenses and loss		(1,441,998)
Pre-tax income (loss)		16,872,576
After-tax income (loss)		17,001,741
Pre-tax EPS (NTD)		1.41
After-tax EPS (NTD)		1.42

Note 1: Financial statements of the Company in 2011 to 2012 were audited.

Note 2: The information contained in the annual financial report of the Company in 2011 to 2012 has not been revised or restated.

**(VII) Names of external auditors and audit opinions in recent years**

Year	Names of Auditors	Audit opinions of Auditors
2012	Accountant James Huang, Andrew Fuh	Audit Report with unqualified opinion
2013	Accountant James Huang, Andrew Fuh	Audit Report with unqualified opinion
2014	Accountant James Huang, James Wang	Audit Report with amended unqualified (unreserved) opinion (Note 1)
2015	Accountant Bob Chang, James Wang	Audit Report with amended unqualified (unreserved) opinion (Note 2)
2016	Accountant Bob Chang, James Wang	Audit Report with unqualified opinion

Note 1: Effective January 1, 2014, the Company and its subsidiaries changed the method of subsequent measurement for investment properties from the cost model to fair value model. This change is retroactively applicable to the restated consolidated financial statements from January 1 to December 31, 2013 and the consolidated balance sheets on January 1 and December 31, 2013.

Note 2: 2013 International Accounting Standards No. 19 "Employee Benefits" has been applicable to the Company and our subsidiaries since January 1, 2015, and we restated retrospectively the consolidated financial statements for the year ended December 31, 2014.

## II. Five Year Financial Analysis (Table 21)

### (I) Financial analyses (2012-2016)

Title (Note 2)		Year	2012	2013 (Note 5)	2014 (Note 6)	2015	2016	Financial Information as of 03/31/2017 (Note 3)
Operational ability	Total assets turnover (times)		0.07	0.07	0.06	0.06	0.07	0.02
	Deposit to loan ratio of subsidiary bank (%)		64.73	63.72	64.34	60.05	70.62	72.04
	NPL ratio of subsidiary bank (%)		0.34	0.29	0.29	0.14	0.15	0.19
	Average revenues per employee (group)		8,440	8,814	9,145	9,463	10,543	2,464
	Average earnings per employee (group)		362	855	1,114	1,241	939	209
Profitability	ROA (%)		0.52	0.84	0.96	0.99	0.77	0.69
	ROE (%)		6.92	10.82	12.10	12.86	9.70	8.04
	Net profit margin (%)		4.29	9.70	12.18	13.12	8.91	8.50
	Earnings Per Share (NTD)		1.34	3.12	3.93	4.58	3.79	0.85
Ability to repay debts and financial structure	Liabilities to assets ratio (%)		95.50	93.86	93.68	93.91	93.49	93.44
	Liabilities to net worth ratio (%)		2,120.82	1,527.70	1,481.53	1,541.64	1435.44	1423.95
	Financial holding double leverage ratio (%)		116.14	110.60	112.63	110.58	104.85	104.71
	Financial ratios of financial holding pursuant to Article 41 of the Financial Holding Company Act (%)		None	None	None	None	None	None
Leverage	Operation leverage		20.99	7.96	6.29	5.66	9.35	10.23
	Financial leverage of financial holding company		1.86	1.33	1.29	1.25	1.31	1.36
Growth rate	Asset growth rate (%)		8.50	12.09	12.43	8.99	7.48	(Note 4)
	Profitability growth rate (%)		63.39	172.36	30.98	19.75	(25.25)	(Note 4)
Cash flows	Cash flow ratio (%)		174.76	30.61	51.07	(Note 7)	(Note 7)	5.79
	Net cash flow adequacy rate (%)		919.91	913.14	669.10	226.73	74.18	(Note 4)
	Cash flow coverage ratio (%)		(Note 7)	(Note 7)	(Note 7)	536.49	239.80	651.50
Scale of operation	Market share of asset (%)		15.50	15.97	16.63	16.63	16.92	(Note 4)
	Market share of net worth (%)		10.22	13.86	14.91	14.80	15.82	(Note 4)
	Market share of the deposit at subsidiary bank (%)		4.72	4.75	4.83	4.92	5.14	(Note 4)
	Market share of lending at subsidiary bank (%)		4.61	4.67	4.84	4.71	5.80	(Note 4)
Capital adequacy ratio	Capital adequacy ratio set forth by respective subsidiaries at industry standard (%)	Cathay Life	213.79	223.69	287.43	304.55	304.78	(Note 4)
		Cathay United Bank	12.38	13.46	16.19	16.39	14.19	(Note 4)
		Cathay Century Insurance	314.45	312.34	324.10	358.97	384.82	(Note 4)
		Cathay Securities	318.15	349.38	375.88	395.71	430.48	(Note 4)
		Cathay Securities Investment Trust (Note 9)	87.75	85.10	84.68	81.28	84.74	(Note 4)
		Cathay Venture	99.99	99.79	99.88	99.38	99.79	(Note 4)

Title (Note 2)		Year	2012	2013 (Note 5)	2014 (Note 6)	2015	2016	Financial Information as of 03/31/2017 (Note 3)
Qualified capital of respective subsidiaries (NTD\$1,000)	Cathay Life	191,600,492	237,472,375	288,840,039	371,970,149	427,858,678	(Note 4)	
	Cathay United Bank	124,681,317	151,382,501	208,576,229	214,974,118	214,610,255	(Note 4)	
	Cathay Century Insurance	5,693,618	6,368,944	7,035,251	7,733,145	9,385,177	(Note 4)	
	Cathay Securities	3,312,268	3,396,276	4,654,352	5,150,200	5,042,620	(Note 4)	
	Cathay Securities Investment Trust (Note 9)	2,031,836	2,031,623	2,169,292	2,151,661	2,141,926	(Note 4)	
	Cathay Venture	2,187,120	2,836,715	3,034,814	2,923,824	3,728,806	(Note 4)	
	Net qualified capital of the group (NTD\$1,000)	305,332,744	374,050,432	459,387,501	542,323,232	616,686,804	(Note 4)	
Capital adequacy ratio	Cathay Life	179,238,173	212,326,252	200,982,702	244,273,877	280,769,853	(Note 4)	
	Cathay United Bank	80,594,040	89,976,605	103,036,911	104,925,328	130,408,330	(Note 4)	
	Cathay Century Insurance	3,621,278	4,078,266	4,341,458	4,308,568	4,877,648	(Note 4)	
	Cathay Securities	1,561,653	1,458,123	1,853,813	1,952,273	1,757,108	(Note 4)	
	Cathay Securities Investment Trust (Note 9)	1,157,716	1,193,667	1,280,821	1,323,560	1,263,804	(Note 4)	
	Cathay Venture	1,093,671	1,421,414	1,519,204	1,471,000	1,868,265	(Note 4)	
	Mandatory total capital requirements of the whole group (NTD\$1,000)	270,829,834	314,919,036	318,523,041	359,189,554	421,598,447	(Note 4)	
Capital adequacy ratio of the group (%)	112.74	118.78	144.22	150.99	146.27	(Note 4)		
Total Balance Declaration Form for All Subsidiaries of the Financial Holding Company Engaging in Transactions Provided in Paragraph 2, Article 46 of the Financial Holding Company Act with a Counterparty Provided in Paragraph 1, Article 46 of the Same Act (in millions)		3,711,448	4,232,899	4,414,785	4,914,750	5,425,050	(Note 4)	
		Specify the reasons that caused the changes in the financial ratios in the last 2 years. (Analysis is not required for changes of less than 20%) 1. The difference between the financial ratios of operational ability in the two accounting periods was mainly caused by the increase of net profit in current period. 2. The difference in the financial ratios of profitability in the two accounting periods was mainly caused by the decrease of corporate earnings in current period. 3. The difference in profit growth rate in the two accounting periods was mainly caused by the higher net profits before taxation in 2015 that resulted in the decrease in the growth rate in 2016. 4. The difference in net cash flow adequacy rate in the two periods is mainly caused by the decrease in net cash flow from operation in the most recent five years compared to the last period. 5. The difference in cash flow adequacy ratio in the two periods is mainly because net cash flow from operating activities decrease compared to the last period.						

Note 1: Financial holding companies that have their stocks listed in the exchange or traded in the OTC market shall include the financial information as stated in the financial statement covering the period to the quarter prior to the date the financial report was printed in the financial analysis.

Note 2: The equations for calculation are shown below:

1. Operational ability
  - (1) Total assets turnover = net profit/average total assets
  - (2) Deposit to loan ratio = subsidiary bank total loans/total deposits
  - (3) Subsidiary bank NPL ratio = subsidiary bank total overdue loans/total loans
  - (4) Average revenues per employee = net income/total number of employees
  - (5) Average earnings per employee = corporate earnings/total number of employees
2. Profitability
  - (1) Return on Assets (ROA) = [corporate earnings + interest expenses × (1 – tax rate)]/average total assets
  - (2) Return on shareholders' equity = corporate earnings/average net shareholders' equity
  - (3) Net profit margin = corporate earnings/net income
  - (4) Earnings per share (EPS) = (attributable to shareholders' equity of the parent – preferred stock dividends)/weighed average quantity of outstanding shares (Note 3)
3. Ability to repay debts and financial structure
  - (1) Liabilities to assets ratio = total liabilities/total assets
  - (2) Liabilities to net worth ratio = total liabilities/net worth
  - (3) Financial holding company double leverage ratio = equity investment under paragraph 2 of Article 36 and Article 37 of this law/net worth
4. Leverage
  - (1) Operation leverage ratio = (net income – variable expenses)/earnings before taxation
  - (2) Financial holding company financial leverage = (earnings before taxation + interest expenses)/earnings before taxation
5. Growth rate
  - (1) Asset growth rate = (total assets in current period – total assets in previous period)/total assets in previous period
  - (2) Profitability growth rate = (earnings before taxation in current period – earnings before taxation in previous period)/earnings before taxation in previous period
6. Cash flows
  - (1) Cash flow ratio = net cash flow from operation/(call loans and overdrafts from banks and financial institutions + payable commercial papers + financial liabilities at fair value through income statement + R/P bonds and bills liabilities + payables due in one year)
  - (2) Net cash flow adequacy ratio = net cash flows from operating activities in the last 5 years/(capital expenditure + cash dividend) in the last 5 years
  - (3) Cash flow coverage ratio = net cash flow from operation /net cash flow from investment
7. Scale of operation
  - (1) Market shares of assets = total assets/total assets of the whole financial holding company
  - (2) Market share of net worth = net worth/total net worth of the whole financial holding company
  - (3) Market share of the deposit at subsidiary bank = total deposits/total deposits at financial institutions entitled to engage in lending and deposits business
  - (4) Market share of the loans at subsidiary bank = total loans/total loans at financial institutions entitled to engage in lending and deposits business
8. Capital adequacy ratio
  - (1) Net qualified capital of the group = qualified capital of the financial holding company + (proportion of shareholding by financial holding company × the qualified capital of respective subsidiaries) – required deductible items
  - (2) Total statutory capital requirement of the group = statutory capital requirement of the financial holding company + proportion of shareholding by financial holding company × statutory capital requirement of respective subsidiaries
  - (3) Capital adequacy ratio of the group = net qualified capital of the group/statutory capital requirement of the group

Note 3: Attention to the following is required when the aforementioned equations for the calculation of EPS are applied to assessment:

1. The weighted average quantity of outstanding common shares shall be used as the standard, not the quantity of outstanding shares at the end of the year.
2. In case of raising capital through issuing new shares or transactions of treasury stocks, calculate also the weighted average quantity of outstanding shares in the period of circulation.
3. In case of capitalization of retained earnings or capitalization of capital surplus into new shares, adjustment shall be made in retrospect to the size of capitalization for each instance when calculating the earnings per shares annually or semi-annually. The time of issuance can be neglected.
4. If the preferred shares are non-convertible accumulated preferred shares, the dividend declared in current period (whether paid or unpaid) shall be deducted from corporate earnings or as addition to earnings after taxation. If the accumulated preferred shares are not accumulative in nature, dividend for preferred shares shall be deducted from corporate earnings, if any. In case of loss, no adjustment shall be made.

Note 4: Not applicable to the quarters.

Note 5: The Financial Supervisory Commission revised the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies on January 09, 2014. Article 14, Paragraph 16, and Article 17, Paragraph 2, Subparagraph 4 of these regulations came into effect on January 01, 2014. The company voluntarily changed the method of subsequent measurement for investment properties from the cost model to the fair value model in 2014 and restated retrospectively the consolidated financial statements for the year ended 31 December 2013.

Note 6: 2013 International Accounting Standards No. 19 "Employee Benefits" has been applicable to the Company and our subsidiaries since January 1, 2015, and we restated retrospectively the consolidated financial statements for the year ended December 31, 2014.

Note 7: Capital adequacy ratio of the group and the financial holding company double leverage ratio are KPI of the Company.

(II) **Financial analyses-Gazette of Financial Accounting Standards of the Republic of China (2010-2012)**

Year		2012	
Title (Note2)			
Operational ability	Total assets turnover (times)	0.06	
	Deposit to loan ratio of subsidiary bank (%)	64.73	
	NPL ratio of subsidiary bank (%)	0.34	
	Average revenues per employee (group)	8,478	
	Average earnings per employee (group)	382	
Profitability	ROA (%)	6.38	
	ROE (%)	7.42	
	Net profit margin (%)	98.06	
	Earnings Per Share (NTD)	1.42	
Ability to repay debts and financial structure	Liabilities to assets ratio (%)	17.94	
	Liabilities to net worth ratio (%)	21.86	
	Financial holding double leverage ratio (%)	115.62	
	Financial ratios of financial holding pursuant to Article 41 of the Financial Holding Company Act (%)	None	
Leverage	Operation leverage	1.00	
	Financial leverage of financial holding company	1.07	
Growth rate	Asset growth rate (%)	12.06	
	Profitability growth rate (%)	52.78	
Cash flows	Cash flow ratio (%)	118.22	
	Net cash flow adequacy rate (%)	103.58	
	Cash flow coverage ratio (%)	(Note 4)	
Scale of operation	Market share of asset (%)	15.40	
	Market share of net worth (%)	10.16	
	Market share of the deposit at subsidiary bank (%)	4.72	
	Market share of lending at subsidiary bank (%)	4.61	
Capital adequacy ratio	Capital adequacy ratio set forth by respective subsidiaries at industry standard (%)	Cathay Life	213.79
		Cathay United Bank	12.38
		Cathay Century Insurance	314.45
		Cathay Securities	318.15
		Cathay Securities Investment Trust (Note 6)	87.75
		Cathay Venture	99.99
	Qualified capital of respective subsidiaries	Cathay Life	191,600,492
		Cathay United Bank	124,681,317
		Cathay Century Insurance	5,693,618
		Cathay Securities	3,312,268
		Cathay Securities Investment Trust (Note 6)	2,031,836
		Cathay Venture	2,187,120
	Net qualified capital of the group		305,332,744

Year		2012	
Title (Note2)			
Capital adequacy ratio	Mandatory capital requirements of respective subsidiaries	Cathay Life	179,238,173
		Cathay United Bank	80,594,040
		Cathay Century Insurance	3,621,278
		Cathay Securities	1,561,653
		Cathay Securities Investment Trust (Note 6)	1,157,716
		Cathay Venture	1,093,671
		Mandatory total capital requirements of the whole group	270,829,834
	Capital adequacy ratio of the group (%)	112.74	
Sum (million) of all loans to, endorsements for, or other transactions with the same party, same related party, or the same affiliate by all subsidiaries of the financial holding company that should be disclosed under Article 46 of this Act.		3,711,448	
Specify the reasons that caused the changes in the financial ratios in the last 2 years. (Analysis is not required for changes of less than 20%)			
<ol style="list-style-type: none"> <li>1. The difference between the financial ratios of operational ability in the two accounting periods was mainly caused by the increase of net profit and corporate earnings in current period.</li> <li>2. The difference in the financial ratios of profitability in the two accounting periods was mainly caused by the increase of corporate earnings in current period.</li> <li>3. The difference between the profitability growth rates of the two periods was mainly caused by the increase of return on investment recognized under the equity method in current period.</li> <li>4. The different between the cash flow ratios of the two periods was mainly caused by the increase of net cash flow from operation in current period.</li> </ol>			

Note 1: Financial holding companies that have their stocks listed in the exchange or traded in the OTC market shall include the financial information as stated in the financial statement covering the period to the quarter prior to the date the financial report was printed in the financial analysis.

Note 2: The equations for calculation are shown below:

1. Operational ability
  - (1) Total assets turnover = net profit/average total assets
  - (2) Deposit to loan ratio = subsidiary bank total loans/total deposits
  - (3) Subsidiary bank NPL ratio = subsidiary bank total overdue loans/total loans
  - (4) Average revenues per employee = net income/total number of employees
  - (5) Average earnings per employee = corporate earnings/total number of employees
2. Profitability
  - (1) Return on Assets (ROA) = [corporate earnings + interest expenses × (1 – tax rate)]/average total assets
  - (2) Return on shareholders' equity = corporate earnings/average net shareholders' equity
  - (3) Net profit margin = corporate earnings/net income
  - (4) Earnings per share (EPS) = (net profit after tax – preferred stock dividends)/weighed average quantity of outstanding shares (Note 3)
3. Ability to repay debts and financial structure
  - (1) Liabilities to assets ratio = total liabilities/total assets
  - (2) Liabilities to net worth ratio = total liabilities/net worth
  - (3) Financial holding company double leverage ratio = equity investment under paragraph 2 of Article 36 and Article 37 of this law/net worth
4. Leverage
  - (1) Operation leverage ratio = (net income – variable expenses)/earnings before taxation
  - (2) Financial holding company financial leverage = (earnings before taxation + interest expenses)/earnings before taxation
5. Growth rate
  - (1) Asset growth rate = (total assets in current period – total assets in previous period)/total assets in previous period
  - (2) Profitability growth rate = (earnings before taxation in current period – earnings before taxation in previous period)/earnings before taxation in previous period
6. Cash flows
  - (1) Cash flow ratio = net cash flow from operation/(call loans and overdrafts from banks and financial institutions +

payable commercial papers + financial liabilities at fair value through income statement + R/P bonds and bills liabilities + payables due in one year)

(2) Net cash flow adequacy ratio = net cash flows from operating activities in the last 5 years/(capital expenditure + cash dividend) in the last 5 years

(3) Cash flow coverage ratio = net cash flow from operation /net cash flow from investment

7. Scale of operation

(1) Market shares of assets = total assets/total assets of the whole financial holding company

(2) Market share of net worth = net worth/total net worth of the whole financial holding company

(3) Market share of the deposit at subsidiary bank = total deposits/total deposits at financial institutions entitled to engage in lending and deposits business

(4) Market share of the loans at subsidiary bank = total loans/total loans at financial institutions entitled to engage in lending and deposits business

8. Capital adequacy ratio

(1) Net qualified capital of the group = qualified capital of the financial holding company + (proportion of shareholding by financial holding company × the qualified capital of respective subsidiaries) – required deductible items

(2) Total statutory capital requirement of the group = statutory capital requirement of the financial holding company + proportion of shareholding by financial holding company × statutory capital requirement of respective subsidiaries

(3) Capital adequacy ratio of the group = net qualified capital of the group/statutory capital requirement of the group

Note 3: Attention to the following is required when the aforementioned equations for the calculation of EPS are applied to assessment:

1. The weighted average quantity of outstanding common shares shall be used as the standard, not the quantity of outstanding shares at the end of the year.
2. In case of raising capital through issuing new shares or transactions of treasury stocks, calculate also the weighted average quantity of outstanding shares in the period of circulation.
3. In case of capitalization of retained earnings or capitalization of capital surplus into new shares, adjustment shall be made in retrospect to the size of capitalization for each instance when calculating the earnings per shares annually or semi-annually. The time of issuance can be neglected.
4. If the preferred shares are non-convertible accumulated preferred shares, the dividend declared in current period (whether paid or unpaid) shall be deducted from corporate earnings or as addition to earnings after taxation. If the accumulated preferred shares are not accumulative in nature, dividend for preferred shares shall be deducted from corporate earnings, if any. In case of loss, no adjustment shall be made.

Note 4: Not applicable to the quarters.

Note 5: Capital adequacy ratio of the group and the financial holding company double leverage ratio are KPI of the Company.

Note 6: Cathay Securities Investment Trust became a subsidiary of the Company in June 2011.

### **III. Audit Report from the Auditing Committee on the Latest Financial Statements**

#### **Audit Report from the Auditing Committee**

The financial statements of Cathay Financial Holdings covering the period from January 1 to December 31, 2016, and the business report and earning distribution plan have been prepared and submitted by the Board of Directors of the Company. The financial statements were audited by Bob Chang, CPA, and James Wang, CPA, of Ernst and Young, who issued an auditors' report.

The Auditing Committee has appointed Andrew Fuh, CPA, of Ernst and Young to review the aforementioned financial statements and documents pursuant to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act. In his opinion, the aforementioned financial statements and documents are fairly presented as stated.

To:

2017 Annual General Shareholders' Meeting of Cathay Financial Holdings

Audit Committee  
Convener: Tsing-Yuan Hwang

Dated: April 27, 2017

**IV. Audited consolidated financial reports of the parent and subsidiaries in the most recent year**

Refer to Appendix I.

**V. In case of insolvency of the financial holding company and its subsidiaries in the most recent year to the date this report was printed, specify the effect on the financial position of the Company:**

None.

## Seven. Review and analysis of financial status and financial performance and risk management

### I. Analysis of Financial Status

Unit: NT\$ thousand

Item \ Year	2015	2016	Change in amount	Change in proportion (%)
Cash and cash equivalents	4,143,951	14,822,959	10,679,008	257.70
Financial assets available for sale	79,451	85,689	6,238	7.85
Securities purchased under agreements to resell	499,422	79,968	(419,454)	(83.99)
Receivable - net	822,620	537,085	(285,535)	(34.71)
Current income tax assets	4,323,586	4,215,323	(108,263)	(2.50)
Held to maturity financial assets	16,000,000	41,000,000	25,000,000	156.25
Equity investment under the equity method	487,136,590	507,608,375	20,471,785	4.20
Property and equipment	7,249	7,699	450	6.21
Other financial assets	0	430,111	430,111	-
Intangible assets	17,288	11,968	(5,320)	(30.77)
Deferred income tax assets	875,454	482,657	(392,797)	(44.87)
Other assets	8,340	10,998	2,658	31.87
<b>Total assets</b>	<b>513,913,951</b>	<b>569,292,832</b>	<b>55,378,881</b>	<b>10.78</b>
Payables	37,098,845	41,605,178	4,506,333	12.15
Current income tax liabilities	946,549	3,031,746	2,085,197	220.29
Payable corporate bonds	20,000,000	0	(20,000,000)	-
Provisions	726,597	918,764	192,167	26.45
Deferred tax liabilities	2,915	226,707	223,792	7,677.26
Other liabilities	82,051	185,865	103,814	126.52
<b>Total liabilities</b>	<b>58,856,957</b>	<b>45,968,260</b>	<b>(12,888,697)</b>	<b>(21.90)</b>
Common stock	125,632,102	125,632,102	0	0.00
Preferred stock	0	8,333,000	8,333,000	-
Capital surplus	88,781,174	130,448,697	41,667,523	46.93
Legal reserve	24,820,095	30,577,724	5,757,629	23.20
Special reserve	140,185,120	149,108,336	8,923,216	6.37
Undistributed earnings	65,190,213	73,001,761	7,811,548	11.98
Exchange differences resulting from translating the financial statements of a foreign operation	1,865,366	(7,274,912)	(9,140,278)	(490.00)
Unrealized gains and losses of available-for-sale financial assets	(417,073)	4,023,159	4,440,232	(1,064.62)
Gains (losses) on cash flow hedges	371,524	191,534	(179,990)	(48.45)
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	83,462	120,321	36,859	44.16

Item \ Year	2015	2016	Change in amount	Change in proportion (%)
Remeasurement of defined benefit plans	(1,562,755)	(945,933)	616,822	(39.47)
Revaluation Surplus	10,108,783	10,108,783	0	0.00
Other equity - other	(1,017)	0	1,017	-
Total shareholders' equity	455,056,994	523,324,572	68,267,578	15.00

Notes to changes in the ratios of the analysis:

1. The gaps of cash and cash equivalents between the two terms primarily resulted from the issuance of preferred stocks this term.
2. The gaps of investments in bills and bonds under reverse repurchase agreements primarily resulted from the maturity of bonds under repurchase agreements.
3. The gaps of accounts receivable between two terms primarily resulted from the decrease of the interest receivable this term.
4. The gaps of financial assets held to maturity between the two terms primarily resulted from the subscription to non-cumulative perpetual subordinated debts of Cathay Life Insurance in this term.
5. The gaps of deferred tax assets between two terms primarily resulted from using losses to deduct operating income tax.
6. The gaps of current income tax liabilities between the two terms primarily resulted from the increase of operating income tax in the interconnecting tax system.
7. The gaps of corporate bonds payable between two terms primarily resulted from the maturity of unsecured subordinated corporate bonds issued in 2009 this term.
8. The gaps of deferred tax liabilities between the two terms primarily resulted from the increase of unrealized valuation gains.
9. The gaps of capital surplus between two terms primarily resulted from the issuance of preferred stocks this term.
10. The difference in foreign currency exchange difference on financial statements of overseas business units between the two periods is mostly because of exchange rate fluctuations in overseas investments
11. The gaps of unrealized gain from assets available for sale between the two terms primarily resulted from the increase of valuation gains this term.
12. The difference in gains (losses) on cash flow hedges is mostly because of valuation gains and losses.
13. The gaps of remeasurement of defined benefit plans between the two terms primarily resulted from the increase in return on pension fund assets.

## II. Analysis of Financial Performance

Unit: NT\$ thousand

Item \ Year	2015	2016	Change in amount	Change in proportion (%)
Total income	59,667,038	49,965,370	(9,701,668)	(16.26)
Expenses and loss	(648,992)	(772,271)	(123,279)	19.00
Pre-tax income (loss)	59,018,046	49,193,099	(9,824,947)	(16.65)
Net income	57,513,572	47,618,813	(9,894,759)	(17.20)

### III. Cash flows

#### (I) Liquidity Analysis in 2012 and 2013

Unit: NT\$ thousand

Item \ Year	2015	2016	Increase (decrease) in proportion (%)
Cash flow ratio (%)	32.50	Note	-
Net cash flow adequacy rate (%)	27.24	13.04	(14.20)
Cash flow adequacy ratio (%)	101.96	Note	-

Note: The net cash flow ratio is not disclosed since it is a negative figure.

#### (II) Cash flow analysis of the year ahead

Unit: NT\$ thousand

Cash balance at beginning ① (Note)	Projected net cash flow from operating activities in current period ②	Projected cash outflow in current period ③	Projected amount of cash surplus (deficit) ① + ② - ③	Remedy for cash deficit	
				Investment plan	Financing plan
15,333,038	28,878,266	27,885,448	16,325,856	None	None

Note: Cash balance in the beginning of the period includes cash and cash equivalents, R/P bonds, and investments in bonds.

### IV. Major capital expenditures in the most recent year

None.

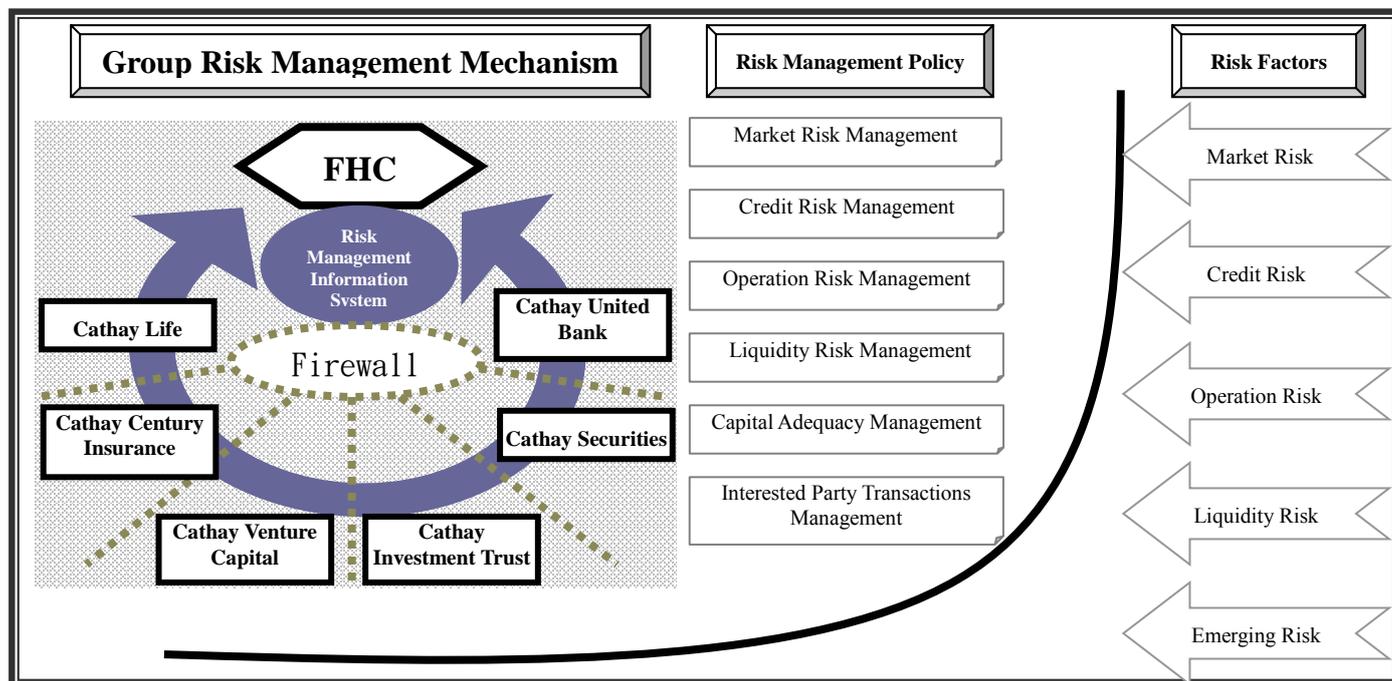
### V. The investment Strategy in the most recent year, Main Causes for Profits or Losses, Improvement Plans and the Investment Plans for the Coming Year

For direct investments in the most recent year, refer to “VIII. Implementation of the Capital Utilization Plans”

In the past, Cathay Financial Holdings initiated the twin-engine of the insurance and banking service, which yielded excellent complementary effects. Many in the industry learned from the Company and launched similar products. Cathay Financial Holdings decided to make its asset management operation as the third engine for further development of the twin-engine of insurance and banking for providing full-range financial services and further enhance brand value. In the future, the business policy will be focused in the development in other countries with the triple-engine of “insurance + banking+ asset management” as the core strategy for development. With its base in Asia-Pacific and the triple-engine as its strategy, Cathay Financial Holdings is dedicated to be the best financial institution in Asia.

## VI. The analysis and assessment of risk management in the most recent year to the date this report was printed by the analysis of the overall financial position and operation.

### (I) Group Risk Management Framework



#### 1. Risk Management Governance Structure:

The FHC has set up an independent Risk Management Division to implement governance and control the comprehensive risks. The division is responsible for establishing the related policies and guidelines and also for executing risk management practices.

Each subsidiary has set up its risk management unit based on the regulatory laws or business nature to carry on the establishment and execution of the risk control mechanism for its operation as well as the making of related policies and guidelines according to the business features and the FHC's risk control policy.

In addition, risk management committees are formed in both the FHC and the major subsidiaries to oversee the Group's risk exposure and ensure normal operation of the risk control activities.

#### 2. Risk Management Policy:

The risk management policy and the related guidelines clearly delineate the responsibilities of risk management activities. Our employees are required to follow the policies and the guidelines, especially for the transactions related to investment and loan business.

- (1) The Risk Management Division is in charge of setting up criteria for each major risk of the FHC, including market, credit, operation, liquidity, and capital adequacy. The subsidiaries also set the criteria based on the policies set by the FHC and authority for risk management activities.
- (2) To monitor the concentrations of credit exposure by loans, investment and related transactions, we have established the guidance to manage the concentrations.
- (3) To enhance the management of credit and operation risk events, we apply the information system for monitoring those events among the FHC and the subsidiaries.

## **(II) Risk Management Processes and Methods**

### **■ General periodic disclosures**

#### **1. Risk Management Policies, Procedures and Reporting**

##### **(1) Risk Management Policies and Procedure**

- A. Market risk management: We manage market risk by building a set of prudent control processes, including investment decision approval procedures, stop-loss limit, a VaR Model, and exception management, sensitivity analysis and stress testing.
- B. Credit risk management: We manage credit risk by establishing a set of credit policies, including credit analysis procedure, collateral requirement, non-performing-loan management, assets valuation and provision. In order to diversify credit risk exposure, we set limits on industry and country concentrations.
- C. Liquidity risk management: We maintain liquidity reserve to meet regulatory requirements. To measure liquidity risk, we use several quantitative analysis methods, including liquidity gap and cash flow analysis. In addition, each subsidiary maintains contingency funding plans that outline our potential responses to liquidity stress events at various levels of severity.
- D. Operational risk management: We accomplish operational risk management from two perspectives within the structure of the Group, all operations are divided into front, middle, and back desks based on their functions. Each subsidiaries applies timely and accurate information system for their operation procedures. Operational risk is properly monitored through internal control system, internal and external audits and legal compliance tasks with regulatory requirements.
- E. Capital adequacy: Currently the FHC and the subsidiaries all maintain a capital adequacy ratio superior to the regulation requirement. In addition, non-scheduled calculation will be held to test the impact of the ratio based on future merger & acquisition plans or expansion investment from the Group to ensure the ratio stays above an appropriate level, and in the meantime, to provide references for funding plans in the future.

##### **(2) Risk Management Reporting**

- A. All risk management units are required to submit reports to the authoritative supervisors on a regular basis to disclose risk exposures and risk management implementation status. Major risk events will be summarized and reported to supervisors to reinforce risk management practices.
- B. Risk management reporting should be based on quantitative risk assessments. Risks that cannot be quantified will require special disclosure in the report.
- C. All risk management reports from the Group should be submitted to the risk management committee and the Board on a regular basis. Subsidiaries are required to notify the FHC's risk management division prior to submission.

##### **(3) Risk Management Committee**

The FHC and the subsidiaries hold risk management committee meetings periodically to ensure all risk control systems are working properly and review the consequence of the risk control. Impromptu meetings are called for emergency events.

##### **(4) Exception Management Process**

When subsidiaries deviate from the risk management policies, subsidiaries should make the exception report which disclose the reasons, the related rules and following procedures. In addition, the report should forward to the FHC after approved by subsidiaries' supervisor.

## 2. Risk Management System, Range and Characteristics

The FHC and the subsidiaries have developed or applied risk management information systems for VaR calculation, credit scoring, credit risk alerting, conglomerate credit/investment limit, and operational event reporting.

## 3. Risk Hedging/Reduction Policy

Please refer to “7. Management on financial risk” in Appendix I on page 346.

### ■ Information on the methods of risk management at all subsidiaries and quantifying risk exposure

#### **Life and property/casualty insurance subsidiaries:**

#### 1. Risks that life and property/casualty insurance subsidiaries face and the method of controlling them are as follows:

##### (1) Market Risk

A. Definition: Risks arising from price changes in financial market instruments that cause losses in the value of financial assets of the company.

B. The method of controlling:

- a. Monitoring VaR.
- b. Foreign exchange risk management.
- c. Stop loss.
- d. Scenario analysis; stress test.
- e. Price deviation management.
- f. Derivatives management.

##### (2) Credit Risk

A. Definition: Risks in the loss of claims of the company because the counterparties or the debtors do not fulfill their contractual obligations.

B. The method of controlling:

- a. Evaluating transaction counterparty, issuer, and guaranty institutions before a transaction and verifying the legality of transactions.
- b. Follow-up on positions after the investment.
- c. Monitoring VaR.
- d. Controlling credit and investment limit.
- e. Controlling the concentration of transaction counterparties.
- f. Controlling the limit of high-risk instruments.
- g. Scenario analysis; stress test.
- h. Report on credit risk emergencies.
- i. Evaluating the risk of lending operation and risk management operation.

##### (3) Country risk

A. Definition: The risk due to political or economic factors of the countries in which the investment positions are held, and therefore prices fluctuate or issuers of securities cannot repay obligations, thereby causing devaluation of the value of the company's assets.

B. The method of controlling:

- a. Defining country risk grades, limits and surveillance.
- b. Regular inspection of country risk condition.

(4) Liquidity Risk

- A. Definition: It is classified as “fund liquidity risk” and “market liquidity risk.” “Fund liquidity risk” refers to the risk with which the company cannot turn assets into cash or acquire enough funds and therefore cannot fulfill obligations that are due. “Market liquidity risk” refers to the risk of significant changes in market prices when it disposes of or offsets the positions it holds because there is not sufficient depth in the market or the market is in chaos.
- B. The method of controlling:
- a. Fund reporting.
  - b. Cash flow analysis.
  - c. Managing the maturity date of funds.
  - d. Monitoring fund liquidity risk assessment indicators and scenario analysis.
  - e. Evaluating and selecting the liquidity of investments.
  - f. Liquidity Risk Assessment
  - g. Emergency response mechanism.

(5) Operation Risk

- A. Definition: Losses caused by errors or malfunctions of internal operation, personnel, and system, or losses caused by external incidents. It includes legal risks but does not include strategic risks and reputation risks.
- B. The method of controlling:
- a. Internal control and internal audit.
  - b. Legal risk management mechanism.
  - c. Reporting operation risk incidents.
  - d. Crisis management for emergencies.
  - e. Money laundering prevention operating procedures.
  - f. Data security and personal data management.

(6) Insurance risk

- A. Definition: It refers to the risk that the company assumes from the insured after collecting a premium in operating the insurance business. It refers to the risk of loss caused by unexpected changes when the company pays indemnity and associated expenses.
- B. The method of controlling:
- a. Product design and pricing risk – occurrence studies, evaluation of new products, periodic review of product premium, after-sale experience tracking, and product analysis.
  - b. Underwriting risk – creating underwriting regulations and procedures, drafting underwriting manuals and procedures for all types of insurance, monitoring loss rate each month.
  - c. Reinsurance risk – creating reinsurance risk management plans, tracking the credit rating and financial condition of the reinsurer.
  - d. Catastrophe risk – periodically evaluating the loss when a catastrophe occurs, arranging reinsurance, and properly diversifying company risk.
  - e. Claim risk – detecting claim risk, reporting exceptions, management by the hierarchy such as reporting along the hierarchy.
  - f. Reserve risk – providing reserve according to the content of all instruments each quarter, evaluating the fair value of liabilities regularly, and performing reserve adequacy analysis each year.

(7) Risk in matching assets and liabilities

- A. Definition: It refers to the risk caused by the disparity in the change in value of assets and liabilities due to reasons in the external environment of an insurer.
- B. The method of controlling:
  - a. Cash flow test and monitoring of duration.
  - b. Analyses for defined scenarios and random scenarios.
  - c. Analyses for the fair value liabilities and for contractual values.

(8) Capital adequacy

- A. Definition: Capital adequacy ratio refers to the ratio of total adjusted net capital to risk-based capital defined in the Insurance Act and the Regulations Governing Capital Adequacy of Insurance Companies.
- B. The method of controlling:
  - a. Periodic monitoring of capital adequacy ratio.
  - b. The evaluation and responses for the effect of specific investments or services on capital adequacy ratio.
  - c. The evaluation and responses for significant events (such as the change in regulations) on capital adequacy ratio.

(9) Operation Risk

- A. Definition: Direct or indirect possible losses caused by all factors of operation of an insurer.
- B. The method of controlling:
  - a. Particulars on processing significant events and reporting mechanism for operational risk loss incidents.
  - b. Strong internal audit and internal control.
  - c. Independent directors and supervisors.
  - d. Adequate compliance regulations (transmission of information on the change in laws, periodic execution of compliance review and report, regular training for compliance staff, and so on).

2. Quantitative information on risk exposure

- (1) The company defines risk tolerance each year and each year and defines all types of risk limits and risk levels based on risk tolerance. The company calculates and monitors all types of risk monitoring indicators and plans response measures when specific risk levels are reached.
- (2) The company calculates capital adequacy ratio based on risk-based capital (RBC) to comply with the minimum requirements of statutory regulations.
- (3) The company regularly calculates liability figures, such as the balance and interest of reserves, the value of new policies, the fair value of recently offered instruments for decision-making purposes.

**Cathay United Bank:**

- 1. Cathay United Bank subsidiaries face and the method of controlling them are as follows:

(1) Credit Risk

A. Designing organization principle:

- a. The company created a Risk Management Division that is independent of other business units. It oversees the Risk Management Department and Review Department. They help the company in the review and monitoring the level of credit risk as well as control the overall lending asset quality.
- b. Units that execute risk control: They are the units that provide all kinds of lending services, investment services, and all kinds of financial instruments or contracts.

B. Risk Management Process:

- a. The company prudently evaluates the risks of customers based on credit investigation and credit extension regulations to implement Know Your Customer (KYC) policies.
- b. After a loan is granted, the company performs periodic review and account monitoring measures based on management policies during the life of the loan to improve overall asset quality.

C. Measurement and control principle:

- a. The principle is complying with the internal-rankings based regulations of the new Basel Accord.
- b. The principles cover the creation of various regulations and systems. These include the creation of systems and regulations such as credit granting procedures; limit management, information on the levels of credit rating, information on collaterals, periodic review, and subsequent management.

(2) Market Risk

A. Designing organization principle:

- a. An Asset and Liability Management Committee was established under the President, which periodically reviews the structure of assets and liabilities of the banking subsidiary, pricing on deposits and loans, and the procurement and use of mid- and long-term funding. It also drafts strategies on managing the liquidity of the banking subsidiary and interest rate sensitivity.
- b. The market risk management department is a unit that controls market risk. It is responsible for authorization guidelines, monitoring the risk of funds and trading positions, the valuation of derivatives, and managing positions.

B. Risk Management Process:

- a. When the business unit executes market risk management measures, they perform the procedures based on their roles in the hierarchy responsibility table.
- b. The company periodically provides management information and statements to supervisors with appropriate authority.

C. Measurement and control principle:

- a. The company improves management regulations and systems in the areas of position evaluation, limit management, profit calculation, pricing model, and risk analysis.
- b. In the future, the company will develop quantitative market risk management models that need the requirements of the new Basel Accord.

(3) Operation Risk

A. Designing organization principle:

- a. The Board is the unit with the ultimate responsibility and authority and has three lines of defense, which are the risk-assuming units, the risk management department, and the internal audit office. They control, monitor, and audit the process and management structure of operational risks.
- b. Unit that executes risk control: All units of the bank.

B. Risk Management Process:

- a. The company executes the goals of identifying, evaluating, monitoring, and controlling/offsetting operational risks with substantive policies and implementation procedures.
- b. All units ensure the appropriateness of the delineation of authority and responsibility and reporting procedure based on the hierarchical responsibility table, and reporting procedure and mechanisms.

C. Measurement and control principle:

- a. The company creates measurement and control mechanisms for dimensions such as core products, operational activities, operation procedures, and IT system pursuant to the new Basel Accord.
- b. Their scope covers the refinement of systems for managing operating risk, designing routine monitoring statements, preparing emergency response procedures, and related measures.

(4) Liquidity Risk

A. Designing organization principle:

- a. The Asset and Liability Management Committee is responsible for drafting strategies for liquidity management.
- b. The finance department is responsible for daily operation and execution. When the bank faces or expects major changes in its liquidity positions, it reports to the Board of Directors.

B. Risk Management Process:

- a. The bank uses quantitative management, produces statements, and presents them to the Asset and Liability Management Committee.
- b. The bank adjusts its liquidity gaps based on the changes in daily fund flows and market conditions.

C. Measurement and control principle:

- a. The principle covers management regulations and systems, such as the measurement of liquidity risks, interest rate sensitivity analysis, scenario simulation analysis, and emergency response plans.
- b. The company develops liquidity risk management indicators and creates warning limits to monitor the condition at all times. The company analyzes factors that are detrimental to liquidity and take immediate measures to neutralize their impacts.

(5) Capital adequacy

A. Designing organization principle:

- a. Establish a specialized unit to conduct capital adequacy management and ensure proper capital adequacy ratio in order to defend the risk derived from undertaking business ventures.
- b. The specialized unit conducts calculation, surveillance and disclosure of capital adequacy ratio in accordance with capital adequacy management regulations stipulated by the competent authority and by internal mandate.

B. Risk Management Process:

- a. Calculate capital adequacy ratio on a regular basis and conduct declaration and disclosure of related information in accordance with internal and external capital adequacy management regulations.
- b. The evaluation and responses for the effect of specific investments or services on capital adequacy ratio.

C. Measurement and control principle:

The principle complies with the internal-rankings-based regulations of the new Basel Accord and capital adequacy management regulations.

2. Quantitative information on risk exposure

The company periodically calculates all types of quantitative risk exposure information and discloses them pursuant to applicable laws. Such information covers capital adequacy, loan asset quality, profitability, and sensitivity analysis to comply with regulations.

## **Cathay Securities:**

### 1. Cathay Securities subsidiaries face and the method of controlling them are as follows:

The subsidiary has already formed an independent risk management unit and codified risk management policies and management guidelines on market risk, credit risk, operational risk, liquidity risk, and capital adequacy. These policies and guidelines clearly define the control mechanism on all sources of risks so that the company can implement risk management regulations. The execution of the risk management policy and risk measurement standards is as follows:

#### (1) Market Risk

A. Definition: The risk of loss in investment positions of the company (including stocks, bonds, and derivatives) caused by price fluctuations of financial instruments that affect the value of financial assets held by the company.

B. The method of controlling:

Codifying trading regulations based on the nature of products and departments and the actual operation. Clearly defining the authorization limit, risk limit, stop loss, and over-the-limit process methods; effectively implementing control mechanisms with middle office risk control personnel in the sales department and real-time monitoring system. Additionally, providing risk management reports, including market price evaluation, the amounts of over-hedging and under-hedging, Value at Risk (VaR), model back testing. The subsidiary performs stress tests based on different extreme scenarios and sensitivity factors to effectively control the risks assumed by the company and manage overall risk.

#### (2) Credit Risk

A. Definition: Risks of loss on receivables of the company because the counterparty of the trade or the debtor does not fulfill the contractual obligation.

B. The method of controlling:

Implementing the evaluation on the credit standing of the counterparty before the trade, intraday control and risk exposure management after the trade. Controlling risks that may arise from securities trading according to credit valuation models.

Defining trading limit on investment positions or derivatives based on the credit rating of the counterparty (TCRI, Taiwan Ratings, S&P, Moody's, Fitch) and performing examinations on investment risk concentration and risk exposure on a regular basis. In addition, periodically inspecting clients in the high risk zone of margin trade maintenance ratio of their entire accounts, and the stocks whose margin balances were over a certain level of the margin balance in the market. Creating a credit risk emergency reporting mechanism along with the financial holding company.

#### (3) Operation Risk

A. Definition: Operational risks refer to losses caused by inappropriate action or mistakes in internal operation, personnel, or system; or by external events. Such risk includes legal risks but does not include strategic risk or reputation risk.

B. The method of controlling:

Creating authorization and segregation of duties and rights on the operating processes in the front office, middle office, and back office. Documents for trading, trade confirmation, delivery, and accounting shall be filed for review. Establish stringent operation procedures. Prevent inappropriate human error and frauds. Strictly requiring all departments to create and implement internal audit and internal control measures. Creating an operational risk loss incident reporting mechanism and loss database as well as the system error improvement schedule tracking system to have an in-depth understanding of the reason behind the loss caused by the system or personnel. Additionally, the company has an internal audit office that reports to the Board and performs audits on routine operations so that the company can implement effective internal audit and internal control and compile audit reports on a regular basis. The company seeks to lower the loss from all operating errors.

#### (4) Liquidity Risk

A. Definition: Liquidity refers to the realization capacity that a company acquires funds to maintain its operational needs and the capacity to fully cover asset growth and repay liabilities; market liquidity is to avoid and manage the risk of losses resulted from the fluctuations of market price when disposing or offsetting positions held in the situation of insufficient market depth or market disorder.

B. The method of controlling:

Defining liquidity risk indicators and compile fund liquidity risk management statements to review fund conditions and maturity date gaps for assets and liabilities. The preparation of structure analysis table of asset and liability maturity dates serves as a basis of fund planning. Also, we periodically perform fund liquidity simulations to ensure that we have response mechanisms under extreme conditions to meet fund gaps. We also acquire short-term financing credit from other financial institutions and manage fund inflow and outflow from such short-term financing to maintain proper liquidity and ensure the payment capabilities of the company. The investment unit shall conduct market liquidity risk control during the purchase in accordance with the market liquidity management indicators and regulations.

#### (5) Legal risk

A. Definition: The risk that arises because of defects in the contract or the eligibility of the counterparty that void the contracts or cause breaches of contracts.

B. The method of controlling:

We define the process of drafting and reviewing legal documents. Documents related to contracts are all signed-off at the legal department and reviewed by external attorneys as necessary.

#### (6) Capital Adequacy Management

A. Definition: Capital adequacy management is the foundation of the company's capital management. We maintain proper capital adequacy ratio, ensure the integrity of our capital structure, and produce steady growth of our business.

B. The method of controlling:

We define capital adequacy measurement indicators and compile capital adequacy management statements on a regular basis to evaluate the appropriateness of the company's capital adequacy ratio and the integrity of our capital structure. When allocating risk-based capital, we also conduct allocations aiming at maximizing the profits under the premise of ensuring that the capital adequacy ratio meeting the internal standard.

#### (7) Reputation Risk and Strategic risk

A. Definition: Reputation risk is the risk that may result in a shrinking customer base, decline in revenue, a burden of enormous litigation fee, or other possible losses, due to negative matters in the company's operation, whether the matter is real or alleged. Strategy risk is the risk of immediate or future possible loss to revenue or capital because of wrong business decision, or poor execution of decision, or the lack of proper response to competitors, or the lack of proper response to changes in the industry.

B. The method of controlling:

We draft internal mitigation guidelines for significant events such as reputation risk or strategic risk to reduce the loss due to risk when significant events happen.

We codify risk management policies and guidelines for the aforementioned sources of risks. We clearly define the management mechanism for all sources of risks and create risk limit indicators and periodically review the appropriateness of these indicators. Additionally, every six months, we present risk management execution reports to the Risk Management Committee and the Board and notify the Risk Management Division of the Financial Holding with our clarification on the company's assumption of risks and the appropriateness

of current risk management regulations.

2. Quantitative information on risk exposure:

- (1) On a regular basis, we produce quantitative statements, including: market risk value, risk value to risk value limit (the indicator is one day risk value at 99% confidence interval in the low risk interval that does not exceed 2.8% of the net asset of the company over the entire year); all types of sensitivity and stress scenario analysis; investment and loan concentration management and country limit management; asset and liability gap control and inspection for all periods; authorization, risk, and gain or loss of derivatives. The subsidiary presents the statements to top management to form the basis of decision making.
- (2) Producing liquidity fund liquidity risk management statement on a regular basis to understand the maturity date gap of the assets and liabilities of the company. In 2016, all maturity date gaps including short-term loan from financial institutions were free of fund gaps. In addition, the ratio of overall foreign currency liquidity is over 100% throughout 2016.
- (3) Calculating net adjusted capital adequacy ratio according to regulations on securities brokers and rules from regulators. In 2016, the capital adequacy ratio figures were between 324% and 427%, meaning that they were all above the internal risk control indicator of 220%.

**Cathay Venture Capital:**

1. Cathay Venture Capital subsidiaries face and the method of controlling them are as follows:

(1) Market Risk

- A. Definition: Risks arising from price changes in financial market instruments that cause losses in the value of financial assets of the company.
- B. The method of controlling:
  - a. Holding investment management meetings on a regular basis.
  - b. Decisions on investments in or disposal of assets are approved over an escalation of hierarchy according to the internal stratified responsibility table.
  - c. Providing post-investment management reports periodically.
  - d. Risk management execution report.

(2) Liquidity Risk

- A. Definition: Liquidity refers to the ability of a company in acquiring funds to maintain the liquidity it needs and to fully pay for the growth in assets and settle liabilities.
- B. The method of controlling:
  - a. Asset allocation analysis.
  - b. Cash flow analysis.
  - c. Inspecting long- and short-term debt ratio on a regular basis.

(3) Operation Risk

- A. Definition: Direct or indirect possible losses due to various operational factors.
- B. The method of controlling:
  - a. Particulars on processing significant events and reporting mechanism for operational risk loss incidents.
  - b. Robust internal control and internal audit and legal compliance regulations.
  - c. Conveying the information of changes in regulation; performing legal compliance review and report on a regular basis; regular training and education for the legal compliance personnel.

2. Quantitative information on risk exposure

Disclosing worldwide investment exposure to regulators pursuant to applicable laws and declaring the amount of investment exposure pursuant to categories such as the group investment limit, high risk industry, and strategic developing nations defined by the Financial Holding.

## **Cathay Investment Trust:**

1. Cathay Investment Trust subsidiaries face and the method of controlling them are as follows:

(1) Market Risk

A. Definition: Market risk refers to the risk that fluctuations in the value of financial assets due to uncertainties in market price in a certain period of time could cause impairments to the net value of portfolios of funds or managed accounts. For example, fluctuations may be changes in the interest rates, exchange rates, and prices of equity securities and commodities.

B. The method of controlling:

Market risk management focuses on regulating the company as a whole, and the portfolios of mutual funds and managed accounts based on investment objectives, investment characteristics, and investment restrictions. Its details include disclosure of market risk, restrictions on the range of investment trading, investment limit authorization level, and over-the-limit procedures.

(2) Credit Risk

A. Definition: Credit risk refers to the risk of bad credit record from financial forecasts, statements, important messages of the issuing company of the investment, and the risk of failure to settle and deliver by the counterparties of the trade, such as securities brokers, futures brokers; bills finance firms, and banks.

B. The method of controlling:

Credit risk management is mostly performed with the screening mechanism that reduces the credit risk of the investment. The screening mechanism includes reviews on financial indicators of investments and the change in management of securities issuers and external auditors. The company uses external credit rating databases to evaluate the credit risk of counterparties in the trades and adjusts our own credit rating on counterparties in the trades to effectively control the credit risk of our investments.

(3) Liquidity Risk

A. Definition: liquidity risk refers to the investment risk caused by an over-concentrated portfolio or plummeted trade volume, which are difficult to realize in a short period of time, and which further affects the redemption payment or position adjustment.

B. The method of controlling:

The control of liquidity risk focuses on monitoring quantitative indicators, such as the quantity of stocks in portfolios, concentration of stock holding, concentration of sectors, asset liquidity, and liquidity reserve ratios.

(4) Operation Risk

A. Definition: Operational risks refer to losses caused by inappropriate action or mistakes in internal operation, personnel, or system; or by external events.

B. The method of controlling:

The management of operational risk mostly depends on executing controls based on the operating procedures and focuses defined by internal control processes of the company. We should also create proper control mechanisms through the information system against operational risks in business and trading processes to reduce human error.

(5) Other Risk

A. Definition: Other risks include legal risks, reputation risks, and strategic risks, which are significant risks that are not quantifiable.

B. The method of controlling:

The major process mechanism is initiating the risk management mechanism. The Risk Management Department manager notifies the Risk Management Committee to hold risk management meetings from time to time to propose emergency response measures. Based on their duties, members of the Risk Management Committee can also convene meetings on

their own initiative.

## 2. Quantitative Information on Risk Exposure

- (1) We create management mechanism on quantifiable risks, such as market risk and credit risk, from our information system. We create quantitative models on market risk with the risk control system and disclose risk values.
- (2) We perform evaluations on the operational effectiveness of risk management. The components of the evaluation include whether the practices are in line with the expectations of the Board, whether risk management is independent, whether the execution of risk management is thorough, and whether the overall risk management infrastructure is complete. We present reports to the Board on a regular basis.

### **(IV) Major impact on the Cathay Financial Holdings financial position caused by changes in technology and industry and remedial action**

Cathay Financial Holdings' major operation goal is pursuing sustainable growth. While we strive for performance and profit, we emphasize the importance of risk management and asset quality improvement. We also keep ourselves updated with industry changes. In the aspect of coping with the changes of technology, Cathay Financial Holdings will continue to strengthen the core products and service capacity, secure the competitive advantages in the existing business area, as well as to increase the interaction and connection with customers through building a comprehensive intelligent financial technology environment and to optimize customer experience in order to provide customers with convenient and comprehensive financial services.

### **(V) Major impact on FHC brought by company image change of FHC and the subsidiaries and remedial actions**

- (1) The Group has long held the belief of "Growing a Grand Tree, Culturing Public Welfare" and exercising corporate power to put together various kinds of charity events, including public interest, child care, academic, culture and art. We believe in fulfilling our responsibilities as a corporate citizen and providing growing stamina for society as an important mission in addition to that of core business growth.
- (2) The company actively monitors the company's brand image in the market by monitoring the media and investigating brand reputation. The company also created internal crisis management reporting and management guidelines for the purpose of actively clarifying and responding to incidents that may harm the image of the corporation at the earliest time possible.

### **(VI) Potential effects and risks associated with mergers and acquisitions and remedial action**

#### ■ Equity Participation

Cathay Life Insurance acquired 40% of equities of Bank Mayapasa of Indonesia with the approval by the Board of Directors in January and February of 2015, and 24.9% of the equities acquired was delivered in June, 2015. The remaining 15.1% of equities in the second stage was delivered in October, 2016. The total shareholding ratio is 40%, and the total investment amount was IDR\$4.6 trillion (roughly US\$340 million).

#### ■ Potential effects after equity participation

The acquisitions/equity investments that Cathay Financial Holdings executed are the important strategic measures to achieve the triple-engine operation goal, that is, "banking, insurance and asset management". The potential effects arising from the investment in Bank Mayapada are explained as follows:

- (1) Comprehensive regional layout: Cathay United Bank already established branches and subsidiaries in Mainland China, Hong Kong, Vietnam, Singapore, Malaysia, Cambodia, Laos and the Philippines. Through the collaboration with Bank Mayapada, the cross-border financial platform will be more comprehensive.
- (2) Providing stable return on investment: Bank Mayapada has good business basis and location

distribution. Cathay Life Insurance may participate in the high-growth development potential in Indonesian market through equity participation. It is expected to bring stable return on investment and to improve fund utilization efficiency.

Potential room for strategic collaboration: Bank Mayapada is currently collaborating and negotiating with Cathay Life Insurance in the businesses of remittance, trade financing, and syndicated loans. In the future, we will gradually expand the collaboration of banking business based on the business opportunities in the market and the demands from both sides. Bank Mayapada is also discussing the possibility of collaboration with the financial businesses of other subsidiaries of Cathay Financial Holdings that is beneficial to generate overall performance.

■ Potential risks and remedial action

The potential risks and remedial action after acquiring equities from Bank Mayapada are as follows:

1. National risk:

The politics in Indonesia has been relatively stable recently, and the Indonesian government has been striving for economic reform and permitting foreign investments, as well as actively participating in collaboration plans of ASEAN. Indonesia is a relatively mature market in ASEAN countries with low political risk.

2. Operational and management risk:

Bank Mayapada has built strong relationships in their respective regions for many years. The management has years of industrial experience. Cathay Life Insurance will support the current management team by participating in Board operations and integrating the banking experience of Cathay United Bank. Their familiarity with local markets and operations will help Cathay Financial Holdings reduce management and operational risks.

3. Other risks:

For other risks like market, credit, operations and liquidity, Cathay Life Insurance promulgated management regulations for foreign financial institutions after the investment and risk management mechanisms based on regulations of the competent authority, with the commitment to prudent operation and proper risk control. Cathay Life Insurance will regularly review and inspect the return on and operation of their investments and submit such condition to the Risk Management Committee and the Board of Directors for presentation or discussion.

**(VII) Concentration risk**

To lower the concentration risk, we leverage our comprehensive platform to provide a broad range of financial products and services – life insurance, property and casualty insurance, banking, securities and asset management – to individual and corporate customers in Taiwan and abroad.

**(VIII) Impact and risks brought by significant shareholdings transfer by the Directors, Supervisors, or shareholders with more than 1% ownership, and the remedial actions**

Currently there is no massive shareholdings transfer or change from our directors or supervisors. Any share disposition from shareholders with more than 1% ownership shall not bring impacts or risks to us.

**(IX) Impacts and risks on Cathay Financial Holdings brought about by change of operating concessions and remedial action**

The Company's operating concession is stable with no significant change.

**(X) Litigations or non-contentious matters: List the directors, supervisors, general managers, the persons in charge, and major shareholders with more than 1% of shareholding of the Financial Holding Company and its subsidiaries; major lawsuits, non-contentious matters or administrative procedures involving the subsidiaries with a determined court ruling or that are still pending, that may significantly affect the shareholders' equity or the stock price of the Financial Holding Company. Disclose the factual accounts of the cases, the amount involved, the**

**date of the commencement of judiciary proceeding, the parties concerned, and the status of the cases as of the date this report was printed.**

1. As of April 20 2017, Cathay Life Insurance Co., Ltd. (hereinafter, “Cathay Life”) was involved in a major lawsuit which is still unsettled due to normal business relations. The details are elaborated below:

(1) For the pursuit of its investment objective in the period of 2003 to 2007, Cathay Life subscribed to shares from Fairfield Sentry Limited, and redeemed the shares as agreed for USD 24,496,798.58. Bernard L. Madoff Investment Securities LLC (Madoff’s asset management company), and investee of Fairfield Sentry Limited, was allegedly involved in a Ponzi Scheme, and is in liquidation procedures at BVI (Madoff’s asset management company is also in liquidation procedures). The liquidator of Fairfield Sentry Limited and the official receiver of Madoff’s asset management company filed a lawsuit against Cathay Life at the United States Bankruptcy Court of New York State in March 2011 and December 2011, respectively. They claimed that Cathay Life must return the proceeds from the redemption of shares to the liquidation panel. Cathay Life has already retained lawyers to defend the charge. Both Cathay Life and the attorneys hold that this case will not cause significant impact on the financial position of Cathay Life.

(2) In October of 2003, Global Life Insurance Co., Ltd (hereinafter, “Global Life”) purchased from Taipei District Court by way of auction, the following real estates : (1) the second, third , fourth, fifth, and sixth floor of No.50, Sec.1, Zhongxiao West Road, Zhongzheng District, Taipei City, and (2) fifty parking spaces located on the fourth and fifth floor underground in the same building (collectively, the “Real Estate”). The bid was submitted in the name of Chou, Tsai-Fa (the “Defendant”), special assistant of Global Life’s then chairman. Subsequent transfer and registration as owner of the Real Estate were all completed in the name of the Defendant. The Defendant subsequently embezzled the Real Estate, which led to Global Life’s claiming for the return of the Real Estate and relating rents.

On the 30th of April, 2013, Taipei District Court has rendered its judgment in favor of Global Life, to the effect that Global Life is entitled to NTD 1,461,616,737, the proceed from auctioning the Real Estate. The judgment is overruled by the Taiwan High Court on the 30th of June, 2015. The Supreme Court has thereafter, on the 21st of April, 2016, overruled the 30th of June, 2015 Taiwan High Court judgement, and remanded the case to the Taiwan High Court. The case is currently attached to the Taiwan High Court.

Cathay Life assumed Global Life’s assets and liabilities on the 1st of July, 2015, including the aforesaid action. Cathay Life has already retained lawyers to represent itself in the action. Both Cathay Life and the attorneys hold that this case will not cause significant impact on the financial position of Cathay Life.

2. As of April 20 2017, Cathay United Bank Co., Ltd. (hereinafter, “Cathay United Bank”) was involved in a major lawsuit which is still unsettled due to normal business relations. The details are elaborated below:

Lee & Li, Attorneys-at-Law and SanDisk Corporation of USA alleged that the embezzlement case of Liu Wei-Chieh (an employee of Lee & Li), which occurred in October 2003 was caused by the negligence of Cathay United Bank in its operation, and the plaintiffs claimed damages from Cathay United Bank in the amount of approximately NT\$991.002 million and NT\$3,090 million separately. The case has been pending in the court since July 2007, and Cathay United Bank won favorable decisions in both first instance and second instances. Now the proceeding is still pending in the Supreme Court. The claim for damages by SanDisk is now in the process of mediation and not yet filed for legal proceedings. Both Cathay United Bank and its attorneys hold that this case will not have material adverse effect on the financial position of Cathay United Bank.

**(XI) Other material risks and the remedial action**

None.

## **VII.Special Event Management**

**(I) Major Event Control**

1. To reduce adverse impact, we take a comprehensive approach to major event control. We have set guidelines and established procedures for major events.
2. When a major event occurs, the subject unit should immediately report to its direct supervisor and then notify the FHC.
3. If the major events are special and required preventive actions from all business units, the Risk management Division should provide solutions.

**(II) Credit Event Control**

1. To refine our risk management and minimize adversity caused by sudden credit events among our debtors or investees, we have developed “the Credit Emergency Reporting Guideline” for appropriate reporting procedures.
2. Reporting items: warning event reporting and major event reporting. °
3. Reporting procedure:  
The business unit should report to both the subsidiary’s risk management department and the FHC’s risk management division immediately when warning, major event, or reportable event occurs among debtors or investees. The Risk Management Division should aggregate the Group’s exposure amount and provide solution, when needed.

## **VIII.Other Major Events**

None.

## **Eight. Special Disclosure**

### **I. Information on Affiliates**

#### **(I) Consolidated business reports**

Refer to Appendix II.

#### **(II) Consolidated financial statements of the subsidiaries**

Refer to Appendix I.

#### **(III) Affiliation report**

Refer to Appendix III.

### **II. Any private placement of securities in the recent years up to the publication of this annual report.**

None.

### **III. The shares in the Financial Holding Company held or disposed of by subsidiaries in the recent years up to the publication of this annual report:**

None.

### **IV. Other important supplementary information:**

None.

### **V. Events occurred in the previous year or up to the publication of this annual report, which significantly affect shareholders' equity or price of shares pursuant to item 2, paragraph 3, article 36 of the Securities and Exchange Act**

None.

# Appendix 1

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Consolidated Financial Statements**  
**For the years ended**  
**31 December 2016 and 2015**  
**With Independent Auditors' Audit Report**

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.



**Independent Auditors' Report**  
English Translation of a Report Originally Issued in Chinese

To Cathay Financial Holding Co., Ltd.

**Opinion**

We have audited the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the “Company”) and its subsidiaries as of 31 December 2016 and 2015, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended 31 December 2016 and 2015, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”).

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of 31 December 2016 and 2015, and their consolidated financial performance and cash flows for the years ended 31 December 2016 and 2015, in conformity with the requirements of the “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies”, “Regulation Governing the Preparation of Financial Reports by Securities Issuers” and “International Financial Reporting Standards”, “International Accounting Standards”, “Interpretations developed by the International Financial Reporting Interpretations Committee” as endorsed by Financial Supervisory Commission of the Republic of China.

**Basis for Opinion**

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

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2016 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Valuation of financial instruments - financial instrument investments for which no active market exists

Where the fair value of financial instrument investments for which no active market exists cannot be derived from an active market or a quoted price, it is determined using a valuation technique. The Company and its subsidiaries partially use internal model valuation for fair value, and the assumptions used in the valuation will impact the fair value of the reported financial instruments. Thus we conclude that the valuation of financial instruments- debt instrument investments for which no active market exists is a key audit matter of our audit.

Our audit procedures include but not limited to assessing and testing the effectiveness of internal controls related to financial instruments valuation, including how management decides and approves the valuation model and its assumptions, the controls related to the valuation model and change of assumptions, and how management reviews the valuation. We use internal valuation experts on a sampling basis to assist in reviewing the valuation techniques adopted by the Company and its subsidiaries, understanding and assessing the rationality of key valuation assumptions, performing independent valuation calculation, and determining whether the valuation differences are acceptable. Meanwhile, we review the disclosures of financial instruments valuations, including the fair value hierarchy of assets, to determine whether they complied with the related regulatory and accounting standards requirements.

Please refer to Notes 4, 5. (2) and 38. (2) for information about the Company and its subsidiaries' financial instruments valuation.

### Measurement of insurance liabilities

The measurement of the Company and its subsidiaries' insurance liabilities is dependent on the calculations based on assumptions of current period or the assumptions established in the contracts to reflect the best estimates at that time. Nevertheless, these assumptions were set based on the relevant regulations and the professional judgements of internal specialists. With the high complexity, changes in assumptions adopted by the Company may affect the results when measuring the insurance liabilities. Therefore, we considered this a key audit matter.

Our audit procedures included, but not limited to, evaluating and testing the effectiveness of internal controls around insurance liabilities, including management's decision and approval of the methods and assumptions used in setting aside various reserves and controls for changing the methods and assumptions; examining the data of calculating insurance liabilities; assessing the reasonableness of the Company and its subsidiaries' actuarial judgements and actuarial assumptions used in the model with the assistance of our internal specialist performing audit procedures for insurance liabilities. We also considered whether the Company's disclosures in the financial statements in relation to insurance liabilities are compliant with the relevant regulations and principles.

Please refer to Notes 4, 5. (2) and 22 for details of the Company and its subsidiaries' insurance liabilities.

### Investment properties measured at fair value

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

We conducted audit procedures for investment properties valuation, including but not limited to the following: evaluating the independence and qualification of external real estate appraisers, and enlisting the internal valuation specialist's assistance to evaluate the external real estate appraisers firm's valuation reports to understand the valuation approach adopted and ensure the reasonableness in the valuation approach adopted and key valuation assumptions so that we could verify whether the difference between the internal valuation specialist's work and external valuation reports is acceptable.

Please refer to Notes 4, 5. (2) and 14 for information about the Company and its subsidiaries' investment properties measured at fair value.

### The Provision of Allowance for Loans

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" and "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" of the ROC, the Company and its subsidiaries developed their own systems to perform both individual and collective assessments of impairment loss on loans and receivables. The systems assess the amount of an impairment loss based on parameters from historical experience or future cash flows on a case-by-case basis. The estimates of discount factors, including effective interest rate, incidence of impairment and recoverable rates, and the classification to assess whether there is any objective evidence that a loan is impaired, require professional judgment and uses of estimates and assumptions. Moreover, net of discounts and loans as of 31 December 2016 have a significant impact on the Company's financial statements. Consequently, we regard this as key audit matters.

We assessed and tested the effectiveness of internal control relating to calculations of impairment, including the underlying data and systems with respect to impairment calculation. For loan loss provisions calculated on an individual basis, we tested the assumptions which were used to identify and quantify the impairments, including estimates of future cash flows, valuation of guarantee and estimates of recovery on default. For loan loss provisions calculated on a collective basis, we reviewed whether the models of impairment were approved by management and relied on our specialists to verify the effectiveness of those models. We also tested the appropriateness and accuracy of the inputs used in those models, such as recovery rates and historical loss rates. We reviewed whether management of the Company and its subsidiaries complied with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" of the ROC, including assessing appropriateness of the classification of loans and testing accuracy of impairment calculations.



Please refer to Notes 4, 5. (2) and 10 for information about the Company and its subsidiaries' the provision of allowance for loans.

#### Assessment of goodwill impairment

IAS 36 requires entities to perform an impairment test annually. However the calculation made by management of the Company and its subsidiaries is complex and involves major subjective judgments and assumptions. Thus we conclude that assessment of goodwill impairment is a key audit matter of our audit.

Our audit procedures included but not limited to assessing the rationality of the Company and its subsidiaries' financial forecasts and using internal experts to assist in assessing the rationality of the assumptions made by the Company and its subsidiaries' management.

Please refer to Notes 4, 5. (2) and 16 for information about the Company and its subsidiaries' goodwill impairment assessment.

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

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

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2016 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Ernst & Young  
Taipei, Taiwan  
The Republic of China  
8 March 2017

#### **Notice to Readers**

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd. and Subsidiaries  
Consolidated Balance Sheets  
As of 31 December 2016 and 31 December 2015  
(Expressed in thousands of New Taiwan Dollars)**

	Notes	2016.12.31	2015.12.31
<b>Assets</b>			
Cash and cash equivalents	4, 6	\$196,549,185	\$191,780,120
Due from the Central Bank and call loans to banks		71,940,935	100,169,436
Financial assets at fair value through profit or loss	4, 7	244,529,264	296,117,926
Available-for-sale financial assets - net	4, 8	1,591,359,657	1,486,393,125
Derivative financial assets for hedging	4	232,269	447,326
Securities purchased under agreements to resell	4	49,524,682	55,880,471
Receivables - net	4, 9	154,212,060	141,649,869
Current income tax assets	4	4,215,323	4,339,061
Loans - net	4, 10	2,045,532,795	1,766,476,353
Reinsurance assets - net		8,767,841	7,000,785
Held-to-maturity financial assets - net	4, 11	81,826,739	81,708,446
Investments accounted for using the equity method - net	4, 12	35,209,790	25,500,488
Other financial assets - net	4, 13	3,036,381,213	2,790,400,892
Investment properties - net	4, 14	311,014,127	381,149,809
Property and equipment - net	4, 15	164,114,231	97,488,736
Intangible assets - net	4, 16	58,597,243	56,943,768
Deferred tax assets - net	4, 30	14,729,993	14,425,707
Other assets - net		66,400,120	71,102,715
<b>Total assets</b>		<b>\$8,135,137,467</b>	<b>\$7,568,975,033</b>

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Consolidated Balance Sheets - (continued)**  
**As of 31 December 2016 and 31 December 2015**  
**(Expressed in thousands of New Taiwan Dollars)**

<b>Liabilities &amp; equity</b>	Notes	2016.12.31	2015.12.31
<b>Liabilities</b>			
Due to the Central Bank and call loans from banks		\$77,493,795	\$41,226,909
Financial liabilities at fair value through profit or loss	4, 17	115,014,826	137,471,418
Securities sold under agreements to repurchase	4	59,139,059	55,523,982
Commercial paper payable - net	4, 18	41,578,838	35,677,634
Payables		55,295,781	43,402,650
Current income tax liabilities	4	3,512,350	1,641,020
Deposits	19	1,999,943,172	1,854,495,831
Bonds payable	4, 20	51,900,000	71,800,000
Provisions	4, 22	4,596,525,084	4,262,002,527
Other financial liabilities	4, 21	561,224,829	549,564,053
Deferred tax liabilities	4, 30	26,362,443	34,775,271
Other liabilities		17,323,269	20,331,536
<b>Total liabilities</b>		<b>7,605,313,446</b>	<b>7,107,912,831</b>
<b>Equity attributable to owners of parent</b>			
Capital stock	24		
Common stock		125,632,102	125,632,102
Preferred stock		8,333,000	-
Capital surplus	25	130,448,697	88,781,174
Retained earnings	26		
Legal reserve		30,577,724	24,820,095
Special reserve		149,108,336	140,185,120
Undistributed earnings		73,001,761	65,190,213
Other equity		6,222,952	10,448,290
Non-controlling interests	4, 27	6,499,449	6,005,208
<b>Total equity</b>		<b>529,824,021</b>	<b>461,062,202</b>
<b>Total liabilities and equity</b>		<b>\$8,135,137,467</b>	<b>\$7,568,975,033</b>

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
**For the years ended 31 December 2016 and 2015**  
**(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

	Notes	2016.1.1~2016.12.31	2015.1.1~2015.12.31
<b>Interest income</b>	4	\$168,883,110	\$157,079,850
<b>Less: Interest expenses</b>		(15,405,207)	(17,081,656)
<b>Net interest income</b>	4	153,477,903	139,998,194
<b>Net income other than interest</b>			
Net commission and handling fee		(7,912,706)	(4,479,828)
Net premiums from insurance business		314,219,387	226,753,764
Gains (losses) on financial assets and liabilities at fair value through profit or loss		19,582,308	(61,256,966)
Gains from investment properties		12,964,367	19,914,745
Realized gains on available-for-sale financial assets		48,169,789	55,126,954
Realized gains (losses) on held-to-maturity financial assets		57,608	(46,383)
(Losses) gains on foreign exchange		(42,817,155)	50,027,860
Impairment losses on assets		(175,164)	(32,160)
Share of profit of associates and joint ventures accounted for using the equity method		1,202,103	1,107,708
Net other non-interest gains		40,511,744	14,151,151
<b>Total income</b>		539,280,184	441,265,039
<b>Bad debt expenses and provision for premiums reserve</b>		(5,231,640)	(2,467,452)
<b>Changes in insurance liabilities and provisions</b>		(408,613,955)	(306,598,275)
<b>Operating expenses</b>	28		
Employee benefits expenses		(46,194,777)	(39,148,233)
Depreciation and amortizations expenses		(5,189,148)	(3,641,309)
Other general and administration expenses		(23,866,159)	(22,277,568)
Subtotal		(75,250,084)	(65,067,110)
<b>Profit before income tax from continuing operations</b>		50,184,505	67,132,202
<b>Income tax expense</b>	4, 30	(2,145,305)	(9,249,831)
<b>Net income</b>		48,039,200	57,882,371
<b>Other comprehensive income</b>	4, 29		
<b>Not to be reclassified to profit or loss in subsequent periods:</b>			
Remeasurements of defined benefit plans		753,518	(2,824,773)
Revaluation surplus		-	92,744
Share of other comprehensive income of associates and joint ventures accounted for using the equity method - not to be reclassified to profit or loss in subsequent periods		(9,343)	(164,196)
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk		44,408	42,544
Income tax relating to the components not to be reclassified to profit or loss in subsequent periods		(133,885)	499,804
<b>To be reclassified to profit or loss in subsequent periods:</b>			
Exchange differences resulting from translating the financial statements of a foreign operation		(8,920,171)	1,488,694
Unrealized gain (loss) from available-for-sale financial assets		985,063	(47,035,243)
(Loss) gain on cash flow hedges		(216,856)	230,973
Share of other comprehensive income of associates and joint ventures accounted for using the equity method - to be reclassified to profit or loss in subsequent periods		(722,914)	346,975
Income tax relating to the components to be reclassified to profit or loss in subsequent periods		3,567,798	1,964,114
<b>Other comprehensive income, net of tax</b>		(4,652,382)	(45,358,364)
<b>Total comprehensive income</b>		\$43,386,818	\$12,524,007
<b>Net income attributable to:</b>			
Owners of parent		\$47,618,813	\$57,513,572
Non-controlling interests		420,387	368,799
Subtotal		\$48,039,200	\$57,882,371
<b>Total comprehensive income attributable to:</b>			
Owners of parent		\$43,393,475	\$11,939,628
Non-controlling interests		(6,657)	584,379
Subtotal		\$43,386,818	\$12,524,007
<b>Earnings per share (expressed in dollars) :</b>	31		
Basic earnings per share:			
Net income		\$3.79	\$4.58

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 years ended 31 December 2016 and 2015**  
**(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	Preferred stock	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of a foreign operation	Unrealized gains (losses) from available-for-sale financial assets	Gains (losses) on cash flow hedges	Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	Remeasurements of defined benefit plans	Revaluation Surplus	Others	Total		
Balance on 1 January 2015	\$125,632,102	\$-	\$88,782,304	\$19,784,401	\$82,305,614	\$60,939,777	\$601,786	\$44,257,646	\$180,453	\$48,151	\$918,332	\$10,030,820	\$(781)	\$433,480,605	\$5,639,845	\$439,120,450
Appropriations and distribution for 2014																
Legal reserve				5,035,694		(5,035,694)								-		-
Special reserve					23,148,991	(23,148,991)								-		-
Cash dividends						(25,126,420)								(25,126,420)		(25,126,420)
Reversal of special reserve					(33,796)	33,796								-		-
Other additional paid-in capital																
Share of changes in net assets of associates and joint ventures accounted for using the equity method			(1,130)											(1,130)		(1,130)
Net income for the year ended 31 December 2015 (Note 1)						57,513,572								57,513,572	368,799	57,882,371
Other comprehensive income for the year ended 31 December 2015							1,263,580	(44,674,719)	191,071	35,311	(2,481,087)	92,136	(236)	(45,573,944)	215,580	(45,358,364)
Comprehensive income for the year ended 31 December 2015						57,513,572	1,263,580	(44,674,719)	191,071	35,311	(2,481,087)	92,136	(236)	11,939,628	584,379	12,524,007
Decrease in non-controlling interests															(219,016)	(219,016)
Others					34,764,311	14,173						(14,173)		34,764,311		34,764,311
Balance on 31 December 2015	\$125,632,102	\$-	\$88,781,174	\$24,820,095	\$140,185,120	\$65,190,213	\$1,865,366	\$(417,073)	\$371,524	\$83,462	\$(1,562,755)	\$10,108,783	\$(1,017)	\$455,056,994	\$6,005,208	\$461,062,202
Appropriations and distribution for 2015																
Legal reserve				5,757,629		(5,757,629)								-		-
Special reserve					8,923,216	(8,923,216)								-		-
Cash dividends						(25,126,420)								(25,126,420)		(25,126,420)
Other additional paid-in capital																
Share of changes in net assets of associates and joint ventures accounted for using the equity method			2,523											2,523		2,523
Net income for the year ended 31 December 2016 (Note 2)						47,618,813								47,618,813	420,387	48,039,200
Other comprehensive income for the year ended 31 December 2016							(9,140,278)	4,440,232	(179,990)	36,859	616,822	-	1,017	(4,225,338)	(427,044)	(4,652,382)
Comprehensive income for the year ended 31 December 2016						47,618,813	(9,140,278)	4,440,232	(179,990)	36,859	616,822	-	1,017	43,393,475	(6,657)	43,386,818
Issue of preferred stock		8,333,000	41,665,000											49,998,000		49,998,000
Increase in non-controlling interests															500,898	500,898
Balance on 31 December 2016	\$125,632,102	\$8,333,000	\$130,448,697	\$30,577,724	\$149,108,336	\$73,001,761	\$(7,274,912)	\$4,023,159	\$191,534	\$120,321	\$(945,933)	\$10,108,783	\$-	\$523,324,572	\$6,499,449	\$529,824,021

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

Note1: For the year ended 2015, the remuneration to directors and supervisors in the amount of \$2,100 thousand and employees' compensation in the amount of \$5,903 thousand have been deducted from the Statement of Comprehensive Income.

Note2: For the year ended 2016, the remuneration to directors and supervisors in the amount of \$1,800 thousand and employees' compensation in the amount of \$4,920 thousand have been deducted from the Statement 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 years ended 31 December 2016 and 2015  
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31	Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
<b>Cash flows from operating activities</b>			<b>Cash generated from operations</b>	(203,067,048)	(369,271,962)
Profit before income tax from continuing operations	\$50,184,505	\$67,132,202	Interest received	164,523,945	151,683,427
Adjustments:			Dividends received	24,352,712	21,713,620
Income and other adjustments with no cash flow effects			Interest paid	(15,141,591)	(13,698,505)
Depreciation expenses	2,295,745	2,184,189	Income taxes (paid) received	(2,735,091)	597,697
Amortizations expenses	2,893,403	1,457,120	<b>Net cash flows used in operating activities</b>	(32,067,073)	(208,975,723)
Bad debt expense	5,231,640	2,467,452			
Net (gains) losses on financial assets and liabilities at fair value through profit or loss	(15,117,537)	64,467,092	<b>Cash flows from investing activities</b>		
Interest expenses	15,405,207	17,081,656	Acquisition of financial assets at fair value through profit or loss	(1,523,051)	(4,137,871)
Interest revenue	(168,883,110)	(157,079,850)	Disposal of financial assets at fair value through profit or loss	3,019,067	3,940,176
Dividend income	(23,847,539)	(21,327,538)	Acquisition of financial assets available for sale	(1,389,511)	(1,795,459)
Net changes in insurance liabilities and provisions	347,690,617	334,637,365	Disposal of financial assets available for sale	843,738	1,500,642
Net changes of other liabilities and provisions	(6,154,971)	(1,068,276)	Acquisition of financial assets carried at cost	(5,745)	-
Share of gains of associates and joint ventures accounted for using the equity method	(1,202,103)	(1,107,708)	Acquisition of investments accounted for using the equity method	(6,670,889)	(20,147,622)
(Gains) losses on disposal or scrapping of property and equipment	(225,342)	9,485	Acquisition of subsidiary	(4,708,708)	(6,994,994)
(Gains) losses on disposal of investment properties	(1,028,782)	137,004	Disposal of subsidiaries	(4,609,822)	-
Losses on disposal of intangible assets	391	35,492	Cash returned by capital deduction from investments accounted for using equity method	70,299	86,501
Gains on disposal of investments	(48,017,674)	(43,408,125)	Acquisition of property and equipment	(4,325,933)	(1,287,488)
Impairment losses on financial assets	117,002	32,160	Disposal of property and equipment	319,802	16,017
Impairment losses on non-financial assets	58,162	-	Increase in clearing and settlement funds	(4,458)	(2,703)
Unrealized foreign exchange (gains) losses	(71,422)	48,609	Decrease in clearing and settlement funds	15,884	-
Revaluation gains on investment properties	(1,847,034)	(11,236,452)	Increase in guarantee deposits paid	(1,126)	(2,348)
Others	(2,730,769)	(8,346)	Decrease in guarantee deposits paid	23,030	-
Subtotal	104,565,884	187,321,329	Acquisition of intangible assets	(415,279)	(350,822)
Changes in operating assets and liabilities			Generalized foreclosed collects net cash from other company	-	16,157,186
Changes in operating assets			Generalized foreclosed collects compensation from other company	-	30,300,000
Increase in due from the Central Bank and call loans to banks	(2,636,468)	(4,996,676)	Acquisition of investment properties	(3,254,915)	(34,643,780)
Decrease (increase) in financial assets at fair value through profit or loss	150,814,074	(24,811,830)	Disposal of investment properties	2,146,998	291,927
Increase in available-for-sale financial assets	(83,009,152)	(87,477,240)	Increase in other assets	(134,176)	(22,035,719)
(Increase) decrease in derivative financial assets for hedging	(1,798)	449,037	Decrease in other assets	7,135,933	80,373
Increase in accounts receivable	(11,544,098)	(1,386,901)	Dividends received	96,607	73,692
(Increase) decrease in loans	(283,277,168)	55,380,486	<b>Net cash used in investing activities</b>	(13,372,255)	(38,952,292)
Increase in reinsurance contract assets	(2,322,525)	(502,663)			
Decrease in financial assets held to maturity	283,195	7,332	<b>Cash flows from financing activities</b>		
Increase in other financial assets	(200,653,210)	(573,530,812)	Increase (decrease) in short-term borrowings	87,229	(900,000)
Increase in other assets	(4,785,493)	(23,256,988)	Decrease in funds borrowed from Central Bank and banks	-	(1,585,900)
Subtotal	(437,132,643)	(660,126,255)	Increase in commercial paper payable	5,900,000	8,890,000
Changes in operating liabilities			Decrease in bonds payable	(20,000,000)	(20,000,000)
Increase (decrease) in due to the Central Bank and call loans from banks	36,402,468	(17,797,575)	Decrease in bank debentures	-	(15,713,949)
Decrease in financial liabilities at fair value through profit or loss	(107,752,312)	(68,995,003)	Decrease in securities sold under agreements to repurchase	(14,660)	(171,511)
Increase (decrease) in securities sold under agreements to repurchase	3,629,737	(6,326,428)	Increase in other liabilities	1,108,978	1,516,069
Increase (decrease) in payables	10,152,404	(13,185,305)	Payment of cash dividend	(25,223,449)	(25,659,094)
Increase in deposits	146,256,116	151,147,103	Increase in cash capital	49,998,000	-
(Decrease) increase in provisions for the liabilities of employee benefits	(3,415,115)	3,105	<b>Net cash flows from (used in) financing activities</b>	11,856,098	(53,624,385)
Decrease in reserves for the operations and liabilities	(136,830)	(16,427)	<b>Effects of exchange rate changes on cash and cash equivalents</b>	1,245,500	1,479,269
Decrease in other financial liabilities	(5,660,297)	(12,615,246)	<b>Decrease in cash and cash equivalents</b>	(32,337,730)	(300,073,131)
(Decrease) increase in other liabilities	(160,965)	4,186,538	<b>Cash and cash equivalents at the beginning of periods</b>	296,935,688	597,008,819
Subtotal	79,315,206	36,400,762	<b>Cash and cash equivalents at the end of periods</b>	\$264,597,958	\$296,935,688
Subtotal of Changes in operating assets and liabilities	(357,817,437)	(623,725,493)	<b>The components of cash and cash equivalents</b>		
Subtotal of Adjustment	(253,251,553)	(436,404,164)	Cash and cash equivalents presented in balance sheet	\$196,549,185	\$191,780,120
			Due from the Central Bank and call loans to banks satisfied the definition of cash and cash equivalents under IAS No.7	18,524,091	49,275,097
			Securities purchased under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7	49,524,682	55,880,471
			<b>Cash and cash equivalents at the end of periods</b>	\$264,597,958	\$296,935,688

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 31 December 2016 and 2015**

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

#### **1. Organization and business scope**

On 31 December 2001, Cathay Life Insurance Co., Ltd. (“Cathay Life”) was reincorporated as Cathay Financial Holding Co., Ltd. (the “Company”) through stock conversion pursuant to the Republic of China (“ROC”) Financial Holding Company Act (“Financial Holding Company Act”) and its shares were listed on the Taiwan Stock Exchange Corporation (TWSE) on the same day. On 22 April 2002, Cathay Century Insurance Co., Ltd. (“Cathay Century”) and Cathay United Bank Co., Ltd. (“Cathay United Bank”) became subsidiaries of the Company through stock conversion approved by the government. On 18 December 2002, United World Chinese Commercial Bank Co., Ltd. (“UWCCB”) also became a subsidiary of the Company through stock conversion approved by the government. UWCCB and Cathay United Bank merged on 27 October 2003, in accordance with the relevant laws and regulations. UWCCB was the surviving company and was re-named Cathay United Bank Co., Ltd. (“Cathay United Bank”). On 12 May 2004, the Company established Cathay Securities Corporation (“Cathay Securities”) as a wholly owned subsidiary. On 30 September 2005, the Company invested in Lucky Bank, Inc. (“Lucky Bank”) which was approved as a strategic investment by the Financial Supervisory Commission, 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.

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

The consolidated financial statements of the Company and subsidiaries (the Group) for the years ended 31 December 2016 and 2015 were authorized for issue in accordance with a resolution of the Board of Directors on 8 March 2017.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### **3. Newly issued or revised standards and interpretations**

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

(a) *IAS 36 “Impairment of Assets” (Amendment)*

This amendments relate to the amendments issued in May 2011 and require 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 amendments also require 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 amendments are 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 amendments, 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 amendments are effective for annual periods beginning on or after 1 July 2014.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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

*IFRS 2 “Share-based Payment”*

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

*IFRS 3 “Business Combinations”*

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

*IFRS 8 “Operating Segments”*

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

*IFRS 13 “Fair Value Measurement”*

The amendments to the Basis for Conclusions of IFRS 13 clarify 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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### *IAS 16 “Property, Plant and Equipment”*

The amendments clarify 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 amendments are effective for annual periods beginning on or after 1 July 2014.

### *IAS 24 “Related Party Disclosures”*

The amendments clarify 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 amendments are effective for annual periods beginning on or after 1 July 2014.

### *IAS 38 “Intangible Assets”*

The amendments clarify 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 amendments are 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 amendments clarify 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 amendments clarify 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 amendments are effective for annual periods beginning on or after 1 July 2014.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### *IFRS 13 “Fair Value Measurement”*

The amendments clarify 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 the amendments 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 amendments are effective for annual periods beginning on or after 1 July 2014.

### *IAS 40 “Investment Property”*

The amendments clarify 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 amendments are effective for annual periods beginning on or after 1 July 2014.

### (g) *IFRS 14 “Regulatory Deferral Accounts”*

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

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

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

- (i) *IAS 16 “Property, Plant and Equipment and IAS 38 “Intangible Assets” — Clarification of Acceptable Methods of Depreciation and Amortization*

The amendments clarify 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 amendments also clarify 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 amendments are effective for annual periods beginning on or after 1 January 2016.

- (j) *IAS 16 “Property, Plant and Equipment and IAS 41 “Agriculture” — Agriculture: Bearer Plants*

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

- (k) *IAS 27 “Separate Financial Statements” — Equity Method in Separate Financial Statements*

The IASB restored the option to use the equity method under IAS 28 for an entity to account for investments in subsidiaries and associates in the entity’s separate financial statements. In 2003, the equity method was removed from the options. This amendments remove 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 amendments are effective for annual periods beginning on or after 1 January 2016.

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

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

The amendments clarify 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 amendments also require 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 amendments are effective for annual periods beginning on or after 1 January 2016.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### *IFRS 7 “Financial Instruments: Disclosures”*

The amendments clarify 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 amendments also clarify 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 amendments are effective for annual periods beginning on or after 1 January 2016.

### *IAS 19 “Employee Benefits”*

The amendments clarify 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 amendments are effective for annual periods beginning on or after 1 January 2016.

### *IAS 34 “Interim Financial Reporting”*

The amendments clarify what is meant by “elsewhere in the interim financial report” under IAS 34; the amendments state 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 amendments are effective for annual periods beginning on or after 1 January 2016.

### *(m) Disclosure Initiative — Amendment to IAS 1 “Presentation of Financial Statements”:*

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

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

- (2) Standards or interpretations issued, revised or amended, by IASB but not yet recognized by FSC at the date of issuance of the Group’s financial statements are listed below.

- (a) *IFRS 15* “Revenue from Contracts with Customers”

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

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

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### (b) *IFRS 9 “Financial Instruments”*

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

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

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

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

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

### (c) *IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures*

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

(d) *IFRS 16 “Leases”*

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

(e) *IAS 12 “Income Taxes” — Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify how to account for deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after 1 January 2017.

(f) *Disclosure Initiative — Amendment to IAS 7 “Statement of Cash Flows”:*

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

(g) *IFRS 15 “Revenue from Contracts with Customers” — Clarifications to IFRS 15*

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

(h) *IFRS 2 “Share-Based Payment” — Amendments to IFRS 2*

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

(i) *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts — Amendments to IFRS 4*

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

(j) *Transfers of Investment Property — Amendments to IAS 40*

The amendments relate to the transfers of investment property. The amendments clarify that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use, the entity should transfer property into and out of investment property accordingly. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. The amendments are effective for annual periods beginning on or after 1 January 2018.

(k) *Improvements to International Financial Reporting Standards (2014-2016 cycle):*

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

The amendments revise and amend transition requirements relating to certain standards and delete short-term exemptions under Appendix E for first-time adopter. The amendments are effective for annual periods beginning on or after 1 January 2018.

*IFRS 12 “Disclosure of Interests in Other Entities”*

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity’s interests that are classified as held for sale or discontinued operations. The amendments are effective for annual periods beginning on or after 1 January 2017.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### *IAS 28 “Investments in Associates and Joint Ventures”*

The amendments clarify that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and other qualifying entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9 “Financial Instruments” on an investment-by-investment basis. Besides, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries on an investment-by-investment basis. The amendments are effective for annual periods beginning on or after 1 January 2018.

#### (1) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 “The Effects of Changes in Foreign Exchange Rates”, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation is effective for annual periods beginning on or after 1 January 2018.

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

## **4. Summary of significant accounting policies**

### (1) Statement of compliance

The consolidated financial statements of the Group for the years ended 31 December 2016 and 2015 have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies”, the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, the “Regulations Governing the Preparation of Financial Reports by Securities Firms” and “ International Financial Reporting Standards”, “International Accounting Standards”, “Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee” as endorsed by Financial Supervisory Commission of the Republic of China.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### (2) Basis of preparation

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

### (3) Basis of consolidation

Preparation principle of consolidated financial statement

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

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

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

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

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

Subsidiaries are fully consolidated from the acquisition date, being the date on which the 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.

## English Translation of Financial Statements Originally Issued in Chinese

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

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

If the Group loses control of a subsidiary, it:

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	2016.12.31	2015.12.31	Notes
The Company	Cathay Life Insurance Co., Ltd. ("Cathay Life")	Life insurance	100.00	100.00	Cathay Life was incorporated in Taiwan on 23 October 1962, under the ROC Company Act (the "Company Act").
The Company	Cathay United Bank Co., Ltd. ("Cathay United Bank")	Commercial banking operations	100.00	100.00	UWCCB was enfranchised by the ROC government on 4 January 1975. On 27 October 2003, UWCCB was merged with the former Cathay United Bank which was dissolved after the merger; the merged entity was renamed Cathay United Bank. The new Cathay United Bank merged with Lucky Bank on 1 January 2007.
The Company	Cathay Century Insurance Co., Ltd. ("Cathay Century")	Property and casualty insurance	100.00	100.00	Cathay Century was incorporated in Taiwan on 19 July 1993, under the Company Act. Cathay Century changed its name from "Tong Tai Insurance Co., Ltd." to "Cathay Century Insurance Co., Ltd." on 2 August 2002.
The Company	Cathay Securities Corporation ("Cathay Securities")	Securities	100.00	100.00	Cathay Securities was incorporated on 12 May 2004, under the Company Act. The securities department and the securities agent (Taipei branch) of Cathay United Bank were assigned to Cathay Securities along with its business, assets and liabilities. The assignment date was 13 August 2004.

**English Translation of Financial Statements Originally Issued in Chinese**

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

Investor	Subsidiary	Business nature	2016.12.31	2015.12.31	Notes
The Company	Cathay Venture Inc. (“Cathay Venture”)	Venture capital investment	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	Cathay Securities Investment Trust was incorporated on 11 February 2000.
Cathay Life	Cathay Lujiazui Life Insurance Company Limited. (“Cathay Lujiazui Life”)	Life insurance	50.00	50.00	Cathay Lujiazui Life was incorporated on 29 December 2004. Cathay Life and Shanghai Lujiazui Finance Tradezone Development Co., Ltd. each owns 50% interest in Cathay Lujiazui Life.
Cathay Life	Cathay Life Insurance (Vietnam) Co., Ltd. (“Cathay Life (Vietnam)”)	Life insurance	100.00	100.00	Cathay Life (Vietnam) was incorporated on 21 November 2007.
Cathay Life	Cathay Woolgate Exchange Holding 1 Limited	Real estate investment and management	100.00	100.00	Cathay Woolgate Exchange Holding 1 Limited was incorporated on 30 July 2014.
Cathay Life	Cathay Woolgate Exchange Holding 2 Limited	Real estate investment and management	100.00	100.00	Cathay Woolgate Exchange Holding 2 Limited was incorporated on 30 July 2014.
Cathay Life	Cathay Walbrook Holding 1 Limited	Real estate investment and management	100.00	100.00	Cathay Walbrook Holding 1 Limited was incorporated on 31 March 2015.
Cathay Life	Cathay Walbrook Holding 2 Limited	Real estate investment and management	100.00	100.00	Cathay Walbrook Holding 2 Limited was incorporated on 31 March 2015.
Cathay Life	Conning Holdings Limited	Holding company	100.00	100.00	Conning Holdings Limited was incorporated on 10 June 2015.
Conning Holdings Limited	Conning U.S. Holdings, Inc.	Holding company	100.00	100.00	Conning U.S. Holdings, Inc. was incorporated on 10 June 2015.
Conning Holdings Limited	Conning Asset Management Ltd.	Wealth Management	100.00	100.00	Conning Asset Management Ltd. was incorporated on 16 October 1998.

**English Translation of Financial Statements Originally Issued in Chinese**

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

Investor	Subsidiary	Business nature	2016.12.31	2015.12.31	Notes
Conning Holdings Limited	Conning Japan Ltd.	Wealth Management	100.00	100.00	Conning Japan Ltd. was incorporated on 7 September 2015.
Conning Holdings Limited	Conning (Germany) GmbH	Risk management software	100.00	100.00	Conning (Germany) GmbH was incorporated on 1 October 2012.
The Company & Conning Holdings Limited	Conning Asia Pacific Ltd. (Note 1)	Wealth Management	100.00	100.00	Cathay Conning Asset Management Ltd. was incorporated on 6 July 2011.
Conning U.S. Holdings, Inc.	Conning Holdings Corp.	Holding company	100.00	100.00	Conning Holdings Corp. was incorporated on 5 June 2009.
Conning Holdings Limited	Conning Holdco (UK) Ltd. (Note 2)	Holding company	-	100.00	Conning Holdco (UK) Ltd. was incorporated on 14 June 2011.
Conning Holdings Corp.	Conning & Company	Holding company	100.00	100.00	Conning & Company was incorporated on 10 July 1986.
Conning & Company	Conning Inc.	Wealth Management	100.00	100.00	Conning Inc. was incorporated on 25 March 2007.
Conning & Company	Goodwin Capital Advisors, Inc.	Wealth Management	100.00	100.00	Goodwin Capital Advisors, Inc. was incorporated on 28 August 2000.
Conning & Company	Conning Investments Products, Inc.	Securities	100.00	100.00	Conning Investments Products, Inc. was incorporated on 13 February 2012.
Conning & Company	Octagon Credit Investors, LLC	Investment consulting services	82.05	-	Octagon Credit Investors, LLC was incorporated on 19 December 2011.
Octagon Credit Investors, LLC	Octagon Multi-Strategy Corporate Credit GP, LLC	Fund management services	100.00	-	Octagon Multi-Strategy Corporate Credit GP, LLC was incorporated on 26 November 2014.
Octagon Credit Investors, LLC	Octagon Funds GP LLC	Fund management services	100.00	-	Octagon Funds GP LLC was incorporated on 26 November 2014.
Octagon Credit Investors, LLC	Octagon Funds GP II LLC	Fund management services	100.00	-	Octagon Funds GP II LLC was incorporated on 26 November 2014.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

Investor	Subsidiary	Business nature	2016.12.31	2015.12.31	Notes
Cathay Life	Lin Yuan (Shanghai) Real Estate Co., Ltd (“Lin Yuan”)	Office equipment leasing company	100.00	100.00	Lin Yuan was incorporated on 15 August 2012.
Cathay Life, Cathay Century	Cathay Insurance Co., Ltd. (China) (Note 3)(“Cathay Century (China)”)	Property and casualty insurance	49.00	100.00	Cathay Century (China) was incorporated on 26 August 2008. Cathay Life and Cathay Century owns 24.5% interest of Cathay Century (China), respectively.
Cathay Century	Cathay Insurance (Vietnam) Co., Ltd. (“Cathay Century (Vietnam)”)	Property and casualty insurance	100.00	100.00	Cathay Century (Vietnam) was incorporated on 2 November 2010.
Cathay United Bank	Indovina Bank Limited (“Indovina Bank”)	Wholesale banking	50.00	50.00	Indovina Bank was incorporated in Vietnam on 21 November 1990. Cathay United Bank and Vietinbank each owns 50% interest of Indovina Bank.
Cathay United Bank	Cathay United Bank (Cambodia) Corporation Limited (“CUBC Bank”)	Wholesale banking	100.00	100.00	SBC Bank was incorporated in Cambodia on 1993 and renamed as CUBC Bank on 14 January 2014.
Cathay Securities	Cathay Futures Co., Ltd. (“Cathay Futures”)	Futures related business	99.99	99.99	Cathay Futures, former Seaward Futures Agency Co., Ltd., was incorporated on 29 December 1993, under the Company Act and was renamed Seaward Futures Corp. on 6 March 1998. On 24 December 2003, Seaward Futures Corp. changed its name to Cathay Futures Corp. On 10 February 2006, Cathay United Bank sold all stocks of Cathay Futures to Cathay Securities.
Cathay Securities	Cathay Securities (Hong Kong) Corporation Limited (“Cathay Securities (Hong Kong)”)	Securities agent	100.00	100.00	Cathay Securities (Hong Kong), formerly Horizon Securities (Hong Kong) Co., Ltd., was incorporated on 22 March 1997 and was renamed as Cathay Securities (Hong Kong) Co., Ltd. after the acquisition.

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

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

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

## English Translation of Financial Statements Originally Issued in Chinese

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

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

Investor	Investee	Business	2016.12.31 Ownership interest	2015.12.31 Ownership interest	Notes
Cathay Life	Cathay Insurance (Bermuda) Co., Ltd. ("Cathay Insurance (Bermuda)")	Class 3 general business insurers and Class C long-term insurer	100.00	100.00	Cathay Insurance (Bermuda) was incorporated on 10 November 1999.
Cathay Life	Cathay Securities Investment Consulting Co., Ltd. ("Cathay Securities Investment Consulting")	Securities investment research analysis	100.00	100.00	Cathay Securities Investment Consulting was incorporated on 25 November 2002.
Cathay United Bank	Seaward Card Co., Ltd. ("Seaward Card")	Temporary employment	100.00	100.00	Seaward Card was incorporated on 9 April 1999.
Cathay Securities	Cathy Investment Consulting (Shanghai) Co., Ltd.	Investment Consulting	100.00	100.00	Cathy Investment Consulting (Shanghai) Co., Ltd. was incorporated on 11 June 2014.

#### (4) Foreign currency transactions

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

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

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

### **(5) Translation of financial statements in foreign currency**

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

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

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

### **(6) Cash and cash equivalents**

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### (7) The transaction of Repo notes and bonds

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

### (8) Financial instruments

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

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

#### A. Financial assets

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

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

#### Financial assets at fair value through profit or loss

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

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

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

### Available-for-sale financial assets

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

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

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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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

### Loans and receivables

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

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

### Derivative financial assets for hedging

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

### Investments in debt securities with no active market

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

### Impairment of financial assets

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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.

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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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.

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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### 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.

#### 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*.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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.

### **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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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.

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.

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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### (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) Fair value measurement

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

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

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

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

### (11) Investments accounted for using the equity method

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

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

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

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the ‘share of profit or loss of an associate’ in the statement of comprehensive income in accordance with IAS 36 *Impairment of Assets*. In determining the value in use of the investment, the Group estimates:

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

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

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

### (12) Property, plant and equipment

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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	3~7 years
Other equipment	3~15 years
Leasehold improvements	The shorter of lease terms or economic useful lives
Leased assets	3~5 years

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

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

### (13) Investment property

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

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

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

### (14) Leases

#### Group as a lessee

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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.

### (15) Intangible assets

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

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

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

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

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### Licenses

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

### Trademarks

The trademarks were acquired in business combination, and were assessed to have indefinite useful lives.

### Customer relationships

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

### Computer software

The cost of computer software is amortized on a straight-line basis over the estimated useful life (3 to 10 years).

### Other intangible assets

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

## (16) Impairment of non-financial assets

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

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

### (17) Provisions

#### Insurance liabilities

##### A. Cathay Life

Business reserved funds for insurance contracts and financial instruments whether with or without discretionary participation feature are made in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises.” Furthermore, they have been validated by the certified actuarial professionals approved by 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.

##### 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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### c. Reserve for life insurance liabilities

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

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

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

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

### d. Special reserve

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

i. 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.

- (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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

- (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.

### f. Other reserve

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

### g. Liability adequacy reserve

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### h. Reserves for insurance contract with feature of financial instruments

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

### i. Foreign exchange volatility reserve

The beginning balance of foreign exchange volatility reserve of Cathay Life is \$4,511,406 thousand which was appropriated in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and “Direction for foreign exchange volatility reserve by Life Insurance Enterprises”. As of 31 December 2016, the amount set aside was \$9,871,478 thousand.

### j. Liability adequacy test

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

## B. Cathay Century

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

### 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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### 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.

#### (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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### (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.

### e. Liability reserve

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

## C. Cathay Lujiazui Life

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

## D. Cathay Life (Vietnam)

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### Other provisions

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

### (18) Treasury stocks

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

### (19) Post-employment benefits

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

#### Defined contribution plan

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

#### Defined benefit plan

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

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

Employee preferential interest rate deposits

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

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

### (20) Revenue recognition

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

Interest income

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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.

### (21) Income taxes

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

Current income tax

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

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

Deferred tax

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

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

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

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

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

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

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

### **(22) Business combinations and goodwill**

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

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

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

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

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

### **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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### (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:

#### 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%);

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

- E. The significant degree of risk transform measured by the risk ratio of Cathay Century's 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 reviews methods and assumptions behind the amount and schedule of expected cash flow, to reduce the difference between expected and actual loss.

#### B. Fair value of financial instruments

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### 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.)

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

### E. Pension benefits

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

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### 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 its assumptions on the standards published by the Actuarial Institute of the Republic of China, adjusted when appropriate to reflect Cathay Life's unique risk exposure, product characteristics and own experiences from target markets.

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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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**

	<u>2016.12.31</u>	<u>2015.12.31</u>
Petty cash and cash on hand	\$20,171,989	\$16,226,920
Cash in banks	62,597,985	66,653,887
Time deposits	65,879,925	58,779,451
Cash equivalents	4,565,575	2,648,472
Checks for clearance	7,390,035	3,573,643
Due from commercial banks	35,943,676	43,897,747
Total	<u>\$196,549,185</u>	<u>\$191,780,120</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**

	<u>2016.12.31</u>	<u>2015.12.31</u>
Held for trading:		
Common stock	\$10,792,048	\$7,815,575
Funds and beneficiary certificates	25,839,223	16,731,948
Government bonds	48,245,410	15,350,216
Corporate bonds	10,310,844	5,062,664
Financial debentures	1,408,142	250,902
Overseas debentures	4	349,821
Structured time deposits	2,275,663	2,483,485
Short-term notes	93,126,341	173,356,042
Margin for futures trading-own funds	326,894	356,624
Derivative financial instruments	52,204,695	74,360,649
Total	<u>\$244,529,264</u>	<u>\$296,117,926</u>

- (1) As of 31 December 2016 and 31 December 2015 Cathay Securities and its subsidiaries sold certain financial assets at fair value through profit or loss under repurchase agreements with notional amounts of \$2,350,000 thousand and \$1,425,000 thousand, respectively.
- (2) Please refer to 34 for related information on the above financial assets at fair value through profit or loss being pledged as collaterals as of 31 December 2016 and 31 December 2015.

## English Translation of Financial Statements Originally Issued in Chinese

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

### 8. Available-for-sale financial assets

	2016.12.31	2015.12.31
Common stock	\$627,044,109	\$546,953,106
Beneficiary certificates	280,644,739	269,930,523
Funds and beneficiary Securities	9,566,235	5,063,450
Real Estate Investment Trust	19,146,029	12,316,437
Government bonds	183,098,222	211,411,693
Corporate bonds	51,295,049	51,723,389
Financial debentures	117,704,530	110,475,386
Asset-backed securities	831,442	1,111,868
Overseas debentures	303,060,779	278,541,388
Short-term notes	917,355	1,360,701
Less: Litigation deposits	(78,797)	(541,163)
Less: Securities serving as deposits paid-bonds	(1,870,035)	(1,953,653)
Total	<u>\$1,591,359,657</u>	<u>\$1,486,393,125</u>

- (1) As of 31 December 2016 and 31 December 2015 Cathay United Bank and its subsidiaries sold certain available-for-sale financial assets under repurchase agreements with notional amounts of \$23,612,678 thousand and \$43,477,428 thousand, respectively. Such repurchase agreements amounting to \$22,468,724 thousand and \$43,591,852 thousand, were recorded in the account "Securities sold under agreements to repurchase" on the balance sheets. Repurchase agreements are settled at \$22,472,812 thousand and \$43,615,618 thousand, prior to 30 June 2017, and 30 June 2016, respectively.
- (2) Cathay Life and its subsidiaries recognized an impairment provision as some objective evidences are identified showing impairment indicators associated with domestics stocks and beneficiary certificates held by Cathay Life and its subsidiaries. As of 31 December 2016 and 31 December 2015 Cathay Life and its subsidiaries recognized impairment losses amounting to \$202,271 thousand and \$153,884 thousand, respectively.
- (3) Cathay United Bank and its subsidiaries has recognized accumulated impairment loss for the available-for-sale financial assets in the amount of \$140,985 thousand and \$140,985 thousand as of 31 December 2016 and 31 December 2015 respectively, due to the existence of objective impairment evidence.
- (4) Please refer to Note 34 for related information on the above available-for-sale financial assets being pledged as collaterals as of 31 December 2016 and 31 December 2015.

**English Translation of Financial Statements Originally Issued in Chinese**

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

**9. Receivable - net**

	2016.12.31	2015.12.31
Notes receivable	\$1,993,999	\$2,120,489
Accounts receivable	71,881,409	60,632,960
Interest receivable	44,122,675	39,686,374
Foreign currency receivable	101,928	347,755
Acceptances	1,045,109	1,595,287
Factoring receivable	4,073,377	17,036,810
Others	34,940,382	23,208,514
Subtotal	158,158,879	144,628,189
Adjustment for discounts and premiums	(14,395)	(6,296)
Less: Allowance for bad debts	(3,932,424)	(2,972,024)
Total	<u>\$154,212,060</u>	<u>\$141,649,869</u>

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

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Balance, beginning of the period	\$2,972,024	\$1,997,217
Allowance of doubtful accounts	1,762,969	797,355
Write-offs	(1,216,817)	(349,348)
Debt counseling recoveries	119,404	121,328
Recoveries	456,119	509,114
Reclassification	(115,627)	(110,266)
Effect of exchange rates change	(25,850)	6,624
Loss of control of a subsidiary	(19,798)	-
Balance, end of the period	<u>\$3,932,424</u>	<u>\$2,972,024</u>

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

Item		Accounts Receivable	
		2016.12.31	2015.12.31
Objective evidence of impairment exists individually	Individual assessment of impairment	\$756,613	\$1,427,714
	Collective assessment of impairment	232,745	192,560
Objective evidence of impairment does not exist individually	Collective assessment of impairment	157,169,521	143,007,915

**English Translation of Financial Statements Originally Issued in Chinese**

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

Item		Allowance for doubtful account	
		2016.12.31	2015.12.31
Objective evidence of impairment exists individually	Individual assessment of impairment	\$47,629	\$585,958
	Collective assessment of impairment	176,955	143,609
Objective evidence of impairment does not exist individually	Collective assessment of impairment	3,707,840	2,242,457

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

**10. Loans - net**

	2016.12.31	2015.12.31
Inward-outward documentary bills	\$2,303,674	\$986,975
Loans	2,062,966,561	1,781,935,122
Overdrafts	3,239,367	2,345,273
Delinquent accounts	2,433,949	3,196,270
Subtotal	2,070,943,551	1,788,463,640
Adjustment for discounts and premiums	575,212	817,604
Less: Allowance for bad debts	(25,985,968)	(22,804,891)
Total	<u>\$2,045,532,795</u>	<u>\$1,766,476,353</u>

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

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Balance, beginning of the period	\$22,804,891	\$22,149,554
Provision of doubtful accounts	3,825,304	1,997,235
Write-offs	(1,618,723)	(2,621,964)
Debt counseling recoveries	108,587	112,524
Recoveries	830,800	963,606
Reclassification	115,627	110,266
Effect of exchange rates change	(80,518)	93,670
Balance, end of the period	<u>\$25,985,968</u>	<u>\$22,804,891</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

(2) Assessment for loans are showed as followed:

Item		Total loans	
		2016.12.31	2015.12.31
Objective evidence of impairment exists individually	Individual assessment of impairment	\$9,444,290	\$7,530,959
	Collective assessment of impairment	10,675,829	11,563,586
Objective evidence of impairment does not exist individually	Collective assessment of impairment	2,050,823,432	1,769,369,095

Item		Allowance for bad debts	
		2016.12.31	2015.12.31
Objective evidence of impairment exists individually	Individual assessment of impairment	\$1,820,169	\$2,007,412
	Collective assessment of impairment	2,090,600	2,343,624
Objective evidence of impairment does not exist individually	Collective assessment of impairment	22,075,199	18,453,855

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

**11. Held-to-maturity financial assets**

	2016.12.31	2015.12.31
Government bonds	\$35,419,298	\$33,962,390
Corporate bonds	12,144,260	11,722,890
Financial debentures	18,517,820	25,230,940
Asset-backed securities	12,296,939	15,165,099
Overseas debentures	6,536,637	5,710,859
Short-term notes	5,422,099	-
Subtotal	90,337,053	91,792,178
Less: Court security deposit	(1,348,913)	(2,924,198)
Less: Securities serving as deposits paid-bonds	(7,161,401)	(7,159,534)
Total	\$81,826,739	\$81,708,446

(1) As of 31 December 2016 and 31 December 2015 Cathay United Bank and its subsidiaries sold certain held-to-maturity financial assets under repurchase agreements with notional amounts of \$40,499,233 thousand and \$13,259,466 thousand, respectively. Such repurchase agreements amounting to \$31,066,277 thousand and \$10,446,025 thousand, were recorded in the account "Securities sold under agreements to repurchase" on the balance sheets. Repurchase agreements were settled at \$31,129,794 thousand and \$10,452,556 thousand as of as of 31 March 2017 and 31 January 2016, respectively.

## English Translation of Financial Statements Originally Issued in Chinese

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

- (2) Cathay Life and its subsidiaries recognized impairment as there was objective evidence that the overseas debentures held by Cathay Life and its subsidiaries were showing signs of impairment. As of 31 December 2016 and 31 December 2015 Cathay Life and its subsidiaries recognized impairment losses amounting to \$29,740 thousand and \$0 thousand, respectively.
- (3) Please refer to Note 34 for related information on the above held-to-maturity financial assets as of 31 December 2016 and 31 December 2015, being pledged as collaterals.

### 12. Investments accounted for using the equity method

Investee	2016.12.31		2015.12.31	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Investments in subsidiaries exclude from consolidated:				
Cathay Securities Investment Consulting	\$249,902	100.00	\$225,526	100.00
Seaward Card	39,793	100.00	39,226	100.00
Cathay Insurance (Bermuda)	129,896	100.00	129,945	100.00
Cathy Investment Consulting (Shanghai) Co., Ltd.	16,027	100.00	25,991	100.00
Subtotal	<u>435,618</u>		<u>420,688</u>	
Investments in associates:				
WK Technology Fund VI Co., Ltd	148,679	21.43	217,290	21.43
Taiwan Real-estate Management Corp.	98,066	30.15	93,988	30.15
Taiwan Finance Corp.	1,570,490	24.57	1,589,963	24.57
IBT Venture Capital Corp.	3,916	24.96	4,061	24.96
Tien-Tai Energy Corp.	36,040	44.44	38,770	44.44
Tien-Tai One Energy Corp.	24,482	33.33	27,311	33.33
Tien-Tai Management Consulting Co., Ltd.	134	30.00	3,486	30.00
CDBS Cathay Asset Management Co., Ltd	263,243	33.30	291,178	33.30
Symphox Information Co., Ltd.	433,635	49.12	455,088	49.12
Da Sheng Venture Inc.	1,455,635	25.00	1,490,707	25.00
KHL IV Venture Capital Co., Ltd.	360,729	21.43	-	-
Chi-Chia Energy Corp.	34,442	29.08	37,051	29.08
Chao-Yang Energy Corp.	34,133	29.08	35,770	29.08
Dun-Yang Energy Corp.	47,095	32.20	50,763	32.20
Yong-Chang Energy Corp.	47,365	32.32	48,969	32.32
Ri-Zhao Energy Corp.	48,072	32.32	49,365	32.32
Nan-Gang International 1 Corp.	675,258	45.00	675,371	45.00
Nan-Gang International 2 Corp.	674,959	45.00	675,381	45.00
CM Energy Co., Ltd.	53,959	45.00	13,500	45.00
Rizal Commercial Banking Corporation	13,622,794	22.71	13,459,290	21.93
PT Bank Mayapada Internasional Tbk	11,740,568	40.00	5,822,498	24.90
Hsin Jih Tai Corporation	673,845	45.00	-	-
Cathay Century (China)	2,726,633	49.00	-	-
Subtotal	<u>34,774,172</u>		<u>25,079,800</u>	
Total	<u>\$35,209,790</u>		<u>\$25,500,488</u>	

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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

The Group's investments in the associates are not significant. As of 31 December 2016 and 31 December 2015, the carrying amount of investments in associates accounted for using the equity method amounted to \$34,774,172 thousand and \$25,079,800 thousand. The aggregate financial information of the Group's investments in the associates is as follows:

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Profit or loss from continuing operations	\$1,096,416	\$1,021,974
Other comprehensive income (post-tax)	(727,920)	178,976
Total comprehensive income	<u>\$368,496</u>	<u>\$1,200,950</u>

- (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) The share of the profits (losses) of these associates accounted for using the equity method in investees whose financial statements were unaudited amounted to \$1,246,472 thousand and \$834,120 thousand for the year ended 31 December 2016 and 2015, respectively. The share of the other comprehensive (losses) income of these associates accounted for using the equity method amounted to \$(582,597) thousand and \$(71,212) thousand for the year ended 31 December 2016 and 2015, respectively. The remaining balance of related investment amounted to \$27,911,446 thousand and \$19,299,349 thousand as of 31 December 2016 and 2015, respectively. The Company believes that no significant influence would arise from the abovementioned unaudited investments accounted for using the equity method.
- (3) No investment in the associates was pledged.

### **13. Other financial assets**

	2016.12.31	2015.12.31
Financial assets carried at cost	\$5,745	\$-
Investments in debt securities with no active market	2,526,608,201	2,289,311,099
Separate account product assets	498,014,211	480,568,361
Structured time deposits	7,661,395	18,000,000
Other miscellaneous financial assets	4,091,661	2,521,432
Total	<u>\$3,036,381,213</u>	<u>\$2,790,400,892</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

Investments in debt securities with no active market

	2016.12.31	2015.12.31
Common stocks	\$2,667,893	\$6,437,617
Government bonds	53,717	-
Corporate bonds	21,237,777	10,494,774
Financial debentures	81,171,116	38,565,157
Structured debentures	3,873,480	661,320
Asset-backed securities	28,079,749	12,307,158
Overseas debentures	2,069,824,850	1,785,661,462
Time deposit	316,870,441	433,396,038
Beneficial right of real estate	300,000	300,000
Beneficiary Securities	2,529,178	1,487,573
Total	<u>\$2,526,608,201</u>	<u>\$2,289,311,099</u>

- (1) An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with overseas debentures held by Cathay Life and its subsidiaries. As of 31 December 2016 and 31 December 2015, Cathay Life and its subsidiaries recognized impairment losses amounting to \$419,627 thousand and \$429,858 thousand, respectively.
- (2) Cathay United Bank and its subsidiaries has recognized accumulated impairment loss for the investments in debt securities with no active market in the amount of \$1,382,970 thousand and \$1,416,689 thousand as of 31 December 2016 and 31 December 2015, respectively, due to credit deterioration of securitization and financial debentures.  
  
Cathay United Bank and its subsidiaries has recognized accumulated impairment loss for the investment in debt securities with no active market in the amount of \$95,586 thousand and \$95,586 thousand as of 31 December 2016 and 31 December 2015, respectively, due to the default on the convertible bonds.
- (3) As of 31 December 2016, Cathay United Bank and its subsidiaries sold certain investments in debt securities with no active market classified as bonds under repurchase agreements with the notional amounts of \$5,543,771 thousand. Such repurchase agreements amounting to \$3,217,750 thousand were recorded in the account “securities sold under agreements to repurchase” on the balance sheet. The repurchase agreements will be settled at \$3,222,577 prior to 31 January 2017 pursuant to the agreed terms.
- (4) Please refer to Note 34 for related information on the above investments in debt securities with no active market being pledged as collaterals as of 31 December 2016 and 31 December 2015.

**English Translation of Financial Statements Originally Issued in Chinese**

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

**14. Investment property**

	Land	Buildings	Construction	Prepayments	
				for buildings	Total
1 January 2016	\$273,361,957	\$101,716,508	\$3,313,056	\$2,758,288	\$381,149,809
Additions from acquisitions	-	-	3,315,438	2,292,955	5,608,393
Additions from subsequent expenditure	-	-	111,703	-	111,703
Transfers to property and equipment	(52,932,438)	(12,386,539)	-	-	(65,318,977)
Transfers from (to) investment property under construction and prepayments for buildings and land	2,191,115	3,442,088	(3,431,045)	(4,667,339)	(2,465,181)
Gains generated from fair value adjustments	1,568,946	278,088	-	-	1,847,034
Disposals	(1,117,116)	(1,100)	-	-	(1,118,216)
Exchange differences	(3,134,605)	(5,665,833)	-	-	(8,800,438)
31 December 2016	<u>\$219,937,859</u>	<u>\$87,383,212</u>	<u>\$3,309,152</u>	<u>\$383,904</u>	<u>\$311,014,127</u>

	Land	Buildings	Construction	Prepayments	
				for buildings	Total
1 January 2015	\$249,711,339	\$74,393,081	\$12,437,283	\$1,795,276	\$338,336,979
Additions from acquisitions	10,770,599	15,790,681	6,691,373	946,873	34,199,526
Additions from subsequent expenditure	1,373	2,214	440,667	-	444,254
Additions from business combination	2,472,177	112,347	-	25,021	2,609,545
Transfers to property and equipment	(3,475,230)	(1,791,139)	-	-	(5,266,369)
Transfers from (to) investment property under construction and prepayments for buildings and land	-	16,265,149	(16,256,267)	(8,882)	-
Gains (losses) generated from fair value adjustments	14,031,346	(2,794,894)	-	-	11,236,452
Disposal	(173,227)	(255,704)	-	-	(428,931)
Exchange differences	23,580	(5,227)	-	-	18,353
31 December 2015	<u>\$273,361,957</u>	<u>\$101,716,508</u>	<u>\$3,313,056</u>	<u>\$2,758,288</u>	<u>\$381,149,809</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Rental income from investment properties	\$9,614,725	\$8,604,604
Less: direct operating expense from investment properties		
generating rental income	(709,578)	(356,497)
direct operating expense from investment properties not generating rental income	(191,384)	(125,920)
Total	<u>\$8,713,763</u>	<u>\$8,122,187</u>

- (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 31 December 2016 and 31 December 2015. Please refer to original financial report for detail information of the appraisers and agencies.

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

The key inputs used are as follows:

	2016.12.31	2015.12.31
Direct capitalization rate (net)	0.83%~5.73%	0.42%~5.76%
Discount rate	3.14%~4.1%	3.3%~4.2%

## **English Translation of Financial Statements Originally Issued in Chinese**

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

External appraisers use market extraction method, search several comparable properties which are identical with or similar to the subject property, consider the liquidity risk and risk premium when disposed of in the future, and then decide the direct capitalization rate and discount rate. In 2013, the land of Cathay Land Mark was recognized at fair value. During the construction period, the land was valued by sales comparison approach and the method of land development analysis. During the year ended 31 December 2015, subsequent to the completion of the building and receipt of operating license, both the land and buildings were valued by sales comparison method and income approach — direct capitalization method. The change of the appraisal approach during the year resulted in an increase of \$13,786,133 thousand net of tax in fair value.

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

- (2) Cathay United Bank appointed appraisers from China Real Estate Appraising Firm to evaluate the fair value of investment property based on the “Regulations on Real Estate Appraisal” on 31 December 2016 and 31 December 2015.

The fair value has been determined by income approach (such as discounted cash flow (DCF) method and direct capitalization method), sales comparison approach and cost approach.

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

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

According to the 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.

## English Translation of Financial Statements Originally Issued in Chinese

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

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

The main parameters are as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Discounted rates	1.60%-2.75%	1.60%-2.75%
Capitalization rate	0.84%-2.23%	0.92%-2.75%

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

	<u>2016.12.31</u>	<u>2015.12.31</u>
Rate of return	25%-30%	25%-30%
Overall capital interest rate	4.99%-16.98%	5.6%-19.20%

- (3) Cathay Futures appointed an appraiser from Elite Appraisers Firm (Yu-Lin Chen and Guo-Shi Wu) to evaluate the fair value of the investment property based on the “Regulations on Real Estate Appraisal” on 31 December 2016 and 31 December 2015, respectively.

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

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

	<u>2016.12.31</u>	<u>2015.12.31</u>
Estimated future cash inflows	\$440,377	\$441,043
Estimated future cash outflows	(22,082)	(22,092)
Estimated future net cash flows	<u>\$418,295</u>	<u>\$418,951</u>

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

Net income is based on the current market practices, assuming an annual rent increase of 1% 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

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

The parameters used are as followed:

	2016.12.31	2015.12.31
Direct Capitalization rate (net)	2.50%	2.50%
Discount Rate	2.045%	2.225%

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

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

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

## English Translation of Financial Statements Originally Issued in Chinese

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

### 15. Property and equipment

	Land	Building and construction	Computer equipment	Transport equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate	Total
Cost:									
1 January 2016	\$67,171,611	\$45,559,141	\$7,124,334	\$133,979	\$11,606,206	\$618,476	\$423,731	\$650,162	\$133,287,640
Additions	-	-	504,132	3,090	421,115	157,242	-	751,133	1,836,712
Transfers	54,927,916	12,849,667	26,315	1,909	326,045	66,265	(147,564)	(602,283)	67,448,270
Disposal	(52,014)	(23,111)	(1,072,642)	(8,328)	(177,391)	(6,559)	-	-	(1,340,045)
Others	-	-	-	-	(166,923)	(91,663)	-	-	(258,586)
Exchange difference	(3,412)	(137,777)	(90,632)	(2,930)	10,197	(65,382)	(5,327)	(6,160)	(301,423)
31 December 2016	<u>\$122,044,101</u>	<u>\$58,247,920</u>	<u>\$6,491,507</u>	<u>\$127,720</u>	<u>\$12,019,249</u>	<u>\$678,379</u>	<u>\$270,840</u>	<u>\$792,852</u>	<u>\$200,672,568</u>
1 January 2015	\$63,572,836	\$43,815,443	\$7,269,959	\$127,182	\$10,950,267	\$453,547	\$423,217	\$757,876	\$127,370,327
Additions	-	5,688	365,015	12,073	337,716	155,495	511	446,048	1,322,546
Acquisition from									
business combination	36,190	7,535	91,127	800	12,385	39,017	-	-	187,054
Transfers	3,564,401	1,723,072	75,371	1,200	457,103	-	-	(468,228)	5,352,919
Disposal	(7,660)	(918)	(704,547)	(11,479)	(157,703)	(29,094)	-	(67,926)	(979,327)
Exchange difference	5,844	8,321	27,409	4,203	6,438	(489)	3	(17,608)	34,121
31 December 2015	<u>\$67,171,611</u>	<u>\$45,559,141</u>	<u>\$7,124,334</u>	<u>\$133,979</u>	<u>\$11,606,206</u>	<u>\$618,476</u>	<u>\$423,731</u>	<u>\$650,162</u>	<u>\$133,287,640</u>
Depreciation and impairment:									
1 January 2016	\$105,610	\$19,502,834	\$5,950,235	\$90,631	\$9,497,297	\$336,679	\$315,618	\$-	\$35,798,904
Depreciation	-	1,028,919	497,216	11,102	592,056	92,369	74,083	-	2,295,745
Transfers	-	(31,606)	(7,740)	(6,434)	116,176	40,566	(113,916)	-	(2,954)
Disposal	-	(8,901)	(1,069,214)	(7,067)	(155,018)	(5,418)	-	-	(1,245,618)
Others	-	-	-	-	(130,788)	(76,323)	-	-	(207,111)
Exchange difference	-	(11,072)	(59,421)	(1,785)	11,830	(96,500)	76,319	-	(80,629)
31 December 2016	<u>\$105,610</u>	<u>\$20,480,174</u>	<u>\$5,311,076</u>	<u>\$86,447</u>	<u>\$9,931,553</u>	<u>\$291,373</u>	<u>\$352,104</u>	<u>\$-</u>	<u>\$36,558,337</u>
1 January 2015	\$105,610	\$18,533,321	\$6,197,185	\$86,252	\$9,053,275	\$307,258	\$209,797	\$-	\$34,492,698
Depreciation	-	975,137	445,161	11,676	588,405	57,989	105,821	-	2,184,189
Transfers	-	(7,795)	18	-	(18)	-	-	-	(7,795)
Disposal	-	(617)	(703,095)	(10,296)	(144,533)	(27,579)	-	-	(886,120)
Exchange difference	-	2,788	10,966	2,999	168	(989)	-	-	15,932
31 December 2015	<u>\$105,610</u>	<u>\$19,502,834</u>	<u>\$5,950,235</u>	<u>\$90,631</u>	<u>\$9,497,297</u>	<u>\$336,679</u>	<u>\$315,618</u>	<u>\$-</u>	<u>\$35,798,904</u>
31 December 2016	<u>\$121,938,491</u>	<u>\$37,767,746</u>	<u>\$1,180,431</u>	<u>\$41,273</u>	<u>\$2,087,696</u>	<u>\$387,006</u>	<u>\$(81,264)</u>	<u>\$792,852</u>	<u>\$164,114,231</u>
31 December 2015	<u>\$67,066,001</u>	<u>\$26,056,307</u>	<u>\$1,174,099</u>	<u>\$43,348</u>	<u>\$2,108,909</u>	<u>\$281,797</u>	<u>\$108,113</u>	<u>\$650,162</u>	<u>\$97,488,736</u>

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

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

## English Translation of Financial Statements Originally Issued in Chinese

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

### 16. Intangible assets

Cost:	Franchise	Trademark	Goodwill	Customer	Computer	Others	Total
				relationship	software		
1 January 2016	\$37,659,600	\$218,864	\$16,894,345	\$2,095,194	\$4,064,624	\$234,128	\$61,166,755
Addition-individual acquisition	-	-	-	-	408,365	6,913	415,278
Reduction	-	-	-	-	(433,587)	-	(433,587)
Acquisition from business combination	-	218,855	2,461,974	1,835,015	-	-	4,515,844
Transfers	-	-	-	-	245,677	-	245,677
Others	-	-	(199,698)	-	(96,359)	-	(296,057)
Exchange difference	-	(14,251)	(237,077)	(125,677)	(28,122)	(5,583)	(410,710)
31 December 2016	<u>\$37,659,600</u>	<u>\$423,468</u>	<u>\$18,919,544</u>	<u>\$3,804,532</u>	<u>\$4,160,598</u>	<u>\$235,458</u>	<u>\$65,203,200</u>
1 January 2015	\$-	\$-	\$8,598,542	\$-	\$3,774,398	\$-	\$12,372,940
Addition-individual acquisition	-	-	-	-	338,700	1,384	340,084
Reduction	-	-	-	-	(361,860)	-	(361,860)
Acquisition from business combination	37,659,600	212,051	8,114,861	2,029,968	52,250	225,565	48,294,295
Transfers	-	-	-	-	258,507	-	258,507
Exchange difference	-	6,813	180,942	65,226	2,629	7,179	262,789
31 December 2015	<u>\$37,659,600</u>	<u>\$218,864</u>	<u>\$16,894,345</u>	<u>\$2,095,194</u>	<u>\$4,064,624</u>	<u>\$234,128</u>	<u>\$61,166,755</u>
Depreciation and impairment:							
1 January 2016	\$1,039,692	\$-	\$-	\$45,634	\$3,121,813	\$15,848	\$4,222,987
Amortization	2,079,383	-	-	397,785	361,521	54,714	2,893,403
Reduction	-	-	-	-	(433,196)	-	(433,196)
Transfer from loss of control of a subsidiary	-	-	-	-	(56,089)	-	(56,089)
Exchange difference	-	-	-	(1,874)	(18,789)	(485)	(21,148)
31 December 2016	<u>\$3,119,075</u>	<u>\$-</u>	<u>\$-</u>	<u>\$441,545</u>	<u>\$2,975,260</u>	<u>\$70,077</u>	<u>\$6,605,957</u>
1 January 2015	\$-	\$-	\$-	\$-	\$3,089,915	\$-	\$3,089,915
Amortization	1,039,692	-	-	45,366	356,306	15,756	1,457,120
Reduction	-	-	-	-	(326,368)	-	(326,368)
Exchange difference	-	-	-	268	1,960	92	2,320
31 December 2015	<u>\$1,039,692</u>	<u>\$-</u>	<u>\$-</u>	<u>\$45,634</u>	<u>\$3,121,813</u>	<u>\$15,848</u>	<u>\$4,222,987</u>
31 December 2016	<u>\$34,540,525</u>	<u>\$423,468</u>	<u>\$18,919,544</u>	<u>\$3,362,987</u>	<u>\$1,185,338</u>	<u>\$165,381</u>	<u>\$58,597,243</u>
31 December 2015	<u>\$36,619,908</u>	<u>\$218,864</u>	<u>\$16,894,345</u>	<u>\$2,049,560</u>	<u>\$942,811</u>	<u>\$218,280</u>	<u>\$56,943,768</u>

## **English Translation of Financial Statements Originally Issued in Chinese**

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

As of 31 December 2016 and 2015, the book value of goodwill was \$10,306,443 thousand and \$8,272,925 thousand, respectively. The goodwill arose from the acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015. Cathay Life and its subsidiaries acquired 100% of Conning Holdings Limited on 18 September 2015 and 82.05% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of the Company on 1 February 2016.

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

Cathay United Bank's impairment testing of goodwill:

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

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

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

j Discount rates

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

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

Assumptions are based on published industry research.

(3) Sensitivity to changes in assumptions:

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

On 4 September 2016, Cathay Securities acquired 100% of the equity of Cathay Securities (Hong Kong). The goodwill arose from the acquisition amounted to \$8,629 thousand. An annual impairment test for goodwill is performed regularly. Cathay Securities estimated the recoverable amount for purpose of impairment test based on embedded value of cash-generating unit that the goodwill is allocated to. The embedded value is calculated by applying a proper discount rate. As of 31 December 2016 and 31 December 2015, the recoverable amount is higher than the book value of the cash-generating unit that the goodwill was allocated to, no impairment recognition is necessary for goodwill.

## English Translation of Financial Statements Originally Issued in Chinese

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

### 17. Financial liabilities at fair value through profit or loss

	2016.12.31	2015.12.31
Designated financial assets at fair value through profit or loss at initial recognition:		
Bond Investment	\$39,491,908	\$40,598,667
Held for trading:		
Derivative financial instruments	73,777,749	95,733,002
Security lending payables hedging	284,643	377,376
Security lending payables non-hedging	1,460,526	762,373
Subtotal	75,522,918	96,872,751
Total	\$115,014,826	\$137,471,418

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

### 18. Commercial paper payables

	2016.12.31	2015.12.31
Commercial paper payable	\$41,580,000	\$35,680,000
Less: Discount on commercial paper payable	(1,162)	(2,366)
Total	\$41,578,838	\$35,677,634
Average interest rates	0.38%~0.808%	0.38%~0.958%

### 19. Deposits

	2016.12.31	2015.12.31
Check deposits	\$15,317,858	\$13,244,467
Demand deposits	417,609,518	382,071,327
Demand savings deposits	765,842,523	704,544,214
Time deposits	418,512,238	375,594,219
Negotiable Certificates of Deposit	3,554,400	4,489,200
fixed savings deposits	377,702,458	373,406,772
Remittances	1,404,177	1,145,632
Total	\$1,999,943,172	\$1,854,495,831

**English Translation of Financial Statements Originally Issued in Chinese**

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

**20. Bonds payable**

	<u>2016.12.31</u>	<u>2015.12.31</u>
Subordinated bonds payable-net	\$-	\$19,900,000
Subordinated financial debentures	51,900,000	51,900,000
Total	<u>\$51,900,000</u>	<u>\$71,800,000</u>

- (1) Cathay United Bank issued a 15-year US\$500,000 thousand subordinated financial debenture with a stated interest rate of 5.5% in 5 October 2005, and the interest is payable semiannually. Cathay United Bank can redeem the debenture after 10 years by exercising the call option. Cathay United Bank has adopted hedge accounting to account for the subordinated financial debenture. Cathay United Bank had bought back the debenture amounting to US\$172,620 in May 2009 and bought back the debenture in full in October 2015.
- (2) Cathay United Bank issued seven-year subordinated financial debentures totaling \$1,200,000 thousand and \$1,000,000 thousand with a stated interest rate of 2.95% and floating rate, respectively in September 2008, and the interests are payable quarterly. Cathay United Bank had bought back all these debentures in September 2015.
- (3) Cathay United Bank issued a seven-year subordinated financial debenture totaling \$2,800,000 with a stated interest rate of 2.95% in October 2008, and the interest is payable quarterly. Cathay United Bank had bought back the debenture in full in October 2015.
- (4) Cathay United Bank issued an eight-year subordinated financial debenture totaling \$3,650,000 thousand with a stated interest rate of 2.42% in June 2009, and the interest is payable quarterly.
- (5) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$1,500,000 thousand with a stated interest rate of 2.60% in July 2009, and the interest is payable quarterly.
- (6) The Company issued a seven-year unsecured subordinated financial debenture totaling \$20,000,000 thousand with a stated interest rate of 2.65% on September 16, 2009. The subordinated financial debenture will be paid at maturity and the interest is payable annually. The Company had bought back the debenture in full in October 2016.
- (7) Cathay United Bank issued a seven-year subordinated financial debenture totaling \$3,850,000 thousand with a stated interest rate of 1.65% in March 2011, and the interest is payable quarterly.

**English Translation of Financial Statements Originally Issued in Chinese**

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

- (8) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$1,500,000 thousand with a stated interest rate of 1.72% in March 2011, and the interest is payable quarterly.
- (9) Cathay United Bank issued a seven-year subordinated financial debenture totaling \$3,900,000 thousand with a stated interest rate of 1.65% in June 2011, and the interest is payable quarterly.
- (10) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$2,500,000 thousand with a stated interest rate of 1.72% in June 2011, and the interest is payable quarterly.
- (11) Cathay United Bank issued a seven-year subordinated financial debenture totaling \$200,000 thousand with a stated interest rate of 1.48% in June 2012, and the interest is payable annually.
- (12) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$4,200,000 thousand with a stated interest rate of 1.65% in June 2012, and the interest is payable annually.
- (13) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$5,600,000 thousand with a stated interest rate of 1.65% in August 2012, and the interest is payable annually.
- (14) Cathay United Bank issued a seven-year subordinated financial debenture totaling \$100,000 thousand with a stated interest rate of 1.55% in April 2013, and the interest is payable annually.
- (15) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$9,900,000 thousand with a stated interest rate of 1.70% in April 2013, and the interest is payable annually.
- (16) Cathay United Bank issued a seven-year subordinated financial debenture totaling \$3,000,000 thousand with a stated interest rate of 1.70% in May 2014, and the interest is payable annually.
- (17) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$12,000,000 thousand with a stated interest rate of 1.85% in May 2014, and the interest is payable annually.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

- (18) Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.

### **21. Other financial liabilities**

	2016.12.31	2015.12.31
Separate account insurance products-liabilities	\$498,014,211	\$480,568,361
Principle received from the sale of structured products	61,566,809	67,227,106
Other financial liabilities	1,643,809	1,768,586
Total	<u>\$561,224,829</u>	<u>\$549,564,053</u>

### **22. Provisions**

	2016.12.31	2015.12.31
Unearned premium reserve	\$26,143,298	\$26,428,864
Reserve for insurance liabilities	4,478,471,235	4,088,918,602
Special reserve	18,780,783	28,996,289
Reserve for claims	16,343,528	14,230,818
Premium deficiency reserve	29,771,615	22,609,864
Reserve for insurance contracts with feature of financial instruments	10,320,750	54,002,965
Foreign exchange volatility reserve	9,871,478	16,026,449
Reserve for Guarantees	73,181	104,895
Reserve for employee benefits liabilities	3,514,260	7,826,660
Contingent liabilities reserve	1,268,542	862,981
Other operating reserve	27,622	26,316
Other reserve	1,938,792	1,967,824
Total	<u>\$4,596,525,084</u>	<u>\$4,262,002,527</u>

#### **(1) Life insurance subsidiaries**

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

## English Translation of Financial Statements Originally Issued in Chinese

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

### A. Reserve for life insurance liabilities:

	2016.12.31			2015.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance(Note 1)	\$3,908,139,238	\$2,015,303	\$3,910,154,541	\$3,565,702,442	\$5,913,047	\$3,571,615,489
Injury insurance	7,719,298	-	7,719,298	7,781,512	-	7,781,512
Health insurance	520,978,683	-	520,978,683	459,714,950	-	459,714,950
Annuity insurance	1,377,249	37,577,532	38,954,781	1,375,262	47,592,078	48,967,340
Investment-linked insurance	663,891	-	663,891	839,311	-	839,311
Subtotal	4,438,878,359	39,592,835	4,478,471,194	4,035,413,477	53,505,125	4,088,918,602
Less ceded reserve for life insurance liabilities :						
Life insurance	228,765	-	228,765	162,951	-	162,951
Total	\$4,438,649,594	\$39,592,835	\$4,478,242,429	\$4,035,250,526	\$53,505,125	\$4,088,755,651

Reserve for life insurance liabilities is summarized below:

	2016.1.1~2016.12.31			2015.1.1~2015.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$4,035,413,477	\$53,505,125	\$4,088,918,602	\$3,558,170,764	\$69,956,566	\$3,628,127,330
Reserve	657,657,435	140,118	657,797,553	567,252,464	636,248	567,888,712
Recover	(234,566,488)	(13,976,663)	(248,543,151)	(232,537,129)	(18,555,105)	(251,092,234)
Losses (gains) on foreign exchange	(19,626,065)	(75,745)	(19,701,810)	28,453,002	(454,086)	27,998,916
Others (Note2)	-	-	-	114,074,376	1,921,502	115,995,878
Ending balance	4,438,878,359	39,592,835	4,478,471,194	4,035,413,477	53,505,125	4,088,918,602
Less ceded reserve for life insurance liabilities :						
Beginning balance (net)	162,951	-	162,951	74,461	-	74,461
Increase	84,222	-	84,222	88,879	-	88,879
Gains (losses) on foreign exchange	(18,408)	-	(18,408)	(389)	-	(389)
Ending balance (net)	228,765	-	228,765	162,951	-	162,951
Total	\$4,438,649,594	\$39,592,835	\$4,478,242,429	\$4,035,250,526	\$53,505,125	\$4,088,755,651

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

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

B. Unearned premium reserve:

	2016.12.31			2015.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$577,903	\$-	\$577,903	\$504,234	\$-	\$504,234
Individual injury insurance	5,419,323	-	5,419,323	5,251,722	-	5,251,722
Individual health insurance	7,883,926	-	7,883,926	7,451,220	-	7,451,220
Group insurance	1,054,633	-	1,054,633	1,047,955	-	1,047,955
Investment-linked insurance	107,249	-	107,249	108,783	-	108,783
<b>Total</b>	<b>15,043,034</b>	<b>-</b>	<b>15,043,034</b>	<b>14,363,914</b>	<b>-</b>	<b>14,363,914</b>
Less ceded unearned premium reserve:						
Individual life insurance	191,241	-	191,241	156,623	-	156,623
Individual injury insurance	4,581	-	4,581	6,697	-	6,697
Individual health insurance	-	-	-	6,873	-	6,873
Group insurance	4,007	-	4,007	12,132	-	12,132
<b>Total</b>	<b>199,829</b>	<b>-</b>	<b>199,829</b>	<b>182,325</b>	<b>-</b>	<b>182,325</b>
<b>Net</b>	<b>\$14,843,205</b>	<b>\$-</b>	<b>\$14,843,205</b>	<b>\$14,181,589</b>	<b>\$-</b>	<b>\$14,181,589</b>

Unearned premium reserve is summarized below:

	2016.1.1~2016.12.31			2015.1.1~2015.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$14,363,914	\$-	\$14,363,914	\$13,202,867	\$-	\$13,202,867
Reserve	15,052,767	-	15,052,767	13,960,702	-	13,960,702
Recover	(14,347,747)	-	(14,347,747)	(13,199,868)	-	(13,199,868)
Losses (gains) on foreign exchange	(25,900)	-	(25,900)	(1,098)	-	(1,098)
Others (note)	-	-	-	401,311	-	401,311
<b>Ending balance</b>	<b>15,043,034</b>	<b>-</b>	<b>15,043,034</b>	<b>14,363,914</b>	<b>-</b>	<b>14,363,914</b>
Less ceded unearned premium reserve:						
Beginning balance-Net	182,325	-	182,325	137,914	-	137,914
Increase	30,128	-	30,128	9,047	-	9,047
Decrease	(11,692)	-	(11,692)	(7,868)	-	(7,868)
Gains (losses) on foreign exchange	(932)	-	(932)	(86)	-	(86)
Others (note)	-	-	-	43,318	-	43,318
<b>Total</b>	<b>199,829</b>	<b>-</b>	<b>199,829</b>	<b>182,325</b>	<b>-</b>	<b>182,325</b>
<b>Ending balance-Net</b>	<b>\$14,843,205</b>	<b>\$-</b>	<b>\$14,843,205</b>	<b>\$14,181,589</b>	<b>\$-</b>	<b>\$14,181,589</b>

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

C. Reserve for claims:

	2016.12.31			2015.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
— Reported but not paid claim	\$785,456	\$1,056	\$786,512	\$144,751	\$1,056	\$145,807
— Unreported claim	65,767	-	65,767	62,734	-	62,734
Individual injury insurance						
— Reported but not paid claim	80,286	-	80,286	106,722	-	106,722
— Unreported claim	1,424,157	-	1,424,157	1,336,273	-	1,336,273
Individual health insurance						
— Reported but not paid claim	601,712	-	601,712	192,128	-	192,128
— Unreported claim	2,296,062	-	2,296,062	2,087,909	-	2,087,909
Group insurance						
— Reported but not paid claim	55,870	-	55,870	106,298	-	106,298
— Unreported claim	1,124,078	-	1,124,078	1,134,707	-	1,134,707
Investment-linked insurance						
— Reported but not paid claim	63,850	-	63,850	4,519	-	4,519
— Unreported claim	1,570	-	1,570	-	-	-
<b>Total</b>	<b>6,498,808</b>	<b>1,056</b>	<b>6,499,864</b>	<b>5,176,041</b>	<b>1,056</b>	<b>5,177,097</b>
Less ceded reserve for claims:						
Individual life insurance	34,765	-	34,765	14,632	-	14,632
Individual injury insurance	-	-	-	5	-	5
Individual health insurance	2,741	-	2,741	10,289	-	10,289
Group insurance	4,177	-	4,177	13,707	-	13,707
<b>Total</b>	<b>41,683</b>	<b>-</b>	<b>41,683</b>	<b>38,633</b>	<b>-</b>	<b>38,633</b>
<b>Net</b>	<b>\$6,457,125</b>	<b>\$1,056</b>	<b>\$6,458,181</b>	<b>\$5,137,408</b>	<b>\$1,056</b>	<b>\$5,138,464</b>

**English Translation of Financial Statements Originally Issued in Chinese**

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

Reserve for claims is summarized below:

	2016.1.1~2016.12.31			2015.1.1~2015.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$5,176,041	\$1,056	\$5,177,097	\$4,689,841	\$797	\$4,690,638
Reserve	6,456,453	1,056	6,457,509	4,582,831	1,056	4,583,887
Recover	(5,101,313)	(1,056)	(5,102,369)	(4,555,974)	(797)	(4,556,771)
Losses (gains) on foreign exchange	(32,373)	-	(32,373)	(1,018)	-	(1,018)
Others (note)	-	-	-	460,361	-	460,361
Ending balance	6,498,808	1,056	6,499,864	5,176,041	1,056	5,177,097
Less ceded reserve for claims:						
Beginning balance-Net	38,633	-	38,633	17,456	-	17,456
Increase	5,125	-	5,125	-	-	-
Decrease	(1,834)	-	(1,834)	(48,426)	-	(48,426)
Gains (losses) on foreign exchange	(241)	-	(241)	15	-	15
Others (note)	-	-	-	69,588	-	69,588
Total	41,683	-	41,683	38,633	-	38,633
Net	\$6,457,125	\$1,056	\$6,458,181	\$5,137,408	\$1,056	\$5,138,464

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

D. Special reserve:

	2016.12.31				2015.12.31			
	Financial instruments with discretionary				Financial instruments with discretionary			
	Insurance contract	participation feature	Other	Total	Insurance contract	participation feature	Other	Total
Participating policies dividends reserve	\$(67,018)	\$-	\$-	\$(67,018)	\$(36,387)	\$-	\$-	\$(36,387)
dividends reserve	68,657	-	-	68,657	37,741	-	-	37,741
Special reserve for revaluation increments of property	-	-	15,416,619	15,416,619	-	-	25,416,619	25,416,619
Total	\$1,639	\$-	\$15,416,619	\$15,418,258	\$1,354	\$-	\$25,416,619	\$25,417,973

**English Translation of Financial Statements Originally Issued in Chinese**

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

Special reserve is summarized below:

	2016.1.1~2016.12.31				2015.1.1~2015.12.31			
	Financial instruments with discretionary participation			Total	Financial instruments with discretionary participation			Total
	Insurance contract	feature	Other		Insurance contract	feature	Other	
Beginning balance	\$1,354	\$-	\$25,416,619	\$25,417,973	\$5,639	\$-	\$35,416,619	\$35,422,258
Reserves for participating policies dividends reserve	(7,471)	-	-	(7,471)	26,220	-	-	26,220
Participating policies dividends recover	(23,160)	-	-	(23,160)	(1,122)	-	-	(1,122)
Dividends reserve	30,916	-	-	30,916	-	-	-	-
Dividends recovery	-	-	-	-	(25,375)	-	-	(25,375)
Special reserve for revaluation increments of property (Note1)	-	-	(10,000,000)	(10,000,000)	-	-	(10,000,000)	(10,000,000)
Other- Participating policies dividends reserve (Note2)	-	-	-	-	(63,116)	-	-	(63,116)
Other-Reserves for dividend risk(Note2)	-	-	-	-	63,116	-	-	63,116
Recovery	-	-	-	-	(3,932)	-	-	(3,932)
Exchange difference	-	-	-	-	(76)	-	-	(76)
Ending balance	\$1,639	\$-	\$15,416,619	\$15,418,258	\$1,354	\$-	\$25,416,619	\$25,417,973

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

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

E. Premium deficiency reserve:

	2016.12.31			2015.12.31		
	Financial instruments with discretionary participation		Total	Financial instruments with discretionary participation		Total
	Insurance contract	feature		Insurance contract	feature	
Individual life insurance	\$27,998,318	\$-	\$27,998,318	\$20,333,625	\$-	\$20,333,625
Individual health insurance	1,762,497	-	1,762,497	1,908,526	-	1,908,526
Group insurance	266	-	266	426	-	426
Total	\$29,761,081	\$-	\$29,761,081	\$22,242,577	\$-	\$22,242,577

**English Translation of Financial Statements Originally Issued in Chinese**

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

Premium deficiency reserve is summarized below:

	2016.1.1~2016.12.31			2015.1.1~2015.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$22,242,577	\$-	\$22,242,577	\$17,294,564	\$-	\$17,294,564
Reserve	8,147,744	-	8,147,744	3,651,472	-	3,651,472
Recover	(466,838)	-	(466,838)	(1,296,226)	-	(1,296,226)
Losses (gains) on foreign exchange	(162,402)	-	(162,402)	270,545	-	270,545
Others (note)	-	-	-	2,322,222	-	2,322,222
Ending balance	\$29,761,081	\$-	\$29,761,081	\$22,242,577	\$-	\$22,242,577

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

F. Other reserve:

	2016.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Others	\$1,938,792	\$-	\$1,938,792

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

Other reserve is summarized below:

	2016.1.1~2016.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$1,967,824	\$-	\$1,967,824
Recover	(29,032)	-	(29,032)
Ending balance	\$1,938,792	\$-	\$1,938,792

**English Translation of Financial Statements Originally Issued in Chinese**

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

	2015.1.1~2015.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$-	\$-	\$-
Recover	(55,869)	-	(55,869)
Others (note)	2,023,693	-	2,023,693
Ending balance	\$1,967,824	\$-	\$1,967,824

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

G. Liability adequacy reserve

	Insurance contract and financial instruments with discretionary participation feature	
	2016.12.31	2015.12.31
Reserve for life insurance liabilities	\$4,478,471,194	\$4,088,918,602
Unearned premium reserve	15,043,034	14,363,914
Premium deficiency reserve	29,761,081	22,242,577
Other reserve	1,938,792	1,967,824
Total	\$4,525,214,101	\$4,127,492,917
Book value of insurance liabilities	\$4,525,214,101	\$4,127,492,917
Estimated present value of cash flows	\$3,548,719,473	\$3,062,820,974
Balance of liability adequacy reserve	\$-	\$-

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

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

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

	2016.12.31	2015.12.31
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2016. (2) Discount rate: Under assets allocation plan on 30 September 2016, discount rates were calculated using the best estimated scenario investment return based on actuary report of 2015, with neutral assumption for discount rates after 30 years.	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2015. (2) Discount rate: Under the assets allocation on 30 September 2015, the discount rates were calculated using the best estimated scenario investment return based on actuary report of 2014, with neutral assumption for discount rates after 30 years.

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

	2016.12.31	2015.12.31
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing
Assumptions	1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 December 2016. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2015, with neutral assumption for discount rates after 30 years.	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 December 2015. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2014, with neutral assumption for discount rates after 30 years.

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

	2016.12.31	2015.12.31
Life insurance	\$10,267,914	\$53,979,737
Investment-linked insurance	52,836	23,228
Total	<u>\$10,320,750</u>	<u>\$54,002,965</u>
	2016.1.1~	2015.1.1~
	2016.12.31	2015.12.31
Beginning balance	\$54,002,965	\$55,094,699
Premiums received	1,993,303	594,906
Insurance claim payments	(45,392,723)	(2,007,770)
Net provision of statutory reserve	216,001	340,469
Losses (gains) on foreign exchange	(498,796)	(19,339)
Ending balance	<u>\$10,320,750</u>	<u>\$54,002,965</u>

I. Foreign exchange volatility reserve

(A) The hedge strategy and risk exposure:

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

(B) Adjustment in foreign exchange volatility reserve:

	2016.1.1~	2015.1.1~
	2016.12.31	2015.12.31
Beginning balance	\$16,026,449	\$16,846,406
Reserve:		
Compulsory reserve	4,067,313	3,674,064
Extra reserve	977,335	5,783,112
Subtotal	<u>5,044,648</u>	<u>9,457,176</u>
Recover	(11,199,619)	(10,525,451)
Acquisition from business combination	-	248,318
Ending balance:	<u>\$9,871,478</u>	<u>\$16,026,449</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

(C) Effects due to foreign exchange volatility reserve:

2016.1.1~2016.12.31			
Item	Inapplicable amount (1)	Applicable amount (2)	Effects (3)= (2) - (1)
Consolidated income	\$42,930,574	\$48,039,200	\$5,108,626
Earnings per share	3.38	3.79	0.41
Foreign exchange volatility reserve	-	9,871,478	9,871,478
Equity	534,066,776	529,824,021	(4,242,755)

2015.1.1~2015.12.31			
Item	Inapplicable amount (1)	Applicable amount (2)	Effects (3)= (2) - (1)
Consolidated income	\$56,995,702	\$57,882,371	\$886,669
Earnings per share	4.51	4.58	0.07
Foreign exchange volatility reserve	-	16,026,449	16,026,449
Equity	470,413,583	461,062,202	(9,351,381)

(2) Century Insurance subsidiaries

A. Unearned premiums reserve

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

Item	2016.12.31			
	Direct business	Unearned premium reserve		Retained business
		Assumed reinsurance business	Ceded unearned premium reserve	
			Ceded reinsurance business	
Fire insurance	\$1,786,006	\$82,136	\$1,064,889	\$803,253
Marine insurance	122,955	8,402	89,553	41,804
Land and air insurance	4,514,514	7,224	282,758	4,238,980
Liability insurance	578,028	700	180,130	398,598
Bonding insurance	36,137	800	22,051	14,886
Other property insurance	631,758	21,985	278,573	375,170
Accident insurance	1,483,727	2,505	59,853	1,426,379
Health insurance	52,128	-	-	52,128
Compulsory automobile liability insurance	1,289,517	481,742	774,469	996,790
<b>Total</b>	<b>\$10,494,770</b>	<b>\$605,494</b>	<b>\$2,752,276</b>	<b>\$8,347,988</b>

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

Item	2016.1.1~2016.12.31		2015.1.1~2015.12.31	
	Unearned premium reserve	Ceded unearned premium reserve	Unearned premium reserve	Ceded unearned premium reserve
Beginning balance	\$12,064,950	\$2,786,250	\$11,950,213	\$2,750,419
Reserve	12,366,459	2,919,491	12,072,567	2,786,662
Recover	(12,058,201)	(2,787,706)	(11,951,486)	(2,750,332)
Effects of exchange rate changes	(70,227)	(8,475)	(6,344)	(499)
Loss of control	(1,202,717)	(157,284)	-	-
<b>Ending balance</b>	<b>\$11,100,264</b>	<b>\$2,752,276</b>	<b>\$12,064,950</b>	<b>\$2,786,250</b>

B. Claims reserve

a. Claims reserve and ceded claims reserve

Item	2016.12.31			
	Claims reserve		Ceded claims reserve	Retained business
	Direct underwriting business	Assumed reinsurance business	Ceded reinsurance business	
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Claims reported but not paid off	\$5,932,690	\$235,435	\$3,260,191	\$2,907,934
Unreported claims	3,258,534	417,005	938,123	2,737,416
<b>Total</b>	<b>\$9,191,224</b>	<b>\$652,440</b>	<b>\$4,198,314</b>	<b>\$5,645,350</b>

**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	2015.12.31			
	Claims reserve		Ceded claims reserve	Retained business
	Direct underwriting business	Assumed reinsurance business	Ceded reinsurance business	
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
	Claims reported but not paid off	\$4,551,787	\$326,287	\$1,537,115
Unreported claims	3,889,745	285,902	1,038,317	3,137,330
Total	\$8,441,532	\$612,189	\$2,575,432	\$6,478,289

b. Net changes for claims reserve and ceded claims reserve

Item	2016.1.1~2016.12.31							
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)
Claims reported but not paid off	\$6,830,877	\$4,550,048	\$235,435	\$334,116	\$2,182,148	\$3,386,015	\$1,548,137	\$1,837,878
Unreported claims	3,783,984	3,884,922	418,869	285,866	32,065	997,557	1,037,228	(39,671)
Total	\$10,614,861	\$8,434,970	\$654,304	\$619,982	\$2,214,213	\$4,383,572	\$2,585,365	\$1,798,207

Item	2015.1.1~2015.12.31							
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)
Claims reported but not paid off	\$4,556,086	\$4,066,192	\$326,287	\$223,378	\$592,803	\$1,536,911	\$1,321,341	\$215,570
Unreported claims	3,893,614	3,647,509	285,929	211,057	320,977	1,039,276	920,629	118,647
Total	\$8,449,700	\$7,713,701	\$612,216	\$434,435	\$913,780	\$2,576,187	\$2,241,970	\$334,217

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

Item	2016.12.31		
	Claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$3,051,885	\$11,708	\$3,063,593
Marine insurance	259,146	1,802	260,948
Land and air insurance	1,315,588	1,177,398	2,492,986
Liability insurance	389,427	455,552	844,979
Bonding insurance	43,266	13,117	56,383
Other property insurance	480,474	28,086	508,560
Accident insurance	125,999	443,176	569,175
Health insurance	7,463	44,110	51,573
Compulsory automobile liability insurance	494,877	1,500,590	1,995,467
<b>Total</b>	<b>\$6,168,125</b>	<b>\$3,675,539</b>	<b>\$9,843,664</b>

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

d. Reinsurance asset- ceded claims reserve for policyholder

Item	2016.12.31		
	Ceded claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$2,387,195	\$6,623	\$2,393,818
Marine insurance	187,355	339	187,694
Land and air insurance	64,554	63,241	127,795
Liability insurance	222,230	159,847	382,077
Bonding insurance	25,258	12,426	37,684
Other property insurance	175,782	11,257	187,039
Accident insurance	11,295	37,748	49,043
Health insurance	-	773	773
Compulsory automobile liability insurance	186,522	645,869	832,391
Total	\$3,260,191	\$938,123	\$4,198,314

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

e. Reconciliation statement of claims reserve and ceded claims reserve

Item	2016.1.1~2016.12.31		2015.1.1~2015.12.31	
	Claims reserve	Ceded claims reserve	Claims reserve	Ceded claims reserve
Beginning balance	\$9,053,721	\$2,575,432	\$8,154,755	\$2,249,673
Reserve	11,269,165	4,383,572	9,061,916	2,576,187
Recover	(9,054,952)	(2,585,365)	(8,148,136)	(2,241,970)
Effects of exchange rate changes	(73,267)	(5,085)	(14,814)	(8,458)
Loss of control	(1,351,003)	(170,240)	-	-
Ending balance	<u>\$9,843,664</u>	<u>\$4,198,314</u>	<u>\$9,053,721</u>	<u>\$2,575,432</u>

C. Special reserve

a. Special reserve - Compulsory automobile liability insurance

Item	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Beginning balance	\$1,487,506	\$1,528,545
Reserve	116,070	23,143
Recover	(72,967)	(64,182)
Ending balance	<u>\$1,530,609</u>	<u>\$1,487,506</u>

b. Special reserve - Non-compulsory automobile liability insurance

Item	Liability					
	2016.1.1~2016.12.31			2015.1.1~2015.12.31		
	Major incidents	Fluctuation of risks	Total	Major incidents	Fluctuation of risks	Total
Beginning balance	\$505,626	\$1,585,184	\$2,090,810	\$524,353	\$1,586,240	\$2,110,593
Reserve	-	-	-	-	-	-
Recover	(18,727)	(240,167)	(258,894)	(18,727)	(1,056)	(19,783)
Ending balance	<u>\$486,899</u>	<u>\$1,345,017</u>	<u>\$1,831,916</u>	<u>\$505,626</u>	<u>\$1,585,184</u>	<u>\$2,090,810</u>

“Precautions of Strengthening Disaster Insurance of Property Insurance Industry (Commercial Earthquake and Typhoons Flood Insurance)”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”, “Regulations for the Management of the Various Reserves for the nuclear Insurance”, and other reserves do not have impact on Cathay Century’s and its subsidiaries’ income before tax, liability and equity with \$258,894 thousand decreased, \$1,523,417 thousand increased and \$670,339 thousand decreased, respectively.

**English Translation of Financial Statements Originally Issued in Chinese**

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

D. Premiums deficiency reserve

a. Premiums deficiency reserve and ceded premium deficiency reserve

2016.12.31				
Item	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	Direct business	Assumed	Ceded	Retained business
		business	reinsurance business	
Fire insurance	\$-	\$-	\$-	\$-
Marine insurance	-	-	-	-
Land and air insurance	1,641	8,893	-	10,534
Liability insurance	-	-	-	-
Bonding insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-
<b>Total</b>	<b>\$1,641</b>	<b>\$8,893</b>	<b>\$-</b>	<b>\$10,534</b>

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

2016.1.1~2016.12.31									
Item	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve (5)=(1)-(2)+(3)-(4)	Ceded reinsurance business		Net change for ceded premiums deficiency reserve (8)=(6)-(7)	Recognized net loss (gain) for premiums deficiency reserve (9)=(5)-(8)
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(2)+(3)-(4)	(6)	(7)	(7)	(9)=(5)-(8)
Fire insurance	\$70	\$-	\$-	\$-	\$70	\$468	\$622	\$(154)	\$224
Marine insurance	-	-	-	-	-	14	43	(29)	29
Land and air insurance	1,640	-	8,893	13,988	(3,455)	-	(13,586)	13,586	(17,041)
Liability insurance	13,661	12,400	5	(3)	1,269	5,273	5,913	(640)	1,909
Bonding insurance	11	-	-	-	11	4	4	-	11
Other property insurance	294,628	276,441	-	32	18,155	82	37	45	18,110
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	67,353	61,528	-	-	5,825	-	-	-	5,825
<b>Total</b>	<b>\$377,363</b>	<b>\$350,369</b>	<b>\$8,898</b>	<b>\$14,017</b>	<b>\$21,875</b>	<b>\$5,841</b>	<b>\$(6,967)</b>	<b>\$12,808</b>	<b>\$9,067</b>

2015.1.1~2015.12.31									
Item	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve (5)=(1)-(2)+(3)-(4)	Ceded reinsurance business		Net change for ceded premiums deficiency reserve (8)=(6)-(7)	Recognized net loss (gain) for premiums deficiency reserve (9)=(5)-(8)
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(2)+(3)-(4)	(6)	(7)	(7)	(9)=(5)-(8)
Fire insurance	\$-	\$-	\$-	\$-	\$-	\$631	\$-	\$631	\$(631)
Marine insurance	-	-	-	7	(7)	(13,542)	(1,183)	(12,359)	12,352
Land and air insurance	-	-	13,988	1,095	12,893	-	-	-	12,893
Liability insurance	12,580	14,930	(4)	5	(2,359)	5,999	2,075	3,924	(6,283)
Bonding insurance	-	511	-	-	(511)	4	8	(4)	(507)
Other property insurance	280,453	137,272	33	1	143,213	37	38,666	(38,629)	181,842
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	62,422	46,375	-	-	16,047	-	-	-	16,047
<b>Total</b>	<b>\$355,455</b>	<b>\$199,088</b>	<b>\$14,017</b>	<b>\$1,108</b>	<b>\$169,276</b>	<b>\$(6,871)</b>	<b>\$39,566</b>	<b>\$(46,437)</b>	<b>\$215,713</b>

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

Item	2016.1.1~2016.12.31		2015.1.1~2015.12.31	
	Premiums deficiency reserve	Ceded premiums deficiency reserve	Premiums deficiency reserve	Ceded premiums deficiency reserve
Beginning balance	\$367,287	\$(6,912)	\$199,764	\$39,478
Reserve	386,261	5,841	369,472	(6,871)
Recover	(364,386)	6,967	(200,196)	(39,566)
Effects of exchange rate changes	(20,674)	(331)	(1,753)	47
Loss of control	(357,954)	(5,565)	-	-
Ending balance	\$10,534	\$-	\$367,287	\$(6,912)

- d. Effects for the change of estimation and assumption

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

E. Liability reserve

- a. Liability reserve and liability-ceded reserve

Item	2016.1.1~2016.12.31			
	Liability reserve		Liability-ceded reserve	
	Direct written business	Reinsurance ceded-in	Reinsurance ceded-out	Retention
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Health insurance	\$41	\$-	\$-	\$41

- b. Net change for liability reserve and liability reserve ceded

Item	2016.1.1~2016.12.31							
	Direct written business		Reinsurance ceded-in		Net change for liability reserve	Reinsurance ceded-out		Net change for liability reserve ceded
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)
Health insurance	\$43	\$2	\$-	\$-	\$41	\$-	\$-	\$-

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### **23. Post-employment benefits**

#### **(1) Defined contribution plans**

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

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

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

Expenses under the defined contribution plan recognized by the Group for the years ended 31 December 2016 and 2015 are \$1,583,664 thousand and \$1,449,843 thousand, respectively.

#### **(2) Defined benefit plans**

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Group expects to contribute \$1,162,530 thousand to its defined benefit plan during the 12 months beginning after 31 December 2016.

The average duration of the defined benefits plan obligation as at 31 December 2016 and 2015, are 2026~2030 years and 2025~2030 years.

Pension costs recognized in profit or loss for the years ended 31 December 2016 and 2015:

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Current period service costs	\$479,610	\$456,591
Interest expense from net defined benefit liability	86,587	75,841
Total	<u>\$566,197</u>	<u>\$532,432</u>

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

	2016.12.31	2015.12.31
Defined benefit obligation	\$18,744,357	\$19,118,959
Fair value of plan assets	(19,344,726)	(11,908,142)
Net defined benefit liability (asset)	<u>\$(600,369)</u>	<u>\$7,210,817</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

	Defined benefit obligation	Fair value of plan assets	Net Defined Benefit liability (asset)
2015.1.1	\$17,952,591	\$(13,611,922)	\$4,340,669
Current period service costs	456,591	-	456,591
Net interest expense (income)	312,853	(237,012)	75,841
Subtotal	769,444	(237,012)	532,432
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	1,209	-	1,209
Actuarial gains and losses arising from changes in financial assumptions	578,823	-	578,823
Experience adjustments	1,043,327	-	1,043,327
Remeasurements of the net defined benefit asset	-	1,150,307	1,150,307
Subtotal	1,623,359	1,150,307	2,773,666
Payments from the plan	(1,226,435)	1,224,278	(2,157)
Contributions by employer	-	(433,793)	(433,793)
2015.12.31	19,118,959	(11,908,142)	7,210,817
Current period service costs	479,610	-	479,610
Net interest expense (income)	227,900	(141,313)	86,587
Subtotal	707,510	(141,313)	566,197
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	(573)	-	(573)
Actuarial gains and losses arising from changes in financial assumptions	(239,296)	-	(239,296)
Experience adjustments	356,607	-	356,607
Remeasurements of the net defined benefit asset	-	(918,766)	(918,766)
Subtotal	116,738	(918,766)	(802,028)
Payments from the plan	(1,198,850)	1,197,754	(1,096)
Contributions by employer	-	(7,574,259)	(7,574,259)
2016.12.31	\$18,744,357	\$(19,344,726)	\$(600,369)

## English Translation of Financial Statements Originally Issued in Chinese

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

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

	2016.12.31	2015.12.31
Discount rate	1.29%~1.80%	1.18%~1.75%
Expected rate of salary increases	1.00%~3.00%	1.00%~3.00%

A sensitivity analysis for significant assumption as at 31 December 2016 and 2015 is, as shown below:

	2016.1.1~ 2016.12.31		2015.1.1~ 2015.12.31	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate decrease (increase) by 0.5%	\$1,049,038	\$(966,077)	\$1,129,871	\$(1,044,917)
Future salary increase (decrease) by 0.5%	1,029,296	(964,997)	1,108,882	(1,025,760)

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another. There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

### Employee preferential interest rate deposits plan

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

Expenses under preferential interest rate deposits plan amounted to \$252,512 thousand and \$255,788 thousand were recognized for the years ended 31 December 2016 and 2015, and recorded as "Employee benefits expenses", respectively.

Pension costs recognized in profit or loss for the years ended 31 December 2016 and 2015:

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Current period service costs	\$-	\$-
Interest expense	22,452	23,317
Total	<u>\$22,452</u>	<u>\$23,317</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

	<u>2016.12.31</u>	<u>2015.12.31</u>
Defined benefit obligation	\$(576,083)	\$(605,038)
Fair value of plan assets	-	-
Other non-current liabilities - Net defined benefit liability	<u>\$(576,083)</u>	<u>\$(605,038)</u>

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

	<u>Defined benefit obligation</u>
2015.1.1	\$627,789
Defined benefit cost recognized in profit or loss	
Net interest expense	23,317
Subtotal	<u>23,317</u>
Defined benefit cost—recognized in other comprehensive income	
Experience adjustments	51,109
Subtotal	<u>51,109</u>
Payments from the plan	<u>(97,177)</u>
2015.12.31	605,038
Defined benefit cost recognized in profit or loss	
Net interest expense	22,452
Subtotal	<u>22,452</u>
Defined benefit cost—recognized in other comprehensive income	
Experience adjustments	48,510
Subtotal	<u>48,510</u>
Payments from the plan	<u>(99,917)</u>
2016.12.31	<u>\$576,083</u>

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

	<u>2016.12.31</u>	<u>2015.12.31</u>
Discount rate	4.00%	4.00%
Expected rate of return on deposited fund	2.00%	2.00%
Withdrawal rate of preferential interest rate deposits	1.00%	1.00%

## **English Translation of Financial Statements Originally Issued in Chinese**

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

A sensitivity analysis for significant assumption as at 31 December 2016 and 2015 is, as shown below:

	Effect on the defined benefit obligation			
	2016		2015	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate decrease (increase) by 0.5%	\$31,685	\$(28,804)	\$35,092	\$(29,647)
Death rate adjusted decrease (increase) 0.5%	5,761	(5,185)	5,445	(5,445)
Interest rate of premium deposit decrease (increase) by 0.5%	134,803	(134,803)	132,503	(132,503)

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

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

### **24. Capital Stock**

- (1) As of 31 December 2016, the authorized share capital amounted to \$180,000,000 thousand and the issued share capital amounted to \$133,965,102 thousand, including 12,563,210 thousand common shares and 833,300 thousand preferred shares. These shares are all with par value of \$10. As of 31 December 2015, the authorized share capital amounted to \$180,000,000 thousand and the issued share capital amounted to \$125,632,102 thousand and 12,563,210 thousand shares. These shares are common stock with par value of \$10.
- (2) Issuance of preferred stock

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

- G. Holders of Preferred Shares have no voting right at the annual shareholders meeting, and cannot elect directors. However, holders of Preferred Shares have voting rights at shareholders meeting of Preferred Shares, and at annual shareholders meeting on items relating to rights of Preferred Shares holders.
- H. Holders of Preferred Shares cannot convert said preferred shares to common shares, and have no right to request the Company for redemption of Preferred Shares.
- I. Through issuance of perpetual preferred stock, on the day after the 7th anniversary of the Issue Date, the Company may redeem all or part of outstanding Preferred Shares at issue price. Rights and obligations of the unredeemed Preferred Shares shall remain the same as mentioned above.
- (3) 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**

	2016.12.31	2015.12.31
Additional paid-in capital	\$126,523,972	\$84,858,972
Treasury share transactions	2,539,377	2,539,377
Differences between share price and book value from acquisition or disposal of subsidiaries	29,142	29,142
Additional paid-in capital-Employee stock option	203,408	203,408
Convertible bonds to convert	1,144,486	1,144,486
Others	8,312	5,789
Total	<u>\$130,448,697</u>	<u>\$88,781,174</u>

- (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 \$130,448,697 thousand and \$88,781,174 thousand as of 31 December 2016 and 31 December 2015, respectively.
- (2) According to Letter (91) Tai-Cai-Zheng-Zi (Liu) 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".

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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

### **26. Retained earnings**

- (1) Legal reserve

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

On 8 June 2016, the board of shareholders resolved to recognize the legal capital reserves of \$5,757,629 thousand. On 12 June 2015, the Company's board of shareholders resolved to recognize the legal capital reserves of \$5,035,694 thousand.

- (2) Special reserve

A. According to the legal interpretations No.1010012865 issued by 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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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

The Group also reclassified \$0 thousand and \$33,796 thousand of special reserve to undistributed earnings due to the Group’s reclassification of relevant assets which are used, disposed of, reclassified by Cathay Bank for the years ended 31 December 2016 and 2015.

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

(3) Undistributed earnings

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

## English Translation of Financial Statements Originally Issued in Chinese

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

D. According to the addition of Article 235-1 of the Company Act announced on 20 May, 2015, the Company shall provide a fixed amount or percentage of the actual profit for a year to be distributed as “employee remuneration”, after deducting and setting aside an amount equal to the cumulative losses (if any). The aforementioned employee remuneration may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders’ meeting. Furthermore the Articles of Incorporation may stipulate that the employee remuneration could be distributed to employees of affiliated enterprises meeting certain criteria. The company amended the related regulations in the Company’s Articles of Incorporation according to the aforementioned addition on 8 June, 2016.

E. Details of the years ended 31 December 2015 and 2014 earnings distribution and dividends per share as approved by the shareholders’ meeting on 8 June 2016 and 12 June 2015, respectively, are as follows:

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

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

F. The Company’s distribution of 2016 retained earnings has not been approved by the Board of Directors as of the independent auditors’ audit report date. For related information please refer to the “Market Observation Post System” website of the Taiwan Stock Exchange Corporation.

### 27. Non-controlling interests

	<u>2016.1.1~ 2016.12.31</u>	<u>2015.1.1~ 2015.12.31</u>
Beginning balance	\$6,005,208	\$5,639,845
Net income attributed to non-controlling interests	420,387	368,799
Other comprehensive income attributed to non-controlling interests:		
Exchange differences resulting from translating the financial statements of a foreign operation	(304,889)	156,984
Unrealized gains from available-for-sale financial assets	(122,155)	58,596
Changes in non-controlling interests	500,898	(219,016)
Ending balance	<u>\$6,499,449</u>	<u>\$6,005,208</u>

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### **28. Employee benefits, depreciation and amortization**

Summary statement of employee benefits and depreciation expenses breakdown:

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Employee benefits expense		
Salary and wages	\$35,419,883	\$30,770,860
Labor and health insurance	3,869,911	3,368,571
Pension expense	2,186,894	2,024,392
Other employee benefits	4,718,089	2,984,410
Depreciation	2,295,745	2,184,189
Amortization	2,893,403	1,457,120

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

Based on profit of current year, the Company estimated the amounts of the employees' compensation and remuneration to directors for the year ended 31 December 2016 to be 0.01% of profit of current year and \$1,800 thousand, respectively. The Company recognized employees' compensation and remuneration of \$4,920 thousand and \$1,800 thousand for the year ended 31 December 2016, and recorded under salaries expense. A resolution was passed at a board of directors meeting held on 8 March 2017 to distribute \$4,920 thousand and \$1,800 thousand in cash as employees' compensation and remuneration to directors, respectively. If the actual distribution is different from the estimates, the difference will be accounted for as changes in accounting estimates and recognized in profit or loss in the following year.

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

As of 31 December 2016, and 31 December 2015, the total numbers of the employees of the Group were 51,151 and 46,633, respectively.

**English Translation of Financial Statements Originally Issued in Chinese**

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

**29. The Components of other comprehensive income**

For the year ended 31 December 2016

	Reclassification adjustments	Other	Income tax	Other
Arising during the period	during the period	comprehensive income	benefit (expense)	comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:				
Remeasurements of defined benefit plans	\$753,518	\$-	\$753,518	\$(128,098)
Revaluation increments	-	-	-	-
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(9,343)	-	(9,343)	1,762
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	44,408	-	44,408	(7,549)
To be reclassified to profit or loss in subsequent periods:				
Exchange differences resulting from translating the financial statements of a foreign operation	(8,920,171)	-	(8,920,171)	348,424
Unrealized gains (losses) from available-for-sale financial assets	24,580,403	(23,595,340)	985,063	3,216,600
(Losses) gains on cash flow hedges	(47,367)	(169,489)	(216,856)	36,866
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(722,914)	-	(722,914)	(34,092)
<b>Total</b>	<b>\$15,678,534</b>	<b>\$(23,764,829)</b>	<b>\$(8,086,295)</b>	<b>\$3,433,913</b>

**English Translation of Financial Statements Originally Issued in Chinese**

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

For the year ended 31 December 2015

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$(2,824,773)	\$-	\$(2,824,773)	\$480,210	\$(2,344,563)
Revaluation increments	92,744	-	92,744	(608)	92,136
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(164,196)	-	(164,196)	27,435	(136,761)
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	42,544	-	42,544	(7,233)	35,311
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	1,488,694	-	1,488,694	(167,084)	1,321,610
Unrealized (losses) gains from available-for-sale financial assets	(13,079,098)	(33,956,145)	(47,035,243)	2,186,592	(44,848,651)
Gains (losses) on cash flow hedges	381,478	(150,505)	230,973	(39,902)	191,071
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	346,975	-	346,975	(15,492)	331,483
Total	<u>\$(13,715,632)</u>	<u>\$(34,106,650)</u>	<u>\$(47,822,282)</u>	<u>\$2,463,918</u>	<u>\$(45,358,364)</u>

**30. Income taxes**

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

Income tax expense recognized in profit or loss	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Current income tax expense (income):		
Current income tax charge	\$5,988,162	\$(2,120,947)
Adjustments in respect of current income tax of prior periods	12,176	(484,494)
Deferred tax expense (income):		
Deferred tax expense relating to origination and reversal of temporary differences	(5,377,882)	10,714,294
Deferred tax expense (income) relating to origination and reversal of tax loss and tax credit	(1,111,923)	(282,265)
Tax expense recognized in the period for previously unrecognized tax loss, tax credit or temporary difference of prior periods	396,955	396,954
Other components of deferred tax expense (income)	2,237,817	1,026,289
Total income tax expense	<u>\$2,145,305</u>	<u>\$9,249,831</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

Income tax relating to components of other comprehensive income

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Current income tax expense:		
Current income tax charge	\$-	\$-
Deferred tax expense (income):		
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	7,549	7,233
Exchange difference resulting from translating the financial statements of a foreign operation	(221,992)	167,084
Unrealized losses from available-for-sale financial assets	(3,216,600)	(2,186,592)
(Losses) gains on cash flow hedges	(36,866)	39,902
Gains from revaluation	-	608
Remeasurements of defined benefit plans	128,098	(480,210)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(94,102)	(11,943)
Income tax relating to components of other comprehensive income	<u><u>\$(3,433,913)</u></u>	<u><u>\$(2,463,918)</u></u>

(2) Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Accounting profit before tax from continuing operations	<u><u>\$50,184,505</u></u>	<u><u>\$67,132,202</u></u>
Tax at the domestic rates applicable to profits in the country concerned	\$17,432,056	\$21,660,789
Tax effect of revenues exempt from taxation	(14,989,228)	(19,254,582)
Tax effect of expenses not deductible for tax purposes	105,616	237,655
Return of cash dividends	-	1,565,842
Deferred tax assets of unrecognized tax losses	(13,530)	7,441
Tax effect of deferred tax assets/liabilities	(940,698)	(279,064)
10 % surtax on undistributed retained earnings	1,775,428	603,298
Tax effect of the rates applicable to profits in the other jurisdictions	32,443	(19,313)
Adjustments in respect of current income tax of prior periods	10,379	(483,957)
Others	(1,267,161)	5,211,722
Total income tax expense recognized in profit or loss	<u><u>\$2,145,305</u></u>	<u><u>\$9,249,831</u></u>

## English Translation of Financial Statements Originally Issued in Chinese

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

(3) Deferred tax assets (liabilities) relate to the following:

For the year ended 31 December 2016

	Deferred tax						Ending balance as at 31 December 2016
	Beginning balance as at 1 January 2016	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Deferred tax income (expense) charged directly to equity	Deferred tax assets (liabilities) acquired in business combinations	Exchange differences	
Temporary differences:							
Property, plant and equipment	\$458,659	\$80,279	\$-	\$-	\$4,256	\$518	\$543,712
Investment property	(19,252,586)	(2,422,868)	-	-	-	19,145	(21,656,309)
Financial assets at fair value through profit and loss	(2,251,671)	1,853,414	(7,549)	-	-	-	(405,806)
Available-for-sale financial assets	(629,983)	101	658,186	-	-	-	28,304
Derivative financial liabilities for hedging	(76,095)	-	36,866	-	-	-	(39,229)
Investments in debt securities with no active market	(207,587)	87,898	-	-	-	-	(119,689)
Investments accounted for using the equity method	(218,708)	(238,110)	94,102	(151,147)	1,399,037	(57,809)	827,367
Preferential interest rate deposits	102,855	(13,169)	8,246	-	-	-	97,932
Financial liabilities at fair value through profit or loss	6,587,600	(2,048,488)	-	-	-	-	4,539,112
Other receivables	(84,316)	(14,602)	-	-	-	-	(98,918)
Decommissioning costs	19	230	-	-	-	-	249
Bad debt losses	705,498	(127,938)	-	-	-	-	577,560
Deferred income tax assets (liabilities) resulted from income or loss on foreign exchange	(10,557,927)	9,805,734	2,780,406	-	-	(3)	2,028,210
Provisions	(188,060)	(42,611)	-	-	-	-	(230,671)
Deferred revenue on customer loyalty programs	228,273	23,379	-	-	-	-	251,652
Other payables	155,048	(9,630)	-	-	(37,103)	(2,671)	105,644
Defined benefit Liability	1,228,882	(1,190,873)	(136,344)	-	-	-	(98,335)
Deferred Income	5,986	(5,055)	-	-	(680)	(251)	-
Fair value adjustments from business consolidation	(439,573)	(52,238)	-	-	-	-	(491,811)
Deferred tax liabilities from business consolidation	(784,429)	179,611	-	-	(781,335)	50,597	(1,335,556)
Guarantee deposits paid	-	-	-	-	-	-	-
Office supplies	3,116	(877)	-	-	-	-	2,239
Others	(513,254)	(843,658)	-	-	(190,487)	(12)	(1,547,411)
Unused tax losses	6,279,173	199,539	-	-	-	(95)	6,478,617
Unused tax credit	4,398	14,810	-	-	3,364	(2,827)	19,745
Tax effect under consolidated income tax	(904,884)	-	-	-	(204,174)	-	(1,109,058)
Deferred income tax expenses (income)		<u>\$5,234,878</u>	<u>\$3,433,913</u>	<u>\$(151,147)</u>	<u>\$192,878</u>	<u>\$6,592</u>	
Deferred income tax assets (liabilities)-net	<u>\$(20,349,564)</u>						<u>\$(11,632,450)</u>
Reflected in balance sheet as flows:							
Deferred income tax assets	<u>\$14,425,707</u>						<u>\$14,729,993</u>
Deferred income tax liabilities	<u>\$(34,775,271)</u>						<u>\$(26,362,443)</u>

## English Translation of Financial Statements Originally Issued in Chinese

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

For the year ended 31 December 2015

	Deferred tax						Ending balance
	Beginning balance	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Deferred tax income (expense) charged directly to equity	Deferred tax assets (liabilities) acquired in business combinations	Exchange differences	
Temporary differences:							
Property, plant and equipment	\$391,836	\$67,315	\$-	\$-	\$(479)	\$(13)	\$458,659
Investment property	(16,394,760)	(2,857,900)	(608)	-	-	682	(19,252,586)
Financial assets at fair value through profit and loss	(3,001,322)	756,884	(7,233)	-	-	-	(2,251,671)
Available-for-sale financial assets	(4,578,366)	(123,979)	4,072,362	-	-	-	(629,983)
Derivative financial liabilities for hedging	(36,193)	-	(39,902)	-	-	-	(76,095)
Investments in debt securities with no active market	(283,450)	75,863	-	-	-	-	(207,587)
Investments accounted for using the equity method	(84,206)	(146,690)	11,943	231	16	-	(218,706)
Preferential interest rate deposits	106,616	(12,448)	8,687	-	-	-	102,855
Financial liabilities at fair value through profit or loss	8,493,820	(1,906,220)	-	-	-	-	6,587,600
Other receivables	(70,442)	(13,874)	-	-	-	-	(84,316)
Decommissioning costs	-	19	-	-	-	-	19
Bad debt losses	606,837	98,661	-	-	-	-	705,498
Deferred income tax assets (liabilities) resulted from income or loss on foreign exchange	(1,855,075)	(6,649,999)	(2,052,854)	-	-	1	(10,557,927)
Provisions	(190,765)	2,705	-	-	-	-	(188,060)
Deferred revenue on customer loyalty programs	224,085	4,188	-	-	-	-	228,273
Other payables	-	23,148	-	-	127,661	4,239	155,048
Defined benefit Liability	743,132	14,227	471,523	-	-	-	1,228,882
Deferred Income	-	(1,784)	-	-	7,539	231	5,986
Fair value adjustments from business consolidation	(383,044)	(56,529)	-	-	-	-	(439,573)
Deferred tax liabilities from business consolidation	-	14,804	-	-	(774,437)	(24,796)	(784,429)
Guarantee deposits paid	(4,626)	4,626	-	-	-	-	-
Office supplies	1,837	1,279	-	-	-	-	3,116
Others	(167,688)	(396,878)	-	-	51,312	-	(513,254)
Unused tax losses	5,996,499	263,915	-	-	18,176	583	6,279,173
Unused tax credit	-	4,372	-	-	-	26	4,398
Tax effect under consolidated income tax	(605,027)	(3,628)	-	-	(296,229)	-	(904,884)
Deferred income tax expenses (income)		<u>\$ (10,837,923)</u>	<u>\$ 2,463,918</u>	<u>\$ 231</u>	<u>\$ (866,441)</u>	<u>\$ (19,047)</u>	
Deferred income tax assets (liabilities)-net	<u>\$ (11,090,302)</u>						<u>\$ (20,349,564)</u>
Reflected in balance sheet as flows:							
Deferred income tax assets	<u>\$ 16,081,618</u>						<u>\$ 14,425,707</u>
Deferred income tax liabilities	<u>\$ (27,171,920)</u>						<u>\$ (34,775,271)</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

(4) Unrecognized deferred tax assets

As of 31 December 2016 and 2015, deferred tax assets that have not been recognized amount to \$2,588,640 thousand and \$6,156,897 thousand, respectively.

(5) Unrecognized deferred tax liabilities relating to the investment in subsidiaries

The Group did not recognize any deferred tax liability for taxes that would be payable on the unremitted earnings of the Group's overseas subsidiaries, as the Group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As at 31 December 2016 and 2015, the taxable temporary differences associated with investment in subsidiaries, for which deferred tax liabilities have not been recognized, aggregate to \$119,321 thousand and \$192,892 thousand, respectively.

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

	2016.12.31	
	Income tax returns examined by tax authorities	Notes
The Company	through 2010	-
Cathay Life	through 2010	Cathay Life was in the process of administrative remedy for 2007 and 2009.
Cathay United Bank	through 2010	Cathay United Bank was in the process of administrative remedy for 2009 and 2010.
Cathay Century	through 2010	-
Cathay Securities	through 2010	Cathay Securities was in the process of administrative remedy for 2009 and 2010.
Cathay Venture	through 2010	Cathay Venture was in the process of administrative remedy for 2010.
Cathay Securities Investment Trust	through 2011	-
Cathay Futures	through 2014	-

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

(7) Information related to imputation credit account:

	2016.12.31	2015.12.31
Balance of imputation credit account	\$1,338,315	\$201,096

## English Translation of Financial Statements Originally Issued in Chinese

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

The Company's cash dividends-imputed tax credit ratio applied to actual distribution was 5.05% for the year ended 31 December 2015. The cash dividends-imputed tax credit rates applied to actual distribution were 2.05% for the year ended 31 December 2014.

Undistributed earnings occurred before 1997 in the amount of \$267,215 thousand 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 the date of distribution, this amount was used to compensate the changes due to first-time adoption of IFRS.

### 31. Earnings per share

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

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

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Basic earnings per share (\$)		
Profit attributable to ordinary equity holders of the Company (in thousand)	\$47,618,813	\$57,513,572
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand)	12,563,210	12,563,210
Basic earnings per share (\$)	\$3.79	\$4.58

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

### 32. Business combinations

Cathay Life

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

### (2) Acquisition of subsidiary

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

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

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

	Fair value recognized on the acquisition date
Cash and cash equivalents	\$38
Receivables	286,708
Held-to-maturity financial assets	439,991
Intangible assets (Except for goodwill)	2,053,870
Other assets	44,166
Payables	(104,633)
Provisions	(367,003)
Other liabilities	<u>(57,820)</u>
Identifiable net assets	<u>\$2,295,317</u>

## English Translation of Financial Statements Originally Issued in Chinese

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

	Fair value recognized on the acquisition date
Goodwill of Octagon Credit Investors, LLC is as follows:	
Purchase consideration	\$4,708,746
Add: Non-controlling interests at fair value	653,313
Less: Identifiable net assets at fair value	(2,295,317)
Goodwill	<u>\$3,066,742</u>

### Cathay Securities

#### (1) Acquisition of subsidiary

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

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

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

The Company, Cathay Life and Cathay Century

### (1) Loss of control of a subsidiary

Cathay Life and Cathay Century did not participate in the capital increase of its subsidiary, Cathay Century (China), during July 2016 and therefore, the Group's ownership over Cathay Century (China) decreased to 49%. The subsidiary is accounted for using the equity method since Cathay Century lost control of the subsidiary but still retained significant influence. The fair value of the remaining 49% ownership on disposal day was \$2,915,225 thousand and therefore, the Group recognized a revaluation gains of \$2,266,596 thousand.

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

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

## **32. Risk management for insurance contract**

### (1) Life insurance subsidiaries

Risk management objectives, policies, procedures and methods:

#### A. Objectives of risk management

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### B. Framework of risk management, organization structure and responsibilities

#### (A) Board of directors

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

#### (B) Risk management committee

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

#### (C) Chief Risk Officer

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### (D) 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 each department
  - (d) Regularly generate risk management related reports
  - (e) Regularly review all department's risk limits and cope with the violation of such limits
  - (f) Execute stress testing
  - (g) Execute back testing if necessary
  - (h) Manage other risk management related issues

### (E) Operating departments

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

### (F) Audit department

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

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### C. The scope and types of risk assessment and reporting

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

#### (A) Market risk

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

#### (B) Credit risk

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

#### (C) Sovereign risk

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### (D) Liquidity risk

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

### (E) Operating risk

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

### (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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### (G) Asset and liability matching risk

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

### (H) Risk-based capital (RBC) ratio

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

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

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

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

### (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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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

(A) Insurance risk assessment covers the following topics:

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

(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.

**English Translation of Financial Statements Originally Issued in Chinese**

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

G. Asset/liability management

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

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.

**English Translation of Financial Statements Originally Issued in Chinese**

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

(B) Exception management process

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

I. Risk mitigation and avoidance policies and risk monitoring procedures

(A) Cathay Life enters into derivative transactions to reduce market risk and credit risk of the assets. The derivative contracts such as stock index options, index futures, interest rate futures, interest rate swaps, currency forwards, cross currency swaps and credit default swaps are applied to hedge risks arising from investments, such as equity risk, interest rate risk, cash flow risk, foreign exchange risk and credit risk; however, the derivatives not qualified for hedge accounting are measured at fair value through profit or loss.

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

(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.

**English Translation of Financial Statements Originally Issued in Chinese**

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

Information of insurance risk

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

(A) Cathay Life

For the years ended 31 December 2016			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 2,359,350	Decrease (increase) 1,958,260
Expense	×1.05 (×0.95)	Decrease (increase) 3,385,125	Decrease (increase) 2,809,654
Surrender rates	×1.05 (×0.95)	Increase (decrease) 459,376	Increase (decrease) 381,282
Rate of return	+0.1%	Increase 4,548,123	Increase 3,774,942
Rate of return	-0.1%	Decrease 4,552,582	Decrease 3,778,643

For the years ended 31 December 2015			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 2,165,878	Decrease (increase) 1,797,679
Expense	×1.05 (×0.95)	Decrease (increase) 2,896,302	Decrease (increase) 2,403,930
Surrender rates	×1.05 (×0.95)	Increase (decrease) 339,184	Increase (decrease) 281,523
Rate of return	+0.1%	Increase 4,142,848	Increase 3,438,564
Rate of return	-0.1%	Decrease 4,146,906	Decrease 3,441,932

(B) Cathay Lujiazui Life

For the years ended 31 December 2016			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.10 (×0.95)	Decrease (increase) 248,834	Decrease (increase) 186,626
Expense	×1.05 (×0.95)	Decrease (increase) 146,617	Decrease (increase) 109,963
Surrender rates	×1.10 (×0.90)	Increase (decrease) 127,668	Increase (decrease) 95,751
Rate of return	+0.25%	Increase 467,118	Increase 350,339
Rate of return	-0.25%	Decrease 508,538	Decrease 381,403

**English Translation of Financial Statements Originally Issued in Chinese**

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

For the years ended 31 December 2015			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.10 (×0.90)	Decrease (increase) 121,834	Decrease (increase) 91,375
Expense	×1.05 (×0.95)	Decrease (increase) 77,320	Decrease (increase) 57,990
Surrender rates	×1.10 (×0.90)	Increase (decrease) 100,912	Increase (decrease) 75,684
Rate of return	+0.25%	Increase 384,943	Increase 288,707
Rate of return	-0.25%	Decrease 418,237	Decrease 313,678

(C) Cathay Life (Vietnam)

For the years ended 31 December 2016			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 276	Decrease (increase) 221
Expense	×1.05 (×0.95)	Decrease (increase) 17,299	Decrease (increase) 13,839
Surrender rates	×1.05 (×0.95)	Increase (decrease) 1,295	Increase (decrease) 1,036
Rate of return	+0.1%	Increase 5,171	Increase 4,137
Rate of return	-0.1%	Decrease 5,176	Decrease 4,140

For the years ended 31 December 2015			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 221	Decrease (increase) 172
Expense	×1.05 (×0.95)	Decrease (increase) 12,055	Decrease (increase) 9,403
Surrender rates	×1.05 (×0.95)	Increase (decrease) 997	Increase (decrease) 778
Rate of return	+0.1%	Increase 3,876	Increase 3,023
Rate of return	-0.1%	Decrease 3,880	Decrease 3,026

- a. Changes in income before tax listed above refer to the effects of income before tax arising from the assumption for the years ended 31 December 2016 and 2015. The influence on equities of Cathay Life, Cathay Lujiazui Life and Cathay Life (Vietnam) is assumed that the income tax is calculated on pre-tax income at rates of 17%, 25% and 20% (22% for the nine-month period ended 31 December 2015) individually.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

- 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.

### **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.

**English Translation of Financial Statements Originally Issued in Chinese**

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

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								Reserve for unreported claim
	1	2	3	4	5	6	7	Unreported claim	
2010	14,552,884	17,681,069	18,003,448	18,072,637	18,133,928	18,163,522	18,177,559	-	-
2011	15,368,399	18,936,487	19,286,514	19,361,431	19,417,890	19,455,613	19,470,747	15,134	15,164
2012	15,130,550	18,317,746	18,627,566	18,692,848	18,738,263	18,767,934	18,781,705	43,442	43,528
2013	14,393,551	17,662,901	17,964,940	18,028,018	18,071,861	18,097,008	18,109,829	81,811	81,975
2014	14,671,684	17,805,516	18,119,931	18,179,154	18,219,872	18,244,271	18,256,901	136,970	137,244
2015	15,353,562	18,647,559	18,961,559	19,023,108	19,066,283	19,091,646	19,104,816	457,257	458,171
2016	15,940,308	19,299,265	19,622,073	19,685,837	19,729,364	19,755,557	19,769,229	3,828,921	3,836,579

Expected future payment	\$4,572,661
Add: Assumed reserve for incurred but not reported claim	53,332
Reserve for unreported claim	4,625,993
Add: Reported but not paid claim	1,552,725
Claims reserve balance	<u>\$6,178,718</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

b. Retained business development trend

Accident year	Development year							Unreported claim	Reserve for unreported claim
	1	2	3	4	5	6	7		
2010	14,611,395	17,727,537	18,053,265	18,122,148	18,183,755	18,213,684	18,227,867	-	-
2011	15,409,404	18,971,213	19,321,736	19,398,580	19,455,616	19,493,793	19,509,078	15,285	15,316
2012	15,235,684	18,447,836	18,758,089	18,824,223	18,871,408	18,901,625	18,915,606	44,198	44,286
2013	14,473,825	17,773,529	18,079,997	18,143,270	18,187,561	18,213,155	18,226,149	82,879	83,045
2014	14,746,165	17,904,527	18,220,846	18,280,809	18,321,930	18,346,733	18,359,519	138,673	138,950
2015	15,446,950	18,771,910	19,089,694	19,152,141	19,195,767	19,221,588	19,234,931	463,021	463,947
2016	16,039,861	19,434,459	19,761,544	19,826,245	19,870,205	19,896,839	19,910,677	3,870,816	3,878,558

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

Expected future payment	\$4,624,102
Add: Reported but not paid claim	1,548,823
Retained claims reserve balance	<u>\$6,172,925</u>

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

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

B. Cathay Lujiazui Life

a. Direct business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2010	232,445	430,166	449,319	449,319	449,381	449,381	449,381	-
2011	240,339	444,776	471,347	471,347	487,308	487,308	487,308	-
2012	255,985	499,927	540,307	544,418	547,847	547,847	547,847	-
2013	378,482	608,435	646,580	653,674	653,674	653,674	653,674	-
2014	222,134	415,750	435,164	442,699	442,699	442,699	442,699	7,535
2015	263,590	413,360	438,114	508,559	508,559	508,559	508,559	95,199
2016	179,624	317,129	336,120	391,833	391,833	391,833	391,833	212,209

Expected future payment	\$314,943
Less: Expected reported but not paid claim	(30,010)
Reserve for unreported claim	284,933
Add: Reported but not paid claim	34,068
Claims reserve balance	<u>\$319,001</u>

b. Retained business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2010	228,371	429,850	449,308	449,319	449,319	449,319	449,319	-
2011	236,108	444,412	471,347	471,347	478,520	478,520	478,520	-
2012	250,227	498,661	540,284	544,395	547,825	547,825	547,825	-
2013	321,394	599,579	637,681	644,775	644,775	644,775	644,775	-
2014	199,071	392,255	411,669	419,179	419,179	419,179	419,179	7,510
2015	260,931	410,701	435,976	505,582	505,582	505,582	505,582	94,881
2016	177,214	328,754	348,986	388,155	388,155	388,155	388,155	210,941

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

Expected future payment	\$313,332
Less: Expected reported but not paid claim	(30,010)
Add: Reported but not paid claim	34,068
Retained claims reserve balance	<u>\$317,390</u>

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

### C. Cathay life (Vietnam)

Direct business development trend (and retained business development trend)

Accident year	Development year				
	1	2	3	4	5
2012	1,173	1,447	1,447	1,447	1,447
2013	589	735	735	735	735
2014	669	728	728	728	728
2015	1,471	1,721	1,721	1,721	1,721
2016	948	1,158	1,158	1,158	1,158

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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

### A. Credit risk

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

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

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

### B. Liquidity risk

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

2016.12.31	Unit:		
	Within 1 year	1 to 5 years	Over 5 years
Insurance contracts and financial instruments with discretionary participation features	\$(2,213)	\$(1,365)	\$170,341

## **English Translation of Financial Statements Originally Issued in Chinese**

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

2015.12.31	Within 1 year	1 to 5 years	Unit: 100 million Over 5 years
Insurance contracts and financial instruments with discretionary participation features	\$(1,170)	\$46	\$154,465

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.

#### (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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### (B) Risk Management Committee

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

### (C) Chief Risk Officer

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

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

### (D) Risk management department

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

Responsibility of risk management division:

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### (E) Business unit

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

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

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

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

### (F) Internal audit room

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

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

### (A) Risks reporting

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### (B) Scope and nature of risk evaluation system

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

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

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

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

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

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

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

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

### F. Methods of asset/liability management

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

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

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

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

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

Receivables and payables of insurance contracts

A. Receivables of insurance contracts

Item	Premiums receivable (Note)	
	2016.12.31	2015.12.31
Fire insurance	\$545,610	\$760,232
Marine insurance	211,652	243,481
Land and air insurance	208,831	177,558
Liability insurance	173,051	173,119
Bonding insurance	24,476	43,048
Other property insurance	217,992	293,262
Accident insurance	131,391	134,114
Health insurance	10,393	14,718
Compulsory automobile liability insurance	21,643	19,614
Total	1,545,039	1,859,146
Less: Allowance for bad debts	(75,197)	(101,470)
Net	\$1,469,842	\$1,757,676

Ageing analysis of receivable:

	2016.12.31	2015.12.31
≤ 90 days	\$1,292,660	\$1,596,096
> 90 days	252,379	263,050
Total	\$1,545,039	\$1,859,146

Note: As of 31 December 2016 and 31 December 2015, the receivables included overdue receivables amounted to \$251,988 thousand and \$216,525 thousand, respectively, and the allowance for bad debts amounted to \$62,291 thousand and \$65,494 thousand, respectively.

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

Item	Claims reported and paid off	
	2016.12.31	2015.12.31
Fire insurance	\$108,058	\$45,435
Marine insurance	12,168	22,730
Land and air insurance	42,067	40,360
Liability insurance	34,899	17,874
Bonding insurance	2,143	38,430
Other property insurance	14,724	27,756
Accident insurance	16,645	17,103
Health insurance	-	-
Compulsory automobile liability insurance	143,733	145,137
Total	374,437	354,825
Less: Allowance for bad debts	-	-
Net	\$374,437	\$354,825

**English Translation of Financial Statements Originally Issued in Chinese**

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

C. Payables of insurance contract

Item	2016.12.31		
	Commission payables	Other payables	Total
Fire insurance	\$26,427	\$12,410	\$38,837
Marine insurance	5,947	10,090	16,037
Land and air insurance	28,784	84,010	112,794
Liability insurance	11,180	17,491	28,671
Bonding insurance	3,500	384	3,884
Other property insurance	4,697	10,279	14,976
Accident insurance	12,549	27,366	39,915
Health insurance	3,314	1,619	4,933
Compulsory automobile liability insurance	26,944	-	26,944
Total	\$123,342	\$163,649	\$286,991

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

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

Item	2016.12.31	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	\$132,069	\$345,501
Marsh	45,277	179,328
AON	48,647	148,371
Willis	261,070	71,683
Others	241,255	644,224
Total	728,318	1,389,107
Less: Allowance for bad debts	(25,058)	-
Net	\$703,260	\$1,389,107

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

Notes: As of 31 December 2016 and 31 December 2015, the due from reinsurers and ceding companies included overdue receivables amounted to \$19,305 thousand and \$29,649 thousand, respectively, and the allowance for bad debts amounted to \$19,305 thousand and \$29,649 thousand, respectively.

Information of management achievements

A. Acquisition cost for insurance contracts

Item	2016.1.1~2016.12.31				
	Commission expense	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	\$86,359	\$25,804	\$17,016	\$84,183	\$213,362
Marine insurance	11,961	1,828	1,084	34,681	49,554
Land and air insurance	192,552	-	128	1,007,727	1,200,407
Liability insurance	42,236	17,051	122	89,922	149,331
Bonding insurance	10,060	170	58	2,670	12,958
Other property insurance	16,789	278,816	5,126	49,547	350,278
Accident insurance	64,947	-	-	424,411	489,358
Health insurance	20,133	-	-	32,924	53,057
Compulsory automobile liability insurance	-	429,994	-	2	429,996
Total	\$445,037	\$753,663	\$23,534	\$1,726,067	\$2,948,301

**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	2015.1.1~2015.12.31				
	Commission expense	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	\$65,603	\$41,288	\$12,641	\$104,619	\$224,151
Marine insurance	15,193	6,215	2,560	35,560	59,528
Land and air insurance	146,373	-	681	965,854	1,112,908
Liability insurance	37,607	22,905	781	85,069	146,362
Bonding insurance	10,907	(11)	4	4,258	15,158
Other property insurance	13,905	435,630	6,287	53,974	509,796
Accident insurance	41,994	-	-	436,224	478,218
Health insurance	21,776	-	-	27,453	49,229
Compulsory automobile liability insurance	-	454,689	-	-	454,689
<b>Total</b>	<b>\$353,358</b>	<b>\$960,716</b>	<b>\$22,954</b>	<b>\$1,713,011</b>	<b>\$3,050,039</b>

B. Disclosure for insurance cost benefit analysis

(A) Cost benefit analysis for direct underwriting

Item	2016.1.1~2016.12.31					
	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain (loss)
Fire insurance	\$3,083,155	\$22,534	\$(196,346)	\$(2,313,330)	\$(1,815,052)	\$(1,219,039)
Marine insurance	594,231	(24,231)	(48,470)	(291,245)	58,778	289,063
Land and air insurance	8,271,027	(253,165)	(1,200,279)	(4,519,350)	(544,070)	1,754,163
Liability insurance	1,253,048	(56,925)	(149,209)	(471,594)	(94,230)	481,090
Bonding insurance	118,054	7,568	(12,900)	(217,811)	50,706	(54,383)
Other property insurance	1,672,912	99,580	(345,152)	(868,874)	99,563	658,029
Accident insurance	2,996,461	(45,180)	(489,358)	(1,152,253)	(7,392)	1,302,278
Health insurance	259,807	2,513	(53,057)	(108,169)	7,526	108,620
Compulsory automobile liability insurance	3,539,179	(47,764)	(429,996)	(2,245,149)	64,280	880,550
<b>Total</b>	<b>\$21,787,874</b>	<b>\$(295,070)</b>	<b>\$(2,924,767)</b>	<b>\$(12,187,775)</b>	<b>\$(2,179,891)</b>	<b>\$4,200,371</b>

**English Translation of Financial Statements Originally Issued in Chinese**

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

2015.1.1~2015.12.31						
Item	Direct	Net change for	Acquisition	Insurance	Net change for	Net gain (loss)
	premium	unearned	cost for	claims paid	claims reserve	
	income	premiums	insurance			
		reserve	contract			
Fire insurance	\$2,991,546	\$102,134	\$(211,510)	\$(934,468)	\$(152,711)	\$1,794,991
Marine insurance	642,424	18,050	(56,968)	(304,113)	106,283	405,676
Land and air insurance	7,268,324	(21,776)	(1,112,227)	(4,379,076)	(234,694)	1,520,551
Liability insurance	1,205,428	(80,726)	(145,581)	(514,862)	(116,789)	347,470
Bonding insurance	126,713	(3,518)	(15,154)	(35,710)	(41,180)	31,151
Other property insurance	2,514,057	(7,027)	(503,509)	(1,320,966)	(252,847)	429,708
Accident insurance	2,715,579	176,600	(478,218)	(1,019,959)	(5,768)	1,388,234
Health insurance	228,561	(10,533)	(49,229)	(116,847)	(7,668)	44,284
Compulsory automobile						
liability insurance	3,728,905	(19,257)	(454,689)	(2,513,842)	(30,625)	710,492
<b>Total</b>	<b>\$21,421,537</b>	<b>\$153,947</b>	<b>\$(3,027,085)</b>	<b>\$(11,139,843)</b>	<b>\$(735,999)</b>	<b>\$6,672,557</b>

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

2016.1.1~2016.12.31						
Item	Reinsurance	Net change for	Reinsurance	Reinsurance	Net change for	Net (loss) gain
	premium	unearned	commission	claims paid	claims reserve	for assumed
	income	premiums	expense			reinsurance
		reserve				business
Fire insurance	\$150,101	\$(9,834)	\$(17,016)	\$(66,045)	\$65,471	\$122,677
Marine insurance	18,202	1,080	(1,084)	(24,747)	24,856	18,307
Land and air insurance	16,404	8,000	(128)	(1,449)	596	23,423
Liability insurance	1,186	721	(122)	(5)	33	1,813
Bonding insurance	1,300	(43)	(58)	(167)	168	1,200
Other property insurance	31,760	4,777	(5,126)	(13,704)	7,062	24,769
Accident insurance	6,711	(115)	-	(116)	9	6,489
Health insurance	-	-	-	-	-	-
Compulsory automobile						
liability insurance	760,223	(17,774)	-	(708,471)	(132,517)	(98,539)
<b>Total</b>	<b>\$985,887</b>	<b>\$(13,188)</b>	<b>\$(23,534)</b>	<b>\$(814,704)</b>	<b>\$(34,322)</b>	<b>\$100,139</b>

**English Translation of Financial Statements Originally Issued in Chinese**

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

2015.1.1~2015.12.31						
Item	Net change for			Net (loss) gain		
	Reinsurance premium income	unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	for assumed reinsurance business
Fire insurance	\$138,087	\$(726)	\$(12,641)	\$(35,333)	\$(15,267)	\$74,120
Marine insurance	35,669	585	(2,560)	(13,073)	31,269	51,890
Land and air insurance	23,648	(9,970)	(681)	(84,166)	14,249	(56,920)
Liability insurance	7,220	(577)	(781)	(507)	(161)	5,194
Bonding insurance	1,130	141	(4)	(205)	(65)	997
Other property insurance	35,207	(1,576)	(6,287)	(15,187)	3,388	15,545
Accident insurance	6,331	(12)	-	(134)	125	6,310
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	780,283	(262,893)	-	(453,538)	(211,319)	(147,467)
<b>Total</b>	<b>\$1,027,575</b>	<b>\$(275,028)</b>	<b>\$(22,954)</b>	<b>\$(602,143)</b>	<b>\$(177,781)</b>	<b>\$(50,331)</b>

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

2016.1.1~2016.12.31						
Item	Net change for			Claims		Net loss (gain) for reinsurance ceded
	Reinsurance expense	unearned premiums reserve ceded	Reinsurance commission earned	recovered from reinsurers	Net change for claims reserve ceded	
Fire insurance	\$2,187,812	\$(78,894)	\$(146,976)	\$(1,496,657)	\$(1,774,246)	\$(1,308,961)
Marine insurance	427,076	(13,688)	(49,058)	(202,608)	34,738	196,460
Land and air insurance	466,767	18,801	(102,185)	(175,071)	(50,517)	157,795
Liability insurance	451,445	(58,291)	(99,293)	(148,922)	(70,794)	74,145
Bonding insurance	80,758	5,461	(15,033)	(209,742)	55,474	(83,082)
Other property insurance	269,351	45,548	(52,182)	(137,454)	80,207	205,470
Accident insurance	242,088	(3,817)	(61,354)	(83,305)	6,300	99,912
Health insurance	(5)	9	-	-	(697)	(693)
Compulsory automobile liability insurance	1,258,801	(46,914)	-	(989,626)	(78,672)	143,589
<b>Total</b>	<b>\$5,384,093</b>	<b>\$(131,785)</b>	<b>\$(526,081)</b>	<b>\$(3,443,385)</b>	<b>\$(1,798,207)</b>	<b>\$(515,365)</b>

**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	2015.1.1~2015.12.31						
	Reinsurance expense	Net change for unearned premiums reserve ceded		Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$2,007,921	\$ (54,805)	\$ (153,293)	\$ (388,823)	\$ (167,376)	\$1,243,624	
Marine insurance	466,608	14,650	(55,426)	(173,985)	78,610	330,457	
Land and air insurance	474,885	19,787	(88,866)	(446,703)	(3,700)	(44,597)	
Liability insurance	438,020	(42,318)	(87,852)	(162,355)	(164,813)	(19,318)	
Bonding insurance	94,410	(6,013)	(17,740)	(32,615)	(42,560)	(4,518)	
Other property insurance	291,777	203,305	(58,488)	(282,257)	57,731	212,068	
Accident insurance	216,418	18,062	(55,644)	(112,550)	4,295	70,581	
Health insurance	38	(9)	(4)	-	(390)	(365)	
Compulsory automobile liability insurance	1,205,072	(188,989)	-	(850,310)	(96,014)	69,759	
<b>Total</b>	<b>\$5,195,149</b>	<b>\$ (36,330)</b>	<b>\$ (517,313)</b>	<b>\$ (2,449,598)</b>	<b>\$ (334,217)</b>	<b>\$1,857,691</b>	

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	\$2,776,438	61.65	\$138,822	\$42,223
Marine insurance	569,148	62.91	28,457	6,055
Land and air insurance	8,193,976	66.21	409,699	254,776
Liability insurance	1,135,473	67.85	56,774	23,534
Bonding insurance	116,846	68.25	5,842	361
Other property insurance	613,778	61.25	30,689	13,850
Accident insurance	2,979,911	78.37	148,996	106,147
Health insurance	259,807	76.20	12,990	9,855
Compulsory automobile liability insurance	3,037,958	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 Cathay Century, certain influence will be imposed upon revenue; however, the influence has been mitigated through the arrangement of reinsurance to obtain the effect of risk diversification.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### Concentration Risk

#### A. Cathay Century

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

###### a. Single insurance contract or few related contracts

For the year ended 31 December 2016, Cathay Century will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

###### b. Exposure to unanticipated change in trend

For the year ended 31 December 2016, 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 year ended 31 December 2016, no material lawsuit or legal risks has taken place.

###### d. Correlation and mutual influence between different risks

In case of a catastrophe, beside huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of Cathay Century being severely endangered by these derived risks, Cathay Century has established “Operation standards under crisis” that set up crisis team in reaction to the event. The team will execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and Cathay Century and to guard financial order. For the year ended 31 December 2016, there is no catastrophe has taken place.

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

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

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

- f. Concentration risks in geographic regions and operating segments

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

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

Insurance type	2016.1.1 ~ 2016.12.31				
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	%
Fire insurance	\$2,774,921	\$148,503	\$1,931,685	\$991,739	6.34%
Marine insurance	569,148	18,260	415,585	171,823	1.10%
Land and air insurance	8,193,976	16,248	466,718	7,743,506	49.51%
Liability insurance	1,135,473	1,216	370,187	766,502	4.90%
Bonding insurance	116,846	1,299	80,082	38,063	0.24%
Other property insurance	613,778	31,768	260,445	385,101	2.46%
Accident insurance	2,979,911	6,711	242,088	2,744,534	17.55%
Health insurance	259,807	-	(5)	259,812	1.66%
Compulsory automobile liability insurance	3,037,958	760,223	1,258,801	2,539,380	16.24%
Total	\$19,681,818	\$984,228	\$5,025,586	\$15,640,460	100.00%

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

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

Claim development table

A. Cathay Century

Underwriting Year	2011.1.1-	2012.1.1-	2013.1.1-	2014.1.1-	2015.1.1-	2016.1.1-	Total
	-2010.12.31	2011.12.31	2012.12.31	2013.12.31	2014.12.31	2015.12.31	
Estimate of cumulative claims incurred:							
At end of underwriting year	\$10,316,711	\$5,408,275	\$4,851,463	\$5,773,901	\$7,066,945	\$7,559,012	\$12,235,424
One year later	12,992,396	5,667,748	5,687,982	6,109,827	7,217,836	7,418,704	
Two year later	13,221,749	5,171,294	5,742,806	6,169,858	7,156,309		
Three year later	14,453,815	5,223,218	5,780,856	6,103,460			
Four year later	14,362,029	5,284,693	5,667,019				
Five year later	15,094,730	5,212,502					
Six year later	14,498,065						
Estimate of cumulative claims incurred	14,498,065	5,212,502	5,667,019	6,103,460	7,156,309	7,418,704	12,235,424
Cumulative payment to date	14,730,018	5,240,472	5,674,582	5,972,725	6,670,534	6,860,640	5,693,067
Subtotal	(231,953)	(27,970)	(7,563)	130,735	485,775	558,064	6,542,357
Reconciliation	-	-	-	-	-	-	116,314
Recorded in balance sheet	\$(231,953)	\$(27,970)	\$(7,563)	\$130,735	\$485,775	\$558,064	\$6,658,671

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

The chart excluded claim reserve of compulsory automobile liability insurance in the amount of \$1,409,126 thousand, direct claim reserve of policy residential earthquake insurance in the amount of \$1,700 thousand, and assumed reserve for claims of \$652,439 thousand from the upper table.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### C. Cathay Century (Vietnam)

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

## **33. Related party transactions**

### (1) Related parties

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

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

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

(2) Significant transactions with related parties:

A. Cash and cash equivalent

(A) Due from commercial banks

Name	Ending balance	
	2016.12.31	2015.12.31
Other related party		
Vietinbank	\$6,162,462	\$4,404,972

Name	Interest income	
	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Other related party		
Vietinbank	\$35,271	\$126,580

(B) Call loans from banks

Name	Interest expense	
	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Other related party		
Vietinbank	\$-	\$70,521

(C) Due to commercial banks

Name	Ending balance	
	2016.12.31	2015.12.31
Other related party		
Vietinbank	\$5,849,798	\$24,307

Name	Interest expense	
	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Other related party		
Vietinbank	\$10,550	\$542

**English Translation of Financial Statements Originally Issued in Chinese**

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

B. Financial assets at fair value through profit or loss

Name	2016.12.31	2015.12.31
Other related party Cathay Dragon Fund etc.	\$113,594	\$1,249,491

C. Receivables

Name	2016.12.31	2015.12.31
Other related party Cathay Dragon Fund etc.	\$111,523	\$97,496

D. Reinsurance assets

Name	2016.12.31	2015.12.31
Subsidiary Cathay Insurance (Bermuda)	\$13,245	\$1,035

E. Loans

Name	Ending balance	
	2016.12.31	2015.12.31
Associate		
Taiwan Real-estate Management Corp.	\$35,000	\$-
Tien-Tai Energy Corp.	96,131	104,498
Other related party		
Cathay Real Estate Development Co., Ltd.	-	10,000
Liang-Ting Co., Ltd.	28,225	44,935
Others	2,428,685	2,210,134
Total	\$2,588,041	\$2,369,567

Name	Interest income	
	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Associate		
Taiwan Real-estate Management Corp.	\$263	\$300
Tien-Tai Energy Corp.	3,283	3,791
Other related party		
Cathay Real Estate Development Co., Ltd.	16	2,105
Cathay Medical Care Corporate	-	19,895
Liang-Ting Co., Ltd.	684	1,333
Others	41,437	44,778
Total	\$45,683	\$72,202

**English Translation of Financial Statements Originally Issued in Chinese**

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

F. Available-for-sale financial assets

Name	2016.12.31	2015.12.31
Other related party		
Cathay Dragon Fund etc.	\$572,783	\$1,218,738
Cathay Healthcare Management Co., Ltd.	87,285	65,610
Total	<u>\$660,068</u>	<u>\$1,284,348</u>

G. Deposit

Name	Ending balance	
	2016.12.31	2015.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	\$101,398	\$82,028
Associate		
Symphox Information Co., Ltd.	94,865	170,947
Other related party		
Cathay Real Estate Development Co., Ltd.	466,369	80,649
Cathay Dragon Fund etc.	21,461	24,098
Cathay Hospitality Management Co., Ltd.	3,018	10,549
Others	12,897,581	12,947,208
Total	<u>\$13,584,692</u>	<u>\$13,315,479</u>

Name	Interest expense	
	2016.1.1~	2015.1.1~
	2016.12.31	2015.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	\$570	\$779
Associate		
Symphox Information Co., Ltd.	824	1,402
Other related party		
Cathay Real Estate Development Co., Ltd.	67	94
Cathay Dragon Fund etc.	1	2
Cathay Hospitality Management Co., Ltd.	22	28
Others	105,392	113,197
Total	<u>\$106,876</u>	<u>\$115,502</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

H. Property transactions

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

Name	2016.1.1~2016.12.31	
	Item	Amount
Other related party		
Lin Yuan Property Management Co., Ltd.	Dunnan Xinyi Building, etc.	\$32,158
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	440,901
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	598,936
Ally Logistic Property	Jui-Fang Logistic Park, etc.	1,423,127
Total		<u>\$2,495,122</u>

Name	2015.1.1~2015.12.31	
	Item	Amount
Other related party		
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	\$35,994
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	1,743,405
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	236,038
Ally Logistic Property	Ruifang Logistic Park	1,532,672
Total		<u>\$3,548,109</u>

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

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

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

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

(B) Real estate rental income from Cathay Life:

Name	Rental income	
	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	\$8,580	\$8,842
Associate		
Symphox Information Co., Ltd.	35,867	34,404
Cathay Century (China)	21,373	20,689
Other related party		
Cathay Real Estate Development Co., Ltd.	17,416	15,943
San Ching Engineering Co., Ltd.	5,610	4,762
Cathay Medical Care Corporate	180,882	178,137
Cathay Healthcare Management Co., Ltd.	55,638	52,864
Cathay Hospitality Management Co., Ltd.	206,105	187,908
Liang-Ting Co., Ltd.	3,088	3,088
Ally Logistic Property	165,768	94,398
Total	<u>\$700,327</u>	<u>\$601,035</u>

Name	Guarantee deposits received	
	2016.12.31	2015.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	\$4,108	\$2,019
Associate		
Symphox Information Co., Ltd.	9,617	8,343
Cathay Century (China)	7,282	5,444
Other related party		
Cathay Real Estate Development Co., Ltd.	3,998	3,751
Cathay Medical Care Corporate	10,801	10,566
Cathay Healthcare Management Co., Ltd.	13,157	12,289
Cathay Hospitality Management Co., Ltd.	214,825	212,511
Ally Logistic Property	55,649	18,650
Total	<u>\$319,437</u>	<u>\$273,573</u>

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

Name	Rental expense	
	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Other related party		
Cathay Real Estate Development Co., Ltd.	\$28,579	\$30,701

Name	Guarantee deposits paid	
	2016.12.31	2015.12.31
Other related party		
Cathay Real Estate Development Co., Ltd.	\$4,605	\$4,605

Lease terms are usually between 1 to 5 years and rental incomes are collected on a monthly basis.

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

Name	Rental income	
	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Other related party		
Culture and Charity Foundation of the CUB	\$4,633	\$4,633

Lease terms are usually 2 years and rental incomes are collected on a monthly basis.

I. Guarantee deposits received

Name	2016.12.31	2015.12.31
Other related party		
Lin Yuan Property Management Co., Ltd.	\$5,000	\$5,000
San Ching Engineering Co., Ltd.	297,261	275,286
Cathay Hospitality Management Co., Ltd.	120,257	120,257
Ally Logistic Property	382,618	382,705
Total	\$805,136	\$783,248

J. Futures traders' equity

Name	2016.12.31	2015.12.31
Other related party		
Cathay Dragon Fund etc.	\$180,621	\$153,252

**English Translation of Financial Statements Originally Issued in Chinese**

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

K. Payables

Name	2016.12.31	2015.12.31
Subsidiary		
Seaward Card Co., Ltd.	\$23,361	\$23,872
Associate		
Symphox Information Co., Ltd.	109,954	56,799
Other related party		
Lin Yuan Property Management Co., Ltd.	1,290	5,594
Total	<u>\$134,605</u>	<u>\$86,265</u>

L. Investment balance of related parties' discretionary investment

Name	2016.12.31	2015.12.31
Other related party		
Charity Foundation of Cathay Life	\$63,161	\$62,249
Cathay Cultural Foundation	47,680	48,879
Total	<u>\$110,841</u>	<u>\$111,128</u>

M. Net commission and handling fee

(A) Handling fee income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	\$21,184	\$25,508
Other related party		
Cathay Real Estate Development Co., Ltd.	3,495	3,116
Total	<u>\$24,679</u>	<u>\$28,624</u>

(B) Reinsurance service expense

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Insurance (Bermuda)	\$8,839	\$8,867

**English Translation of Financial Statements Originally Issued in Chinese**

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

N. Net premiums from insurance business

(A) Insurance income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Other related party		
Cathay Real Estate Development Co., Ltd.	\$7,782	\$7,944
Cathay Medical Care Corporate	46,352	45,683
San Ching Engineering Co., Ltd.	4,498	9,944
Lin Yuan Property Management Co., Ltd.	3,345	3,295
Others	200,932	159,628
Total	<u>\$262,909</u>	<u>\$226,494</u>

(B) Reinsurance income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Insurance (Bermuda)	<u>\$127,610</u>	<u>\$129,789</u>

On 1 April 2000, Cathay Insurance (Bermuda) engaged in the reinsurance business providing reinsurance for RGA Global Reinsurance Company and Central Reinsurance Corporation's accidental insurance. For the years ended 31 December 2016 and 2015, Cathay Life assumed 90% of the reinsurance business from Cathay Insurance (Bermuda).

(C) Reinsurance claims payment

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Insurance (Bermuda)	<u>\$127,133</u>	<u>\$130,238</u>

(D) Reinsurance commission expense

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Insurance (Bermuda)	<u>\$2,704</u>	<u>\$3,091</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

(E) Insurance claims payment

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Other related party		
San Ching Engineering Co., Ltd.	\$-	\$4,160

O. Net other non-interest income

(A) Management fee income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Other related party		
Cathay Dragon Fund etc.	\$1,275,642	\$1,131,997

(B) Other income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Other related party		
Cathay Healthcare Management Co., Ltd.	\$4,776	\$4,294
Cathay Medical Care Corporate	3,630	5,766
Total	\$8,406	\$10,060

P. Operating expenses

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	\$35,000	\$3,750
Seaward Card Co., Ltd.	293,777	289,487
Associate		
Symphox Information Co., Ltd.	870,502	793,819
Conning Asia Pacific Limited (Note)	-	5,179
Other related party		
Cathay Real Estate Development Co., Ltd.	12,021	15,589
Lin Yuan Property Management Co., Ltd.	791,898	704,891
Cathay Healthcare Management Co., Ltd.	28,969	22,826
Cathay Medical Care Corporate	7,817	998
Charity Foundation of Cathay Life	5,703	-
San Ching Engineering Co., Ltd.	3,906	3,906
Total	\$2,049,593	\$1,840,445

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

Q. Key management personnel compensation

Name	2016.1.1~	2015.1.1~
	2016.12.31	2015.12.31
Short-term employee benefits	\$800,125	\$654,416
Post-employment pension	15,932	12,348
Other long-term employee benefits	96	-
Termination benefits	-	4,128
Total	<u>\$816,153</u>	<u>\$670,892</u>

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

(3) The Company

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

A. Cash in bank

Name	Item	Ending balance	
		2016.12.31	2015.12.31
Subsidiary			
Cathay United Bank	Cash in bank	<u>\$198,101</u>	<u>\$728,634</u>

Interest income from Cathay United Bank for the years ended 31 December 2016 and 2015 were \$696 thousand and \$233 thousand, respectively.

B. Receivables

Name	Item	2016.12.31	2015.12.31
Subsidiaries			
Cathay Life	Interest	\$158,410	\$383,000
Cathay Century	Receivables due to consolidated income tax and interest	307,399	274,450
Cathay United Bank	Receivables due to consolidated income tax	263,299	419,607
Cathay Securities	Receivables due to consolidated income tax	4,562	101,275
Cathay Securities Investment	Receivables due to consolidated income tax	61,790	58,709
Cathay Venture	Receivables due to consolidated income tax	-	3,775
Total		<u>\$795,460</u>	<u>\$1,240,816</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

C. Guarantee deposits paid

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay Life	\$10,086	\$8,046

D. Held-to-maturity financial asset

Name	2016.12.31	2015.12.31
Subsidiaries		
Cathay Life	\$40,000,000	\$15,000,000
Cathay Century	1,000,000	1,000,000
Total	\$41,000,000	\$16,000,000

E. Payables

Name	Item	2016.12.31	2015.12.31
Subsidiaries			
Cathay Life	Payable due to consolidated income tax	\$4,953,921	\$7,544,661
Cathay Venture	Payable due to consolidated income tax	5,121	-
Total		\$4,959,042	\$7,544,661

F. Bonds payable

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay Life	\$-	\$100,000

G. Interest income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiaries		
Cathay Life	\$384,230	\$897,932
Cathay Century	18,600	18,600
Total	\$402,830	\$916,532

**English Translation of Financial Statements Originally Issued in Chinese**

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

H. Operating expenses

Name	2016.1.1~	2015.1.1~
	2016.12.31	2015.12.31
Subsidiaries		
Seaward Card Co., Ltd.	\$3,598	\$2,902
Cathay Life	41,762	41,243
Cathay United Bank	2,746	6,940
Total	<u>\$48,106</u>	<u>\$51,085</u>

I. Sales of securities

There is no significant related parties transaction for the year ended 31 December 2016.

Name	Securities	2016.1.1~2016.12.31	
		Shares	Amount
Subsidiary			
Cathay Life	Conning Holdings Corp.	100,695	\$705,548

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

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

A. Cathay Life and its subsidiaries

(A) Cash in banks

Name	Item	2016.12.31	2015.12.31
Subsidiaries			
Cathay United Bank	Time deposit	\$2,069,040	\$9,961
	Cash in bank	24,375,191	19,052,573
	Check deposit	443,860	465,562
	Security deposit	6	2,187
Indovina Bank	Cash in bank	21,270	9,241
	Time deposit	33,928	-
Total		<u>\$26,943,295</u>	<u>\$19,539,524</u>

Interest income from Cathay United Bank for the years ended 31 December 2016 and 2015 were \$19,034 thousand and \$24,106 thousand, respectively.

**English Translation of Financial Statements Originally Issued in Chinese**

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

Interest income from Indovina Bank for the years ended 31 December 2016 and 2015 were \$270 thousand and \$226 thousand, respectively.

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

(B) Investments in debt securities with no active market

Name	2016.12.31	2015.12.31
The Company		
Cathay Financial Holding	\$-	\$100,000

(C) Other receivables

Name	2016.12.31	2015.12.31
The Company		
Cathay Financial Holding (Note)	\$4,953,921	\$7,544,661
Subsidiary		
Cathay Century	152,623	240,495
Total	\$5,106,544	\$7,785,156

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

(D) Secured loans

Name	2016.1.1~2016.12.31		
	Maximum amount	Rate	Ending balance
Other related party			
Others	\$1,085,235	1.03%~3.44%	\$1,018,137

Name	2015.1.1~2015.12.31		
	Maximum amount	Rate	Ending balance
Other related party			
Cathay Medical Care Corporate	\$2,634,550	2.01%~2.55%	\$-
Others	981,268	1.32%~3.71%	967,009
Total			\$967,009

**English Translation of Financial Statements Originally Issued in Chinese**

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

Interest income from Cathay Medical Care Corporate for the years ended 31 December 2016 and 2015 were \$0 thousand and \$19,895 thousand, respectively.

Interest income from others for the years ended 31 December 2016 and 2015 were \$16,436 thousand and \$17,385 thousand, respectively.

(E) Financial assets at fair value through profit or loss-beneficiary certificates

<u>Name</u>	<u>2016.12.31</u>	<u>2015.12.31</u>
Other related party		
Cathay Dragon Fund etc.	\$-	\$1,126,851

(F) Available-for-sale financial assets

<u>Name</u>	<u>2016.12.31</u>	<u>2015.12.31</u>
Subsidiary		
Cathay Securities Investment Trust	\$101,392	\$1,018,874

(G) Investment balance of related parties' discretionary investment

<u>Name</u>	<u>2016.12.31</u>	<u>2015.12.31</u>
Subsidiary		
Cathay Securities Investment Trust	\$183,588,745	\$174,054,401

(H) Guarantee deposits paid

<u>Name</u>	<u>2016.12.31</u>	<u>2015.12.31</u>
Subsidiary		
Cathay Futures	\$1,200,485	\$1,180,845

The guarantee deposits are futures margins of Cathay Futures. The imputed interest income of guarantee deposit paid from Cathay Futures for the years ended 31 December 2016 and 2015 were \$1,748 thousand and \$1,209 thousand, respectively.

(I) Other payables

<u>Name</u>	<u>2016.12.31</u>	<u>2015.12.31</u>
The Company		
Cathay Financial Holding (Note)	\$158,410	\$383,000
Subsidiary		
Cathay United Bank	549,934	362,393
Total	\$708,344	\$745,393

Note: Interest payable accrued from preferred stock liability and tax payable under the consolidated income tax system.

**English Translation of Financial Statements Originally Issued in Chinese**

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

(J) Preferred stock liability

Name	2016.12.31	2015.12.31
The Company		
Cathay Financial Holding	<u>\$5,000,000</u>	<u>\$15,000,000</u>

(K) Bonds payable

Name	2016.12.31	2015.12.31
The Company		
Cathay Financial Holding	<u>\$35,000,000</u>	<u>\$-</u>

(L) Property transactions

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

Real estate contracted projects of Cathay Life:

Name	2016.1.1~2016.12.31	
	Item	Amount
Other related party		
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	\$440,901
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	598,936
Ally Logistic Property	Jui-Fang Logistic Park, etc	1,423,127
Total		<u>\$2,462,964</u>

Name	2015.1.1~2015.12.31	
	Item	Amount
Other related party		
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	\$1,743,405
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	236,038
Ally Logistic Property	Jui-Fang Logistic Park, etc	1,532,672
Total		<u>\$3,512,115</u>

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

(M) Rental income

Name	Item	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary			
Cathay United Bank	Real-estate rental income	\$480,382	\$426,803
Cathay Century	Real-estate rental income	103,072	101,034
Other related party			
Cathay Medical Care Corporate	Real-estate rental income	180,882	178,137
Cathay Hospitality Management Co., Ltd.	Real-estate rental income	206,105	187,908
Ally Logistic Property	Real-estate rental income	165,768	94,398
		<u>\$1,136,209</u>	<u>\$988,280</u>

According to contracts, leasing periods are generally 2-5 years, and rentals are usually paid on a monthly basis.

(N) Guarantee deposits paid

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay United Bank	\$157,492	\$101,838
Other related party		
San Ching Engineering Co., Ltd.	297,261	275,286
Cathay Hospitality Management Co., Ltd.	335,082	332,768
Ally Logistic Property	438,267	401,355
Total	<u>\$1,228,102</u>	<u>\$1,111,247</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

(O) Insurance income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Other related party		
Others	\$200,932	\$159,628

(P) Reinsurance income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Insurance (Bermuda)	\$127,610	\$129,789

(Q) Reinsurance claims payment

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Insurance (Bermuda)	\$127,133	\$130,238

(R) Handling fees income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Securities Investment Trust	\$143,984	\$96,499

(S) Miscellaneous income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Century	\$1,334,873	\$1,447,140
Cathay United Bank	181,017	136,155
Total	\$1,515,890	\$1,583,295

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

(T) Insurance expenses

Name	2016.1.1~	2015.1.1~
	2016.12.31	2015.12.31
Subsidiary		
Cathay Century	\$122,617	\$148,130

(U) Operating expenses

Name	2016.1.1~	2015.1.1~
	2016.12.31	2015.12.31
Subsidiary		
Cathay United Bank	\$8,583,492	\$6,753,539
Cathay Securities Investment Trust	109,201	124,013
Associate		
Symphox Information Co., Ltd.	357,766	276,010
Other related party		
Lin Yuan Property Management Co., Ltd.	782,457	696,826
Total	\$9,832,916	\$7,850,388

(V) Non-operating income and expenses

Name	2016.1.1~	2015.1.1~
	2016.12.31	2015.12.31
The Company		
Cathay Financial Holding	\$384,230	\$897,932

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

(W) Sales of securities

There is no significant related parties transaction for the year ended 31 December 2015.

Name	Securities	2016.1.1~2016.12.31	
		Shares	Amount
The Company			
Cathay Financial Holding	Conning Holdings Corp.	100,695	\$705,548

**English Translation of Financial Statements Originally Issued in Chinese**

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

(X) Other disclosures

As of 31 December 2016 and 31 December 2015, the nominal amounts (in thousand) of the financial instruments transactions between Cathay Life and Cathay United Bank are summarized as below:

Item	2016.12.31	2015.12.31
CS contracts	USD 3,269,000	USD 2,893,000

B. Cathay United Bank and its subsidiaries

(A) Loans and deposits

Account/Name	Ending balance	
	2016.12.31	2015.12.31
Loans		
Associate		
Tien-Tai Energy Corp.	\$96,131	\$104,498
Other related party		
Others	1,384,358	1,198,989
Total	<u>\$1,480,489</u>	<u>\$1,303,487</u>

Account/Name	Ending balance	
	2016.12.31	2015.12.31
Deposits		
The Company		
Cathay Financial Holding	\$198,101	\$728,634
Subsidiaries		
Cathay Life	26,758,316	19,438,526
Cathay Century	1,400,324	1,391,722
Cathay Securities	2,320,198	2,603,833
Cathay Futures	1,364,251	2,514,909
Cathay Venture	36,161	63,471
Cathay Securities Investment Trust	168,566	142,854
Cathay Life (Vietnam)	55,198	9,241
Cathay Century (Vietnam)	225,719	176,432
Conning Asia Pacific Limited	129,781	91,757
Cathay Securities Investment Consulting Co., Ltd.	101,398	82,028
Associate		
Symphox Information Co., Ltd.	94,865	170,947
Cathay Hospitality Management Co., Ltd.	3,018	10,549
Other related party		
Cathay Real Estate Development Co., Ltd.	466,369	80,649
Cathay Dragon Fund etc.	21,461	24,098
Others	12,897,581	12,947,208
Total	<u>\$46,241,307</u>	<u>\$40,476,858</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

Name	Interest income	
	2016.1.1~	2015.1.1~
	2016.12.31	2015.12.31
Loans		
Associate		
Tien-Tai Energy Corp.	\$3,283	\$3,791
Other related party		
Others	24,571	26,764
Total	<u>\$27,854</u>	<u>\$30,555</u>

Name	Interest expense	
	2016.1.1~	2015.1.1~
	2016.12.31	2015.12.31
Deposits		
The Company		
Cathay Financial Holding	\$696	\$233
Subsidiaries		
Cathay Life	18,450	23,975
Cathay Century	7,303	8,635
Cathay Securities	3,814	5,449
Cathay Futures	15,804	23,218
Cathay Venture	49	172
Cathay Securities Investment Trust	473	1,474
Cathay Life (Vietnam)	270	226
Cathay Century (Vietnam)	4,954	5,480
Conning Asia Pacific Limited	584	131
Cathay Securities Investment Consulting Co., Ltd.	570	779
Associate		
Symphox Information Co., Ltd.	824	1,402
Cathay Hospitality Management Co., Ltd.	22	28
Other related party		
Cathay Real Estate Development Co., Ltd.	67	94
Cathay Dragon Fund etc.	1	2
Others	105,392	113,197
Total	<u>\$159,273</u>	<u>\$184,495</u>

Account/Name	Ending balance	
	2016.12.31	2015.12.31
Call loans to banks		
Other related party		
Vietinbank	\$6,162,462	\$4,404,972
Due to commercial banks		
Other related party		
Vietinbank	5,849,798	24,307

**English Translation of Financial Statements Originally Issued in Chinese**

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

Account/Name	Interest income	
	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Call loans to banks		
Other related party		
Vietinbank	\$35,271	\$126,580

Account/Name	Interest expense	
	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Due to commercial banks		
Other related party		
Vietinbank	\$10,550	\$542

Cathay United Bank and its subsidiaries' transaction terms with related parties are similar to those with third parties except that employees are given favorable interest rates within specified limit for savings and loans.

(B) Receivables due to commission of insurance agency

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay Life	\$549,934	\$362,393

(C) Combined tax payable

Name	2016.12.31	2015.12.31
The Company		
Cathay Financial Holding	\$263,299	\$419,607

(D) Rental expense

Name	2016.1.1~	2015.1.1~
	2016.12.31	2015.12.31
Subsidiary		
Cathay Life	\$480,382	\$426,803

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

(E) Guarantee deposits paid

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay Life	\$157,492	\$101,838
Cathay Futures Co., Ltd.	120,374	41,177
Total	<u>\$277,866</u>	<u>\$143,015</u>

(F) Handling fees income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Life	\$8,583,492	\$6,753,539
Cathay Century	122,711	98,043
Subsidiary	<u>\$8,706,203</u>	<u>\$6,851,582</u>

(G) Operating expenses

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiaries		
Seaward Card Co., Ltd.	\$192,472	\$189,564
Cathay Life	181,017	136,155
Associate		
Symphox Information Co., Ltd.	446,920	482,247
Total	<u>\$820,409</u>	<u>\$807,966</u>

(H) Insurance expenses

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Century	<u>\$167,339</u>	<u>\$151,260</u>

C. Cathay Century and its subsidiaries

(A) Cash in banks

Name	Item	2016.12.31	2015.12.31
Subsidiaries			
Cathay United Bank	Time deposit	\$623,200	\$623,200
	Cash in bank	634,754	652,474
	Check deposit	142,370	116,048
Indovina Bank	Time deposit	219,997	159,199
	Cash in bank	5,722	17,233
Total		<u>\$1,626,043</u>	<u>\$1,568,154</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

Interest income from Cathay United Bank for the years ended 31 December 2016 and 2015 were \$7,303 thousand and \$8,635 thousand, respectively.

Interest income from Indovina Bank for the years ended 31 December 2016 and 2015 were \$4,954 thousand and \$5,480 thousand, respectively.

As of 31 December 2016 and 31 December 2015, time deposit pledged were \$28,677 thousand and \$28,598 thousand, respectively.

(B) Financial assets at fair value through profit or loss

Name	Item	2016.12.31	2015.12.31
Other related party			
Cathay Dragon Fund etc.	Beneficiary certificates	\$-	\$100,620

(C) Available-for-sale financial assets

Name	Item	2016.12.31	2015.12.31
Other related party			
Cathay Dragon Fund etc.	Beneficiary certificates	\$306,641	\$139,118

(D) Investment balance of related parties' discretionary investment

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay Securities Investment Trust	\$1,069,225	\$433,188

(E) Other payables

Name	2016.12.31	2015.12.31
The Company		
Cathay Financial Holding	\$307,399	\$274,450
Subsidiary		
Cathay Life	152,623	240,495
Total	\$460,022	\$514,945

(F) Preferred stock liability

Name	2016.12.31	2015.12.31
The Company		
Cathay Financial Holding	\$1,000,000	\$1,000,000

**English Translation of Financial Statements Originally Issued in Chinese**

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

(G) Insurance income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
	Subsidiaries	
Cathay Life	\$122,617	\$148,130
Cathay United Bank	167,339	151,260
Total	<u>\$289,956</u>	<u>\$299,390</u>

(H) Operating expenses

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
	Subsidiaries	
Cathay Life	\$1,334,873	\$1,447,140
Cathay United Bank	122,711	98,043
Total	<u>\$1,457,584</u>	<u>\$1,545,183</u>

(I) Rental expense

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
	Subsidiary	
Cathay Life	<u>\$103,072</u>	<u>\$101,034</u>

(J) Other disclosure

As of 31 December 2016 and 31 December 2015, the nominal amounts (in thousand) of the derivative financial instruments transactions with Cathay United Bank are summarized as below:

Item	2016.12.31		2015.12.31	
CS contracts	USD	76,700	USD	74,200
	EUR	5,850	EUR	4,350

D. Cathay Securities and its subsidiaries

(A) Cash in bank

Name	Item	2016.12.31	2015.12.31
Subsidiary			
Cathay United Bank	Time deposits	\$1,870,837	\$1,541,900
	Cash in bank	765,781	1,433,449
	Check deposits	26	1
	Total	<u>\$2,636,644</u>	<u>\$2,975,350</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

Interest income from Cathay United Bank for the years ended 31 December 2016 and 2015 were \$19,618 thousand and \$28,667 thousand, respectively.

As of 31 December 2016 and 31 December 2015, time deposit pledged were \$900,000 thousand and \$900,000 thousand, respectively.

Note: In accordance with the article 14 of the “Regulations Governing Futures Commission Merchants”, the article 10 of the “Regulations Governing Futures Advisory Enterprises”, the article 7 of the “Regulations Governing Securities Investment Consulting Enterprises” and the article 17 of the “Regulations Governing Managed Futures Enterprises”, Cathay Futures lodges the time deposits in Cathay United Bank as the operating bonds. As of 31 December 2016 and 31 December 2015, the operating bonds were \$355,000 thousand and \$325,000 thousand, respectively.

(B) Customer’s margin accounts

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay United Bank	\$1,047,805	\$2,143,392

(C) Financial assets at fair value through profit or loss

Name	2016.12.31	2015.12.31
Other related party		
Cathay Dragon Fund etc.	\$113,430	\$21,780

(D) Futures trader’s equity

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay Life	\$1,200,485	\$1,180,845
Cathay United Bank	120,374	41,177
Other related party		
Cathay Dragon Fund etc.	180,621	153,252
Total	\$1,501,480	\$1,375,274

(E) Other payables

Name	2016.12.31	2015.12.31
The Company		
Cathay Financial Holding	\$4,562	\$101,275

**English Translation of Financial Statements Originally Issued in Chinese**

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

E. Cathay Securities Investment Trust

(A) Cash in bank, Operating deposit and Guarantee deposit

Name	Item	2016.12.31	2015.12.31
Subsidiary			
Cathay United Bank	Time deposit (Note)	\$118,800	\$136,100
	Cash in bank	24,113	267
	Check deposits	25,653	6,487
	Total	<u>\$168,566</u>	<u>\$142,854</u>

Note: In accordance with “Standards Governing the Establishment of Futures Trust Enterprises” and “Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises”, Cathay Securities Investment Trust lodges the time deposits in Cathay United Bank as operating bonds. As of 31 December 2016 and 31 December 2015, the operating bonds were \$50,000 thousand and \$50,000 thousand, respectively.

And in accordance with “Discretionary Investment Services Contract”, as of 31 December 2016 and 31 December 2015, Cathay Securities Investment Trust reserved the performance bonds amounted to \$64,800 thousand and \$86,100 thousand, respectively.

Interest income from Cathay United Bank for the years ended 31 December 2016 and 2015 were \$473 thousand and \$1,474 thousand respectively.

(B) Management fee income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Life	\$109,201	\$124,013
Other related party		
Cathay Dragon Fund etc.	1,275,642	1,131,997
Total	<u>\$1,384,843</u>	<u>\$1,256,010</u>

(C) Receivables

Name	2016.12.31	2015.12.31
Other related party		
Cathay Dragon Fund etc.	<u>\$111,523</u>	<u>\$97,496</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

(D) Investment balance of related parties' discretionary investment

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay Life	\$183,588,745	\$174,054,401
Cathay Century	1,069,225	433,188
Total	\$184,657,970	\$174,487,589

(E) Operating expense

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Life	\$82,129	\$91,411
Conning Asia Pacific Limited	57,004	5,088
Conning, Inc.	4,851	-
Total	\$143,984	\$96,499

**34. Pledged assets**

As of 31 December 2016 and 31 December 2015 the Group's pledged assets are summarized below:

Item	Guarantee purpose	Carrying amount	
		2016.12.31	2015.12.31
Time deposits and guarantee deposits paid	Capital guarantee, Serving as deposits paid, settlement accounts, collateral for overdraft, government bonds, court guarantees, business reserves and guarantees	\$14,083,308	\$17,149,095
Financial assets at fair value through profit or loss	Securities lending	46,748	-
Available-for-sale financial assets	Business reserves and guarantees	79,962	953,126
Held-to-maturity financial assets	Business reserves and guarantees	2,361,157	1,592,966
Investments in debt securities with no active market	Business reserves and guarantees	63,800,000	63,800,000
Total		\$80,371,175	\$83,495,187

## English Translation of Financial Statements Originally Issued in Chinese

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

### 35. Commitment and contingent liabilities

(1) Cathay United Bank

Lee and Li Attorneys-at-Law and SanDisk Corporation filed lawsuits in the Taiwan Taipei District Court and alleged that Cathay United Bank breached its contractual and fiduciary duties in connection with the embezzlement conducted by Eddie Liu, a former employee of Lee and Li Attorneys-at-Law on October 2003. Both plaintiffs claimed indemnities amounted to \$991,002 thousand and \$3,090,000 thousand. The claim made by Lee and Li started litigation procedures in July 2007. Cathay United Bank won the first instance and the second instance, and the action is still pending in the Supreme Court. However, Cathay United Bank is in mediation procedure with SanDisk Corporation. Thus, the case is still pending. Cathay United Bank has been advised by its legal counsel 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.

(2) As of 31 December 2016 and 31 December 2015 Cathay United Bank and its subsidiaries had the following commitments and contingent liabilities, which were not reflected in the financial statements:

Items	2016.12.31	2015.12.31
Trust and security held for safekeeping	\$604,042,204	\$606,837,259
Travelers checks for sale	403,853	553,863
Bills for collection	44,989,884	49,774,146
Book-entry for government bonds and depository for short-term marketable securities under management	367,976,014	459,375,951
Entrusted financial management business	4,965,210	8,325,261
Guarantees on duties and contracts	7,141,798	10,285,103
Unused commercial letters of credit	4,586,568	5,671,428
Irrevocable loan commitments	183,084,665	187,772,192
Credit card lines commitments	520,857,417	458,482,468
Underwriting securities	-	8,230,000
Financial guarantee contracts	2,929,405	1,814,095

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

	2016.12.31	2015.12.31
Within 1 year	\$2,000,363	\$1,273,832
1 to 5 years	3,910,592	2,094,004
Over 5 year	155,319	133,940
Total	<u>\$6,066,274</u>	<u>\$3,501,776</u>

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### (4) Investment commitment for private equity fund

As of 31 December 2016, the maximum remaining capital commitment for the contracted private equity fund of Cathay Life was US\$1,366,669 thousand, EUR\$193,753 thousand.

### **36. Significant disaster losses:**

None

### **37. Subsequent events:**

None

### **38. Other significant matters**

#### (1) Categories of financial instruments

The Group

	2016.12.31	2015.12.31
Financial assets		
Financial assets at fair value through profit or loss:	\$244,529,264	\$296,117,926
Available-for-sale financial assets -net	1,591,359,657	1,486,393,125
Derivative financial assets for hedging	232,269	447,326
Held-to-maturity financial assets -net	81,826,739	81,708,446
Other financial assets - investments with no active market	2,526,608,201	2,289,311,099
Loans and receivables:		
Cash and cash equivalents (petty cash and cash on hand excluded)	176,377,196	175,553,200
Due from the Central Bank and call loans to banks	71,940,935	100,169,436
Securities purchased under agreements to resell	49,524,682	55,880,471
Receivables -net	154,212,060	141,649,869
Loans -net	2,045,532,795	1,766,476,353
Other financial assets	509,773,012	501,089,793
Guarantee deposits paid	47,894,944	58,069,777
Subtotal	3,055,255,624	2,798,888,899
Total	\$7,499,811,754	\$6,952,866,821

## **English Translation of Financial Statements Originally Issued in Chinese**

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

	<u>2016.12.31</u>	<u>2015.12.31</u>
Financial liabilities		
Financial liabilities at fair value through profit or loss:	\$115,014,826	\$137,471,418
Financial liabilities at amortized cost:		
Due to the Central Bank and call loans from banks	77,493,795	41,226,909
Securities sold under agreements to repurchase	59,139,059	55,523,982
Commercial paper payable -net	41,578,838	35,677,634
Payables	55,295,781	43,402,650
Deposits	1,999,943,172	1,854,495,831
Bonds payable	51,900,000	71,800,000
Other financial liabilities	561,224,829	549,564,053
Guarantee deposits received	6,888,074	5,800,365
Subtotal	<u>2,853,463,548</u>	<u>2,657,491,424</u>
Total	<u>\$2,968,478,374</u>	<u>\$2,794,962,842</u>

### (2) Fair value of financial instruments

#### A. The methods and assumptions applied in determining the fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Group to measure or disclose the fair values of financial assets and financial liabilities:

- a. The carrying amount of cash and cash equivalents, accounts receivables, short-term debts and accounts payable approximate their fair value due to their short maturities.
- b. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.
- c. Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).

## **English Translation of Financial Statements Originally Issued in Chinese**

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

- d. Fair value of debt instruments without market quotations is determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the GreTai Securities Market, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk information.)
- e. The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).
- f. The Group evaluates the credit risk of the derivative contract traded over-the-counter through the following calculation. Under the assumption that the Group will not default, the Group determines its credit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Group calculates its debit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the Group. The Group decides the estimated probability of default by referring to the probability of default announced by external credit rating agencies. The Group sets estimated loss given default at 60% by considering the experience of Jon Gregory, a scholar, and foreign financial institutions. The estimated exposure at default for current period is evaluated by considering the fair value of the derivative instruments traded at Taipei Exchange.

### B. Financial instruments not measured at fair value:

Except as detailed in the following table, the management considers the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values or that the fair values cannot be reasonably measured:

	Book value	
	2016.12.31	2015.12.31
Financial assets		
Held-to-maturity financial assets - net (Note)	\$90,337,053	\$91,792,178
Investments with no active market	2,526,608,201	2,289,311,099
Other financial assets - structured time deposits	7,661,395	18,000,000
Total	<u>\$2,624,606,649</u>	<u>\$2,399,103,277</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

	Fair value	
	2016.12.31	2015.12.31
Financial assets		
Held-to-maturity financial assets - net (Note)	\$94,617,886	\$97,214,828
Investments with no active market	2,505,365,077	2,252,415,754
Other financial assets - structured time deposits	7,720,518	17,857,932
Total	<u>\$2,607,703,481</u>	<u>\$2,367,488,514</u>

Note: Guarantee deposits paid in bonds are included.

(3) Hedge accounting disclosures

A. Cash flow hedges

The following table summarizes the terms of Cathay Life and its subsidiaries' interest rate swaps for bonds used as hedging instruments as of 31 December 2016 and 31 December 2015:

2016.12.31				
Hedged item	Hedging instrument	Fair Value	Expected period of cash flow	Expected period of profit and loss recognized in the statement of comprehensive income
Floating rate bonds	IRS	\$232,269	2017.1.25~2024.5.26	2017.1.25~2024.5.26

2015.12.31				
Hedged item	Hedging instrument	Fair Value	Expected period of cash flow	Expected period of profit and loss recognized in the statement of comprehensive income
Floating rate bonds	IRS	\$447,326	2016.1.23~2024.5.26	2016.1.23~2024.5.26

The terms of interest rate swap agreements are established based on the terms of the bonds hedged.

Interest rate swap agreements are considered to be highly effective cash flow hedges. Amount of effective hedging instrument in cash flow hedges is as follows:

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Amount recognized in other comprehensive income	\$(216,856)	\$230,973
Amount reclassified from equity to profit or loss	(1,798)	957

**English Translation of Financial Statements Originally Issued in Chinese**

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

(4) Offsetting of financial assets and financial liabilities

The Group own financial instruments that do not offset in accordance with IAS 32 but it executed enforceable master netting arrangement or other similar agreements with counterparties. Financial instruments subject to enforceable master netting arrangement or other similar agreements could be settled at net amount as chosen by the counterparties, or the financial instruments could be settled at gross amount if not. However, if one of the counterparty defaults, the other party could choose to settle the transaction at net amount.

Information related to offsetting financial assets and financial liabilities of Cathay Life and its subsidiaries is disclosed as follows:

2016.12.31						
Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Derivative financial instrument	\$1,846,433	\$-	\$1,846,433	\$(1,846,433)	\$-	\$-

2016.12.31						
Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral pledged	
Derivative financial instrument	\$26,975,904	\$-	\$26,975,904	\$(1,846,433)	\$-	\$25,129,471

2015.12.31						
Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Derivative financial instrument	\$13,206,554	\$-	\$13,206,554	\$(13,206,554)	\$-	\$-

**English Translation of Financial Statements Originally Issued in Chinese**

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

2015.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral pledged	
Derivative financial instrument	\$38,829,479	\$-	\$38,829,479	\$(13,206,554)	\$-	\$25,622,925

Note: Master netting arrangement and non-cash collateral are included.

Information relating to offsetting financial assets and financial liabilities of Cathay United Bank and its subsidiaries is disclosed as follows:

2016.12.31

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Derivative financial instrument	\$52,646,314	\$-	\$52,646,314	\$(48,567,099)	\$(2,907,944)	\$1,171,271

2016.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral pledged	
Derivative financial instrument	\$48,567,099	\$-	\$48,567,099	\$(48,567,099)	\$-	\$-

2015.12.31

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Derivative financial instrument	\$64,861,240	\$-	\$64,861,240	\$(59,799,330)	\$(1,752,225)	\$3,309,685

**English Translation of Financial Statements Originally Issued in Chinese**

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

2015.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral pledged	
Derivative financial instrument	\$59,799,330	\$-	\$59,799,330	\$(59,799,330)	\$-	\$-

Note: Master netting arrangement and non-cash collateral are included.

Cathay Securities enter with opponent into collateralized bonds sold under repurchase agreements, in which Cathay Securities provide securities as collaterals. Only in the event of default and insolvency or bankruptcy are these transactions allowed to set off. They do not meet the offsetting criterion in international accounting standards. Hence, the related bonds sold under repurchase agreements and bonds purchased under resell agreements are reported separately in the statement of financial position.

Information relating to offsetting financial assets and financial liabilities of Cathay Securities and its subsidiaries is disclosed as follows:

2016.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Derivative financial instrument	\$2,339,864	\$-	\$2,339,864	\$(2,339,864)	\$-	\$-

2015.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral pledged	
Derivative financial instrument	\$1,425,000	\$-	\$1,425,000	\$(1,425,000)	\$-	\$-

Note: Master netting arrangement and non-cash collateral are included.

## English Translation of Financial Statements Originally Issued in Chinese

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

### (5) Financial instruments related information

A. The definition of the hierarchy of the financial instruments is measured at fair value:

1st Level: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

2nd Level: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

3rd Level: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For assets and liabilities that are recognized in the financial statement on a recurring basis, the bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

B. Fair value measurement hierarchy of the Group's assets and liabilities

The Group does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Group's assets and liabilities measured at fair value on a recurring basis is as follows:

Financial instruments measured at fair value item	2016.12.31				2015.12.31			
	Total	1 <sup>st</sup> Level	2 <sup>nd</sup> Level	3 <sup>rd</sup> Level	Total	1 <sup>st</sup> Level	2 <sup>nd</sup> Level	3 <sup>rd</sup> Level
Non-derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss								
Held for trading								
Stocks	\$10,792,048	\$10,787,152	\$4,896	\$-	\$7,815,575	\$7,815,575	\$-	\$-
Bonds	60,043,601	23,624,124	36,419,477	-	21,095,203	7,060,621	14,034,582	-
Others	121,244,696	25,762,591	95,482,105	-	192,584,527	16,745,000	175,839,527	-
Available-for-sale financial assets								
Stocks	627,044,110	609,357,808	5,263,987	12,422,315	546,953,106	531,236,110	4,233,052	11,483,944
Bonds (Note 1)	655,460,357	123,042,469	532,417,888	-	652,722,309	73,699,269	579,023,040	-
Others	310,804,022	255,398,893	14,949,452	40,455,677	289,212,526	238,699,465	17,562,421	32,950,640
Investment properties (Note 2)	301,744,407	-	-	301,744,407	370,583,060	-	-	370,583,060
Liabilities								
Financial liabilities at fair value through profit or loss								
Designated financial liabilities at fair value								
through profit or loss at initial recognition	\$39,491,908	\$-	\$39,491,908	\$-	40,598,667	-	40,598,667	-
Held for trading								
Others	1,745,169	1,745,169	-	-	1,139,749	1,139,749	-	-
Derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss	52,448,919	346,319	34,479,900	17,622,700	74,622,621	405,549	51,683,355	22,533,717
Derivatives financial assets for hedging	232,269	-	232,269	-	447,326	-	447,326	-
Liabilities								
Financial liabilities at fair value through profit or loss	73,777,749	299,136	55,779,345	17,699,268	95,733,002	347,180	72,867,892	22,517,930

Note 1: Guarantee deposits paid in bonds are included.

Note 2: Amount of investment property excludes the parts which were measured at cost.

## English Translation of Financial Statements Originally Issued in Chinese

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

Transfers between 1st Level and 2nd Level during the period

For the year ended 31 December 2016, Cathay Life transferred stocks which were measured at fair value on a recurring basis, from 2nd Level to 1st Level. A total of \$133,875 thousand was transferred as its market price was obtainable. For the year ended 31 December, Cathay Life transferred stocks which were measured at fair value on a recurring basis, from 2nd level to 1st level. A total of \$3,079,933 thousand was transferred as its market price was obtainable.

For the year ended 31 December 2016, Cathay United Bank transferred government bonds designated as at fair value through profit or loss, an asset measured at fair value on a recurring basis, from 1st level to 2nd level. A total of \$5,627,229 thousand was transferred as its market price was not obtainable.

For the year ended 31 December 2015, Cathay United Bank transferred government bonds designated as at fair value through profit or loss, an asset measured at fair value on a recurring basis, from 2nd level to 1st level. A total of \$1,561,496 thousand was transferred as its market price was not obtainable.

Reconciliation for fair value measurements in 3rd level for movements

Reconciliation for fair value measurements in 3rd level of the fair value hierarchy for movements during the period is as follows:

	Assets			Liabilities
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Investment property	Financial liabilities at fair value through profit or loss
2016.1.1	\$22,533,717	\$44,434,584	\$370,583,060	\$22,517,930
Total gains (losses) recognized				
Amount recognized in profit or loss				
Valuation profit or loss from financial assets and liabilities at fair value through profit or loss	(2,719,249)	-	-	(2,627,086)
Realized gains from available-for-sale financial assets	-	2,251,211	-	-
Valuation gains from investment property	-	-	1,847,034	-
Amount recognized in other comprehensive income				
Unrealized valuation gains from available- for-sale financial assets	-	1,089,238	-	-
Exchange differences resulting from translating the financial statements of foreign operations	(344)	-	(8,800,438)	(152)
Acquisition or issues	464,592	11,222,381	-	464,592
Transfers to property and equipment	-	-	(65,318,977)	-
Transfers from investment property under construction and prepayment for properties	-	-	3,442,088	-
Disposal or settlements	(2,656,016)	(5,951,901)	(8,360)	(2,656,016)
Transfers from 3 <sup>rd</sup> level	-	(167,521)	-	-
2016.12.31	\$17,622,700	\$52,877,992	\$301,744,407	\$17,699,268

**English Translation of Financial Statements Originally Issued in Chinese**

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

	Assets			Liabilities
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Investment property	Financial liabilities at fair value through profit or loss
2015.1.1	\$7,911,860	\$36,106,146	\$321,261,078	\$7,863,895
Total gains (losses) recognized				
Amount recognized in profit or loss				
Valuation profit or loss from financial assets and liabilities at fair value through profit or loss	14,609,566	-	-	14,640,563
Realized gains from available-for-sale financial assets	-	2,755,860	-	-
Valuation gains from investment property	-	-	11,236,452	-
Amount recognized in other comprehensive income				
Unrealized valuation gains from available- for-sale financial assets	-	764,095	-	-
Exchange differences resulting from translating the financial statements of foreign operations	538	144	18,353	65
Acquisition or issues	40,558	13,795,443	27,497,328	40,558
Transfers to property and equipment	-	-	(5,266,369)	-
Transfers from investment property under construction and prepayment for properties	-	-	16,265,149	-
Disposal or settlements	(28,805)	(7,837,725)	(428,931)	(27,151)
Transfers to 3 <sup>rd</sup> level	-	19,440	-	-
Transfers from 3 <sup>rd</sup> level	-	(1,168,819)	-	-
2015.12.31	\$22,533,717	\$44,434,584	\$370,583,060	\$22,517,930

Total gains (losses) recognized in profit or loss in the table above contain unrealized gains and losses related to assets on hand as of 31 December 2016 and 2015 in the amount of \$(872,215) thousand and \$25,846,018 thousand, respectively.

Total gains (losses) recognized in profit or loss in the table above contain unrealized gains and losses related to liabilities on hand as of 31 December 2016 and 2015 in the amount of \$(2,627,086) thousand and \$14,640,563 thousand, respectively.

**English Translation of Financial Statements Originally Issued in Chinese**

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

Information on 3rd level significant unobservable inputs to valuation

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

Cathay Life and its subsidiaries

		2016.12.31		
	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets				
Available- for-sale				
Stocks	Market approach	discount for lack of marketability	11%~30%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Income approach	discount for lack of marketability	15%~20%	The higher the discount for lack of marketability, the lower the fair value of the stocks
		growth rate of adjusted net profit after tax	-50%~235%	The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks
		dividend payout ratio	50%~100%	The higher the dividend payout ratio, the higher the fair value of the stocks
Investment property	Refer to Note 14			
		2015.12.31		
	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets				
Available- for-sale				
Stocks	Market approach	discount for lack of marketability	11%~30%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Income approach	discount for lack of marketability	15%~20%	The higher the discount for lack of marketability, the lower the fair value of the stocks
		growth rate of adjusted net profit after tax	-65%~163%	The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks
		dividend payout ratio	0%~90%	The higher the dividend payout ratio, the higher the fair value of the stocks
Investment property	Refer to Note 14			

**English Translation of Financial Statements Originally Issued in Chinese**

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

Cathay United Bank and its subsidiaries

		2016.12.31			
		Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets					
Available-for-sale					
Stocks	Market approach	discount for lack of marketability	15%~20%	The higher the discount for lack of marketability, the lower the fair value of the stocks	
	Residual income approach	Cost of equity rate	6%~7%	The higher the cost of equity rate, the lower the fair value of the stocks	
	Value of net assets approach	Value of net assets	Not applicable	The higher the value of net assets, the higher the fair value of the stocks	
Investment property	Income approach and sales comparison approach	Capitalization rate	1.60%~2.75%	The higher the Direct capitalization rate, the lower the fair value	
	Land development analysis approach and cost approach	Composite interest rate for capital interest	0.84%~16.98%	The higher the composite interest rate for capital interest, the lower the fair value	
		2015.12.31			
		Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets					
Available-for-sale					
Stocks	Market approach	discount for lack of marketability	20%~25%	The higher the discount for lack of marketability, the lower the fair value of the stocks	
	Residual income approach	Cost of equity rate	6%~7%	The higher the cost of equity rate, the lower the fair value of the stocks	
	Value of net assets approach	Value of net assets	Not applicable	The higher the value of net assets, the higher the fair value of the stocks	
Investment property	Income approach and sales comparison approach	Capitalization rate	1.60%~2.75%	The higher the Direct capitalization rate, the lower the fair value	
	Land development analysis approach and cost approach	Composite interest rate for capital interest	0.92%~19.20%	The higher the composite interest rate for capital interest, the lower the fair value	

## English Translation of Financial Statements Originally Issued in Chinese

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

### Cathay Century and its subsidiaries

2016.12.31

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets					
Available-for-sale					
Stocks	Market comparison approach	discount for lack of marketability	30%	The higher the discount for lack of marketability, the lower the fair value of the stocks	5% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in Cathay Century's profit or loss by \$37,200 thousand

2015.12.31

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets					
Available-for-sale					
Stocks	Market comparison approach	discount for lack of marketability	0%	The fair value was recognized by the price of latest transaction	None

### Cathay Securities and its subsidiaries

2016.12.31

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity analysis of relationship between inputs and fair value
Investment property	Discounted Cash Flow Analysis	Discount rate	According to the investment property assessment rules issued by Financial Supervisory Commission, the discount rate 2.045% is measured by risk premium method, using Chunghwa Post Co. two-year small time deposits floating rate 1.095% plus 0.75%, taking the risk and risk premium into considerations.	The higher the discount rate, the lower the fair value. The lower the discount rate, the higher the fair value.	Discount rate 1.545%~2.545% ↓ Floating rate of fair value 5.37%~3.85%

**English Translation of Financial Statements Originally Issued in Chinese**

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

		2015.12.31			
	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity analysis of relationship between inputs and fair value
Investment property	Discounted Cash Flow Analysis	Discount rate	According to the investment property assessment rules issued by Financial Supervisory Commission, the discount rate 2.225% is measured by risk premium method, using Chunghwa Post Co. two-year small time deposits floating rate 1.375% plus 0.75%, taking the risk and risk premium into considerations.	The higher the discount rate, the lower the fair value. The lower the discount rate, the higher the fair value.	Discount rate 1.725%~2.725% ↓ Floating rate of fair value 5.33%~3.88%

Valuation process used for fair value measurements categorized within 3rd level of the fair value hierarchy

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

C. Fair value measurement hierarchy of the Group's assets and liabilities not measured at fair value but for which the fair value is disclosed

	2016.12.31			
	Total	1 <sup>st</sup> level	2 <sup>nd</sup> level	3 <sup>rd</sup> level
Financial assets not measured at fair value for which only the fair value is disclosed				
Debt instrument investments for which no active market exists	\$2,505,365,077	\$820,441	\$2,499,700,470	\$4,844,166
Held-to-maturity financial assets (Note)	94,617,886	35,918,374	58,324,425	375,087
Other financial assets	7,720,518	-	7,720,518	-

**English Translation of Financial Statements Originally Issued in Chinese**

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

	2015.12.31			
	Total	1 <sup>st</sup> level	2 <sup>nd</sup> level	3 <sup>rd</sup> level
Financial assets not measured at fair value for which only the fair value is disclosed				
Debt instrument investments for which no active market exists	\$2,252,415,754	\$3,827,333	\$2,246,876,081	\$1,712,340
Held-to-maturity financial assets (Note)	97,214,828	48,540,706	48,674,122	-
Other financial assets	17,857,932	-	17,857,932	-

Note: Guarantee deposits paid in bonds are included.

(6) Transfers of Financial Assets

A. Financial Assets transferred that have not been fully removed

Transferred financial assets that are part of Cathay United Bank and Cathay Securities' daily operations that do not meet the criteria for full removal are mostly made up of debt securities used as counterparty collateral for repurchase agreements or equity securities lent out as part of securities lending agreement. The nature of these transactions are secured loans, and reflects the liability where Cathay United Bank and Cathay Securities are obligated to buy back the transferred financial assets according to fixed prices in future periods. With respect to such transactions, Cathay United Bank and Cathay Securities will not be able to use, sell or pledge said transferred financial assets during the effective period however Cathay United Bank and Cathay Securities are still exposed to interest rate risk and credit risk, hence the assets are not removed.

The following table analyses Cathay United Bank's financial assets and financial liabilities that have not been fully removed:

Categories of financial assets	2016.12.31				
	Transferred Financial Assets Carrying Value	Related Financial Liabilities Carrying value	Transferred Financial Assets Fair Value	Related Financial Liabilities Fair value	Net fair value
Available for sale financial assets repurchase agreements	\$23,261,811	\$22,468,724	\$22,577,930	\$22,468,724	\$109,206
Held to maturity financial assets repurchase agreements	31,325,346	31,066,277	31,325,346	31,066,277	259,069
Debt instrument investments for which no active market exists repurchase agreements	4,817,209	3,217,750	4,817,209	3,217,750	1,599,459

## English Translation of Financial Statements Originally Issued in Chinese

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

Categories of financial assets	2015.12.31				
	Transferred Financial Assets	Related Financial Liabilities	Transferred Financial Assets	Related Financial Liabilities Fair	Net fair value
	Carrying Value	Carrying value	Fair Value	value	
Available for sale financial assets repurchase agreements	\$34,522,584	\$43,591,852	\$33,452,121	\$43,591,852	\$(10,139,731)
Held to maturity financial assets repurchase agreements	10,571,555	10,446,025	10,571,555	10,446,025	125,530

The following table analyses Cathay Securities' financial assets and financial liabilities that have not been fully removed:

Categories of financial assets	2016.12.31				
	Transferred Financial Assets	Related Financial Liabilities	Transferred Financial Assets	Related Financial Liabilities Fair	Net fair value
	Carrying Value	Carrying value	Fair Value	value	
Financial assets at fair value through profit or loss					
Repurchase bonds	\$2,375,207	\$2,339,864	\$2,375,207	\$2,339,864	\$35,343

Categories of financial assets	2015.12.31				
	Transferred Financial Assets	Related Financial Liabilities	Transferred Financial Assets	Related Financial Liabilities Fair	Net fair value
	Carrying Value	Carrying value	Fair Value	value	
Financial assets at fair value through profit or loss					
Repurchase bonds	\$1,437,139	\$1,425,000	\$1,437,139	\$1,425,000	\$12,139

### (7) Management on financial risks

#### Cathay Life and its subsidiaries

##### A. Credit risk analysis

###### a. Sources of credit risk

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

- (A) Issuer credit risk represents a risk that Cathay Life may suffer financial losses for holding debt instruments or bank savings because the issuers (guarantors) or banks are not able to repay due to default, bankruptcy, liquidation or any other similar circumstances.

**English Translation of Financial Statements Originally Issued in Chinese**

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

(B) Counterparty credit risk refers to the risk that the counterparty will not meet its obligations to perform or pay as and when due and, as a result, Cathay Life will bear financial losses.

(C) Underlying asset credit risk means the risk that Cathay Life may suffer losses arising from deterioration of the credit quality and/or credit rating, increase of credit risk premium or breach of any contract terms of any underlying assets to certain financial instruments.

b. Concentration risk

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

2016.12.31

Financial assets	Taiwan	Asia	Europe	North America	Emerging markets and others	Total
Cash and cash equivalents	\$87,108,982	\$154,207	\$214,434	\$50,897,880	\$2,250,356	\$140,625,859
Financial assets at fair value through profit or loss	5,912,042	159,986	436,867	900,477	-	7,409,372
Available-for-sale financial assets	208,994,073	21,188,062	47,296,352	146,039,840	132,691,256	556,209,583
Derivative financial assets for hedging	70,905	-	6,036	155,328	-	232,269
Debt instrument investments for which no active market exists	79,879,337	131,219,394	422,728,136	939,595,037	543,161,710	2,116,583,614
Held-to-maturity financial assets	26,551,251	-	-	-	-	26,551,251
Other financial assets	4,161,395	-	3,500,000	-	-	7,661,395
<b>Total</b>	<b>\$412,677,985</b>	<b>\$152,721,649</b>	<b>\$474,181,825</b>	<b>\$1,137,588,562</b>	<b>\$678,103,322</b>	<b>\$2,855,273,343</b>
<b>Proportion</b>	<b>14.5%</b>	<b>5.3%</b>	<b>16.6%</b>	<b>39.8%</b>	<b>23.8%</b>	<b>100.0%</b>

2015.12.31

Financial assets	Taiwan	Asia	Europe	North America	Emerging markets and others	Total
Cash and cash equivalents	\$64,853,928	\$2,147,370	\$56,256	\$64,773,482	\$5,106,030	\$136,937,066
Financial assets at fair value through profit or loss	9,495,723	414,072	4,397,284	3,449,765	-	17,756,844
Available-for-sale financial assets	257,587,956	25,905,623	53,211,062	136,016,000	96,878,144	569,598,785
Derivative financial assets for hedging	163,545	-	21,009	262,772	-	447,326
Debt instrument investments for which no active market exists	96,324,443	121,222,038	351,900,002	824,204,673	442,381,303	1,836,032,459
Held-to-maturity financial assets	23,478,810	-	-	-	-	23,478,810
Other financial assets	14,500,000	-	3,500,000	-	-	18,000,000
<b>Total</b>	<b>\$466,404,405</b>	<b>\$149,689,103</b>	<b>\$413,085,613</b>	<b>\$1,028,706,692</b>	<b>\$544,365,477</b>	<b>\$2,602,251,290</b>
<b>Proportion</b>	<b>17.9%</b>	<b>5.8%</b>	<b>15.9%</b>	<b>39.5%</b>	<b>20.9%</b>	<b>100.0%</b>

**English Translation of Financial Statements Originally Issued in Chinese**

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

c. Credit Quality

Classification of credit quality for financial assets of Cathay Life:

2016.12.31

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade or unrated				
Cash and cash equivalents	\$140,625,859	\$-	\$-	\$-	\$-	\$140,625,859
Financial assets at fair value through profit or loss	5,596,015	1,813,357	-	-	-	7,409,372
Available-for-sale financial assets	489,718,539	66,491,044	-	-	-	556,209,583
Derivative financial assets for hedging	232,269	-	-	-	-	232,269
Debt instrument investments for which no active market exists	2,047,651,043	68,932,571	-	419,627	(419,627)	2,116,583,614
Held-to-maturity financial assets	26,551,251	-	-	-	-	26,551,251
Other financial assets	7,661,395	-	-	-	-	7,661,395
<b>Total</b>	<b>\$2,718,036,371</b>	<b>\$137,236,972</b>	<b>\$-</b>	<b>\$419,627</b>	<b>\$(419,627)</b>	<b>\$2,855,273,343</b>
Proportion	95.2%	4.8%	-	-	-	100.0%

2015.12.31

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade or unrated				
Cash and cash equivalents	\$136,937,066	\$-	\$-	\$-	\$-	\$136,937,066
Financial assets at fair value through profit or loss	16,288,641	1,468,203	-	-	-	17,756,844
Available-for-sale financial assets	514,899,344	54,699,441	-	-	-	569,598,785
Derivative financial assets for hedging	447,326	-	-	-	-	447,326
Debt instrument investments for which no active market exists	1,790,495,682	45,536,777	-	429,858	(429,858)	1,836,032,459
Held-to-maturity financial assets	23,478,810	-	-	-	-	23,478,810
Other financial assets	18,000,000	-	-	-	-	18,000,000
<b>Total</b>	<b>\$2,500,546,869</b>	<b>\$101,704,421</b>	<b>\$-</b>	<b>\$429,858</b>	<b>\$(429,858)</b>	<b>\$2,602,251,290</b>
Proportion	96.1%	3.9%	-	-	-	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.

**English Translation of Financial Statements Originally Issued in Chinese**

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

d. Regional distribution of credit risk exposure for secured loans and overdue receivables:

2016.12.31

Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$317,414,591	\$49,707,033	\$77,800,104	\$444,921,728
Overdue receivables	202,100	22,926	75,299	300,325
Total	\$317,616,691	\$49,729,959	\$77,875,403	\$445,222,053
Proportion	71%	11%	18%	100%

2015.12.31

Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$335,318,324	\$53,377,019	\$82,410,898	\$471,106,241
Overdue receivables	222,445	104,417	81,846	408,708
Total	\$335,540,769	\$53,481,436	\$82,492,744	\$471,514,949
Proportion	71%	11%	18%	100%

e. Secured loans and overdue receivables

2016.12.31

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$243,209,527	\$117,269,110	\$52,440,764	\$198,646	\$3,336,620	\$416,454,667	\$5,873,070	\$410,581,597
Corporate finance	23,812,636	4,239,528	616,002	-	99,220	28,767,386	243,337	28,524,049
Total	\$267,022,163	\$121,508,638	\$53,056,766	\$198,646	\$3,435,840	\$445,222,053	\$6,116,407	\$439,105,646

2015.12.31

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$230,933,600	\$160,649,461	\$44,964,387	\$153,819	\$4,685,286	\$441,386,553	\$4,717,185	\$436,669,368
Corporate finance	24,725,211	4,176,027	997,061	-	230,097	30,128,396	327,286	29,801,110
Total	\$255,658,811	\$164,825,488	\$45,961,448	\$153,819	\$4,915,383	\$471,514,949	\$5,044,471	\$466,470,478

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
31 December 2016	\$164,117	\$34,529	\$198,646
31 December 2015	114,996	38,823	153,819

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### B. Liquidity risk analysis

#### a. Sources of liquidity risk

Liquidity risks of the financial instruments are classified as “funding liquidity risk” and “market liquidity risk”. “Funding liquidity risk” represents the default risk that Cathay Life is unable to turn assets into cash or obtain sufficient funds. “Market liquidity risk” represents the risk of significant changes in fair value that Cathay Life faces when it sells or offsets its assets during market disorder.

#### b. Liquidity risk management

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

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

#### c. Maturity analysis of non-derivative financial liabilities:

The analysis of cash outflows to Cathay Life and its subsidiaries is listed below and based on the residual term to maturity on balance sheet date. The disclosed amounts are in conformity of contract cash flows and the results of the differences from the disclosed amounts on balance sheet.

2016.12.31	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Short-term debts	\$46,444	\$-	\$-	\$-	\$-	\$46,444
Payables	24,023,143	161,436	97,186	70,924	-	24,352,689
Bonds payables	-	1,260,000	1,260,000	3,780,000	41,234,411	47,534,411
Preferred stock liability	-	-	5,173,005	-	-	5,173,005

2015.12.31	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Short-term debts	\$61,104	\$-	\$-	\$-	\$-	\$61,104
Payables	19,239,676	383,000	40,191	-	-	19,662,867
Preferred stock liability	-	10,277,322	-	5,266,005	-	15,543,327

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### d. Maturity analysis of derivative financial liability:

2016.12.31	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$30,094	\$25,847	\$47,231	\$3,278	\$-	\$106,450
Forward	3,439,114	1,524,029	92,750	-	-	5,055,893
CS	25,588,589	294,288	-	-	-	25,882,877
Option	6,304	-	-	-	-	6,304

2015.12.31	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$25,644	\$27,691	\$53,552	\$45,216	\$-	\$152,103
Forward	2,591,911	511,500	-	-	-	3,103,411
CS	36,097,075	-	-	-	-	36,097,075
Option	29,649	-	-	-	-	29,649

### C. Market risk analysis

#### a. Sources of market risk

Market risk is the risk of losses or decrease in value of portfolio in positions arising from movements in exchange rate, product price, interest rate, credit spread, and stock price.

#### b. Cathay Life and its subsidiaries assesses, monitors, and manages market risks completely and effectively by applying Value at Risk (“VaR”) and stress testing consistently.

##### (A) Value at Risk

Value-at-Risk (“VaR”) is the maximum loss on the portfolio with a given probability defined as the confidence level, over a given period of time. Cathay Life and its subsidiaries uses one-week 95% and 99% VaR to measures market risk.

##### (B) Stress testing

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

Cathay Life and its subsidiaries performs position stress testing regularly by using “Simple Sensitivity” and “Scenario Analysis” methods. The test is capable of representing the position loss resulted from the movement of a specific risk factor under different kinds of historical scenarios:

i. Simple Sensitivity

Simple Sensitivity is to measure the dollar amount change for the portfolio value from the movement of specific risk factors.

ii. Scenario Analysis

Scenario Analysis is to measure the dollar amount changes for the total value of investment positions if possible future events occur. The types of scenario include:

j Historical scenario

In consideration of the fluctuation of risk factors when a specific historical event happened, Cathay Life simulates what the dollar amount of losses for the current investment portfolio would be in the same period of time.

k Hypothetical scenario

Cathay Life makes hypothesis with rational expectations from the extreme market movements to assess the dollar amount of losses for the investment position by taking into consideration the movement of relevant risk factors.

Risk management department performs the stress testing with historical and hypothetical scenarios regularly. Cathay Life’s risk analysis, early warning, and business management are in accordance with the stress testing report.

Table of Stress Testing  
2016.1.1~2016.12.31

Risk Factors	Changes (+/-)	Gain (loss)
Equity risk (Price)	-10%	\$(59,988,277)
Interest rate risk (Yield curve)	+100bps	(43,562,955)
Exchange risk (Foreign exchange rate)	NTD appreciates against all foreign currencies by 1%	(6,730,848)

**English Translation of Financial Statements Originally Issued in Chinese**

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

Table of Stress Testing  
2015.1.1~2015.12.31

Risk Factors	Changes (+/-)	Gain (loss)
Equity risk (Price)	-10%	\$(51,057,745)
Interest rate risk (Yield curve)	+100bps	(39,180,072)
Exchange risk (Foreign exchange rate)	NTD appreciates against all foreign currencies by 1%	(6,896,040)

Note1: Impacts of credit spread changes are not included

Note2: Effects of hedging are included

Note3: Information of subsidiaries is excluded considering the insignificant impact from subsidiaries.

(C) Sensitivity Analysis

Summarization of Sensitivity Analysis  
2016.1.1~2016.12.31

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD against NTD appreciates 1%	\$1,999,538	\$4,798,619
	CNY/CNH against USD appreciates 1%	452,155	295,279
	HKD against USD appreciates 1%	(13,843)	728,461
	EUR against USD appreciates 1%	(33,948)	109,022
	GBP against USD appreciates 1%	30,075	11,340
Interest rate risk	Yield curve (USD) parallel shifts up 1 bp	-	(216,091)
	Yield curve (AUD) parallel shifts up 1 bp	-	(825)
	Yield curve (EUR) parallel shifts up 1 bp	-	(3,977)
	Yield curve (NTD) parallel shifts up 1 bp	982	(185,555)
Equity price risk	Equity price increases 1%	91,639	5,905,205

Summarization of Sensitivity Analysis  
2015.1.1~2015.12.31

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD against NTD appreciates 1%	\$2,529,303	\$4,435,698
	CNY/CNH against USD appreciates 1%	1,226,890	309,379
	HKD against USD appreciates 1%	(45,018)	647,550
	EUR against USD appreciates 1%	(132,705)	155,707
	GBP against USD appreciates 1%	75,183	36,945
Interest rate risk	Yield curve (USD) parallel shift+1bp	-	(135,283)
	Yield curve (AUD) parallel shift+1bp	(52)	(2,554)
	Yield curve (EUR) parallel shift+1bp	-	(5,100)
	Yield curve (NTD) parallel shift+1bp	3,226	(238,614)
Equity price risk	Equity price increases 1%	69,987	5,029,558

## **English Translation of Financial Statements Originally Issued in Chinese**

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

Note 1: Impacts of credit charges are not included.

Note 2: Effects of hedging are included

Note 3: Impacts of change in income are not included in the calculation of change in equity.

Note 4: The foreign exchange volatility reserve adjustments are not included in the change in income of the foreign currency risk.

Note 5: Information of subsidiaries is excluded considering the insignificant impact from subsidiaries.

### 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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

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.

Market risk management process

### a. Identification and measurement

The operating department and risk management department of Cathay United Bank identified the market risk factors of risk exposure position, and measured the market risk further. Market risk factors are the components that could have an impact on value of financial instrument, such as interest rates, foreign exchange rates, equity securities...etc., including position, gain and loss, the loss of stress test, sensitivity (DV01, Delta, Vega, Gamma) and Value at Risk (VaR)...etc., to measure the extent of investment portfolio that is influenced by interest risk, foreign exchange risk and equity securities.

### b. Monitoring and reporting

The risk management department 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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### 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.

#### 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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### b. Interest risk management procedure of trading book

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

### c. Method of measurement

- (A) The assumption and calculation of VaR: see VaR section.
- (B) Cathay United Bank measures the investment portfolio's interest risk exposure base on DV01, monthly.

### 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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### c. Method of measurement

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

### Foreign exchange risk management

#### a. Definition of foreign exchange risk

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

#### 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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### b. Purpose of risk management in equity prices

To avoid the massive fluctuation of equity price to worsen Cathay United Bank's financial situation or earnings. Also, to raise the operating efficiency of capital and strengthen the business operation.

### c. Procedure of risk management of equity prices

Cathay United Bank sets investment limit on industries, using the  $\beta$  value to measure the investment portfolio affected by the systemic risk monthly. The stop-loss point must be authorized by the board of directors, and the equity investment should be authorized by the executives if the stop-loss point is reached but the investment is not going to be disposed of.

### 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. Cathay United Bank applies historical simulation with a statistic confidence of 99% to extrapolate the VaR of one-year fluctuations. The following form indicates the VaR which is the estimation of potential amount of loss within one day. While the statistic confidence of 99% represents the possible fluctuations that would be included in assumed adverse market changes. Base on the assumption, the VaR may exceed the amounts listed in 1 of 100 days due to the price changes in the market. The overall VaR in the market may be less than the aggregate VaR of individual market risk factors.

2016.12.31			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	\$1,257,294	\$2,000,760	\$707,624
Foreign exchange	460,721	619,473	309,051
Equity Securities price	227,274	534,899	118,192

## **English Translation of Financial Statements Originally Issued in Chinese**

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

2015.12.31			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	\$825,482	\$1,058,200	\$596,450
Foreign exchange	374,638	528,143	224,569
Equity Securities price	298,800	534,899	131,033

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	2016.12.31	2015.12.31
Stock Market	Major Stock Exchanges +15%	\$1,781,090	\$2,572,190
	Major Stock Exchanges -15%	(1,781,090)	(2,496,740)
Interest Rate/ Bond Market	Major Interest Rate + 100bp	(6,797,830)	(9,315,360)
	Major Interest Rate - 100bp	6,773,150	9,622,370
Foreign Exchange Market	Major Currencies + 3%	5,703,175	4,053,156
	Major Currencies - 3%	(5,703,175)	(4,053,156)
Composite	Major Stock Exchanges -15%	(2,875,745)	(7,758,944)
	Major Interest Rate + 100bp		
	Major Currencies +3%		

### Sensitivity analysis

#### a. Interest rate risk

Interest rate factor sensitivities (the present value of one basis point, or "PVBP") represent the change in the net present value of the interest rate derivatives portfolios caused by a parallel unit shift of 0.01% (1 basis point) in the interest rates in various yield curves affecting the portfolio. Cathay United Bank's interest rate-sensitive portfolios include bonds, interest rate swaps and structured products composed of such products.

#### b. Foreign exchange risk

Foreign exchange rate factor sensitivities ("FX delta") represent the change of the foreign exchange portfolios caused by the underlying currency exchange rate fluctuation.

## English Translation of Financial Statements Originally Issued in Chinese

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

### c. Equity securities price risk

Equity securities price factor sensitivities (“Equity delta”) represent the change of the equity securities price portfolio caused by a parallel unit shift of 1% (100 basis points) in the underlying stocks prices fluctuation. Cathay United Bank’s equity portfolios include stocks and equity index options.

#### Market risk factor sensitivity of Cathay United Bank

		2016.12.31	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity			
(FX Delta)	USD+1%	\$620,573	\$523
	HKD+1%	3,576	1,142
	JPY+1%	8,865	-
	AUD+1%	86,912	-
	CNY+1%	256,047	25,929
Interest rate factor sensitivity (PVBP)			
	Yield curves (USD) parallel shift+1bp	(2,558)	(36,101)
	Yield curves (HKD) parallel shift+1bp	(1)	(24)
	Yield curves (JPY) parallel shift+1bp	(11)	(262)
	Yield curves (AUD) parallel shift+1bp	-	(2,959)
	Yield curves (CNY) parallel shift+1bp	(90)	(12,449)
Equity securities price factor sensitivity			
(Equity Delta)	Equity securities price parallel shift+1bp	-	118,740
		2015.12.31	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity			
(FX Delta)	USD+1%	\$791,614	\$820
	HKD+1%	3,279	2,193
	JPY+1%	1,159	-
	AUD+1%	50,243	-
	CNY+1%	366,353	46,370
Interest rate factor sensitivity (PVBP)			
	Yield curves (USD) parallel shift+1bp	2,400	(40,000)
	Yield curves (HKD) parallel shift+1bp	-	(58)
	Yield curves (JPY) parallel shift+1bp	(1)	-
	Yield curves (AUD) parallel shift+1bp	-	(3,470)
	Yield curves (CNY) parallel shift+1bp	(979)	(19,893)
Equity securities price factor sensitivity			
(Equity Delta)	Equity securities price parallel shift+1bp	-	177,200

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### C. Credit risk

Credit risk represents the risk of loss that Cathay United Bank and its subsidiaries would incur if counterparty fails to perform its contractual obligations.

To centralize risk management functions currently handled by different departments, Cathay United Bank's board of directors resolved that a risk management department would be established to manage the credit risk. The objectives of a credit risk management are to improve asset quality and to generate stable profits while reducing risk through a diversified and balanced loan portfolio. Cathay United Bank's board of directors sets the counterparty credit limits, which are then implemented by the credit committee. The credit committee also monitors current and potential credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates. Cathay United Bank performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess the overall collectability of those portfolios.

Cathay United Bank and its subsidiaries maintain a strict policy to evaluate customers' credit ratings when providing loan commitments and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loans, and Cathay United Bank and its subsidiaries retain the legal right to foreclose on or liquidate the collateral. The disclosure of the maximum credit exposure shall not take account of any collateral held or other enhancements.

The management procedure and measurement methodology of credit risk in Cathay United Bank's main business are as follows:

Credit business (including the loan commitments and guarantees)

The category of credit asset and the grade of credit quality were narrated as follow:

#### a. Category of credit risk

The credit risk of Cathay United Bank was classified into five categories. Normal credit assets shall be classified as "Category One." The remaining unsound credit assets shall be evaluated based on the status of the loan collaterals and the length of time overdue. Assets that require special mention shall be classified as "Category Two," assets that are substandard shall be classified as "Category Three," assets that are doubtful shall be classified as "Category Four," and assets for which there is loss shall be classified as "Category Five". For managing the default credits, Cathay United Bank established the regulations governing the procedure to deal with non-performing loans, non-accrual loans and bad debts.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### b. Grade of credit quality

Cathay United Bank sets the level of credit quality based on the characteristics and scale of business (such as establishing the internal rating model of credit risk, setting the credit rating table or relevant rules to classify) to proceed the risk management.

In order to measure the credit risk of the clients, Cathay United Bank employs the statistic methods and the professional judgment from the experts. Cathay United Bank develops the rating model of business credit after considering the clients' relevant information. The model shall be reviewed periodically to verify if the calculated results conformed to the reality and revised every parameter to optimize the results.

With respect to consumer credit assets such as mortgages, credit cards, and small-amount credit loans, Cathay United Bank also evaluates default risk of clients by using the credit rating scores developed by Cathay United Bank and the external due diligence services.

The credit quality of Cathay United Bank's corporate borrowers is classified as excellent, good, and average.

To ensure the reasonable estimated values of credit rating system's design, process, and relevant risk factors, Cathay United Bank executes the relevant verification and test in the model according to the actual default every year so that the calculated results will be close to actual default.

#### Due from and call loans to other banks

Cathay United Bank evaluates the counterparties' credit quality before transactions and refers to the domestic and foreign credit rating agencies, when rendering different lines of credit based on the credit quality.

### c. Hedge of credit risk and easing policy

#### (A) Collateral

Cathay United Bank adopts a series of policies to lower the credit risk, and one of the frequently-used methods is requesting borrowers to provide collaterals. For ensure the creditor's rights, Cathay United Bank sets the scope available as collaterals and the procedures of appraising, managing, and disposing the collaterals. In addition, a credit contract is in place to provide the credit claim preservation, collaterals, and offset provisions to stipulate when a credit trigger event occurs, Cathay United Bank may reduce the limit, cut down the payback period, or deem all debts mature. Also, Cathay United Bank will use the deposits that the borrowers saved in Cathay United Bank to offset the liabilities to lower the credit risk.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

Other non-credit business collaterals shall depend on the characteristics of the financial instruments. Only the asset-backed securities and other similar financial instruments are secured by an asset pool of financial instruments.

### (B) Limit of credit risk and control of credit risk concentration

To avoid the excessive risk concentration, Cathay United Bank limits the credit amounts of single counterparties and groups; Cathay United Bank also sets the investment guide and regulation of risk control of equity investment to restrict the investment limits of single person (company) or related company (group). Furthermore, Cathay United Bank establishes relevant regulations to control the concentration risk of assets, and sets the credit limits by industry, group, country, and stock types to monitor the credit concentration risk.

### (C) Net settlement agreement

Cathay United Bank usually settles by the gross balance, but signs contract with some counterparties to settle by net balance. If a default happens, Cathay United Bank will terminate all transactions with the counterparty and settle by net balance in order to lower the credit risk.

### d. Cathay United Bank's maximum exposures to credit risk

Without taking into account the collateral or other credit enhancement instrument, the maximum credit risk exposure of on-balance-sheet financial assets equals their carrying values. The maximum credit risk exposure of off-balance-sheet items (without considering the collaterals or other credit enhancement is irrevocable) are as follows:

#### (A) Cathay United Bank

Off balance sheet items	Maximum exposure to credit risk	
	2016.12.31	2015.12.31
Irrevocable loan commitments	\$182,538,242	\$187,213,293
Irrevocable credit card commitments	584,566,895	512,030,862
Unused commercial letters of credit	3,741,879	4,465,001
Guarantees on duties and contracts	7,141,798	10,285,103
Total	\$777,988,814	\$713,994,259

#### (B) Indovina Bank

Off balance sheet items	Maximum exposure to credit risk	
	2016.12.31	2015.12.31
Finance guarantee contracts	\$2,865,926	\$1,790,458
Unused commercial letters of credit	841,466	1,206,427
Total	\$3,707,392	\$2,996,885

**English Translation of Financial Statements Originally Issued in Chinese**

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

(C) CUBC Bank

Off balance sheet items	Maximum exposure to credit risk	
	2016.12.31	2015.12.31
Finance guarantee contracts	\$63,479	\$23,637
Irrevocable loan commitments	546,423	558,899
Irrevocable credit card commitments	328,186	353,016
Unused commercial letters of credit	3,223	-
Total	\$941,311	\$935,552

To reduce the risk from any businesses, Cathay United Bank conducts an overall assessment and takes appropriate risk reduction measures, such as obtaining collaterals and guarantors. For obtaining of collaterals, Cathay United Bank has *Collateral Management Guidelines*, to ensure that collaterals meet the specific criteria and has the effect of reducing the business risk.

The management deems Cathay United Bank and its subsidiaries are able to control and minimize the credit risk exposures in off-balance-sheet items as Cathay United Bank and its subsidiaries use more strict rating procedures when extending credits and conduct reviews regularly.

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

While the counterparties are obviously the same party, or there are several counterparties but all engage in similar business activities and share similar economic characteristics, so they are vulnerable to the same economic impacts or other changes, the credit risk concentration is apparent.

Credit risk concentration of Cathay United Bank and its subsidiaries derives from the assets, liabilities and off-balance-sheet items, and arise from performing obligations or engaging in transactions or cross-line portfolio of risk exposures including credit extension, due from and call loans to other banks, securities investment, receivables and derivatives. Cathay United Bank and its subsidiaries do not significantly concentrate on a single client or counterparty, and the transaction amount with a single client or counterparty accounted for Cathay United Bank's total bills discounts and loans and overdue receivables is not significant. Discounts and loans, guarantees, bills purchased, and acceptances receivable of Cathay United Bank and its subsidiaries according to industry, country are listed below:

**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	2016.12.31		2015.12.31	
	amount	%	amount	%
Industry type				
Manufacturing	\$80,057,522	5.46	\$73,003,215	6.30
Financial institutions and insurance	52,975,202	3.61	31,617,868	2.73
Leasing and real estate	115,994,786	7.90	88,419,187	7.63
Individuals	726,970,977	49.52	605,118,646	52.21
Others	491,942,342	33.51	360,808,227	31.13
Total	\$1,467,940,829	100.00	\$1,158,967,143	100.00

Item	2016.12.31		2015.12.31	
	amount	%	amount	%
Geographic Region				
Domestic	\$1,262,746,943	86.02	\$982,348,258	84.76
Asia	116,804,425	7.96	108,928,043	9.40
America	24,369,284	1.66	21,253,210	1.83
Others	64,020,177	4.36	46,437,632	4.01
Total	\$1,467,940,829	100.00	\$1,158,967,143	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

	Neither past due nor impaired				Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment allowances (D)		Net balance (A)+(B)+(C)-(D)
	Excellent	Good	Average	Subtotal(A)				With objective evidence of impairment individual	Without objective evidence of impairment individual	
2016.12.31										
Receivables										
Credit card										
business	\$45,930,089	\$10,400,044	\$3,620,218	\$59,950,351	\$177,494	\$166,800	\$60,294,645	\$135,097	\$1,008,209	\$59,151,339
Others	18,043,437	4,588,328	84,966	22,716,731	5,583	84,087	22,806,401	49,991	2,619,510	20,136,900
Loans	929,993,249	435,476,181	40,751,762	1,406,221,192	913,366	15,811,890	1,422,946,448	3,088,327	16,597,827	1,403,260,294

**English Translation of Financial Statements Originally Issued in Chinese**

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

2015.12.31	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	\$38,577,214	\$8,630,623	\$3,289,491	\$50,497,328	\$165,012	\$168,628	\$50,830,968	\$136,844	\$1,306,411	\$49,387,713
Others	28,917,139	3,474,241	49,961	32,441,341	5,756	535,472	32,982,569	513,752	822,681	31,646,136
Loans	665,556,901	411,800,443	26,279,299	1,103,636,643	810,525	13,570,559	1,118,017,727	3,111,620	14,211,023	1,100,695,084

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

2016.12.31	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	\$260,337,798	\$70,434,151	\$11,978,542	\$342,750,491
Unsecured personal loans	25,676,322	15,839,926	4,634,166	46,150,414
Other	293,208,211	64,003,096	9,591,057	366,802,364
Corporate banking				
Secured	33,210,000	169,692,228	6,202,863	209,105,091
Unsecured	317,560,918	115,506,780	8,345,134	441,412,832
Total	\$929,993,249	\$435,476,181	\$40,751,762	\$1,406,221,192
2015.12.31	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	\$231,852,442	\$51,262,021	\$9,253,262	\$292,367,725
Unsecured personal loans	21,694,792	12,696,768	3,634,766	38,026,326
Other	205,744,426	93,884,652	6,697,306	306,326,384
Corporate banking				
Secured	21,990,638	145,217,277	3,373,012	170,580,927
Unsecured	184,274,603	108,739,725	3,320,953	296,335,281
Total	\$665,556,901	\$411,800,443	\$26,279,299	\$1,103,636,643

**English Translation of Financial Statements Originally Issued in Chinese**

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

**(C) Credit quality analysis on securities investment of Cathay United Bank**

2016.12.31	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment (D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade or non-credit rating	Subtotal (A)					
Available-for-sale financial assets								
Bonds	\$135,593,396	\$101,939	\$135,695,335	\$-	\$-	\$135,695,335	\$-	\$135,695,335
Stocks	1,547,161	10,186,373	11,733,534	-	140,985	11,874,519	140,985	11,733,534
Others	917,355	3,586,499	4,503,854	-	-	4,503,854	-	4,503,854
Held-to-maturity financial assets								
Bonds	35,526,500	1,946,358	37,472,858	-	-	37,472,858	-	37,472,858
Others	5,422,099	-	5,422,099	-	-	5,422,099	-	5,422,099
Investments in debt securities with no active market								
Bonds	81,310,348	114,660	81,425,008	-	1,478,556	82,903,564	1,478,556	81,425,008
Others	316,050,000	-	316,050,000	-	-	316,050,000	-	316,050,000

2015.12.31	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment (D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade or non-credit rating	Subtotal (A)					
Available-for-sale financial assets								
Bonds	\$108,611,424	\$-	\$108,611,424	\$-	\$-	\$108,611,424	\$-	\$108,611,424
Stocks	8,578,743	9,661,916	18,240,659	-	140,985	18,381,644	140,985	18,240,659
Others	1,360,701	2,344,845	3,705,546	-	-	3,705,546	-	3,705,546
Held-to-maturity financial assets								
Bonds	49,571,588	40,519	49,612,107	-	-	49,612,107	-	49,612,107
Investments in debt securities with no active market								
Bonds	13,298,479	659	13,299,138	-	1,512,275	14,811,413	1,512,275	13,299,138
Others	429,465,000	-	429,465,000	-	-	429,465,000	-	429,465,000

**(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.

**English Translation of Financial Statements Originally Issued in Chinese**

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

2016.12.31	Less than 60 days	61 - 90 days	Total
Receivables			
Credit card business	\$107,733	\$69,761	\$177,494
Others	3,335	2,248	5,583
Loans			
Consumer banking			
Residential mortgage loans	276,308	144,448	420,756
Unsecured personal loans	70,608	57,371	127,979
Others	182,770	35,679	218,449
Corporate banking			
Secured	140,175	-	140,175
Unsecured	6,007	-	6,007
2015.12.31	Less than 60 days	61 - 90 days	Total
Receivables			
Credit card business	\$105,952	\$59,060	\$165,012
Others	4,002	1,754	5,756
Loans			
Consumer banking			
Residential mortgage loans	347,742	53,921	401,663
Unsecured personal loans	56,856	40,630	97,486
Others	211,634	49,070	260,704
Corporate banking			
Secured	-	1,918	1,918
Unsecured	40,293	8,461	48,754

f. Impairment analysis of financial assets of Cathay United Bank

- (A) Cathay United Bank and its subsidiaries has recognized accumulated impairment loss for available-for-sale financial assets in the amount of \$140,985 thousand and \$140,985 thousand as of 31 December 2016 and 31 December 2015, respectively, due to the existence of objective impairment evidence.
- (B) Cathay United Bank and its subsidiaries has recognized accumulated impairment loss for investments in debt securities with no active market in the amount of \$1,382,970 thousand and \$1,416,689 thousand as of 31 December 2016 and 31 December 2015, respectively, due to credit deterioration of securitization products and financial debentures.

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

(C) For Cathay United Bank's impairment assessment of discounts, loans and receivables, please refer to Note 9 and Note 10.

(D) Foreclosed properties management policy

Cathay United Bank and its subsidiaries has recognized impairment loss for foreclosed properties in CUBC Bank for the years ended 31 December 2016 and 2015 were \$58,161 and \$0, respectively, due to the existence of objective impairment evidence. The accumulated impairment loss in the amount of \$58,102 and \$0 as of 31 December 2016 and 31 December 2015, respectively.

Foreclosed properties will be sold when are available for sell. The proceeds are used to reduce or repay the outstanding claim. Foreclosed properties are classified under other assets in the consolidated balance sheets.

### D. Liquidity risk

The purpose of liquidity risk management is to ensure the availability of funds to meet present and future financial obligations. The Management Committee of Assets and Liabilities is responsible for planning liquidity risk management strategy. The Financial Trading Division is responsible for daily operation and execution, including measuring liquidity risk, performing sensitivity analysis of interest rates, scenario analysis and planning emergency responses. Liquidity is also managed by quantitatively managing and adjusting liquidity gap according to variation of cash flows and economy. Expectation of or exposure to significant changes in liquidity risk are immediately reported to the board of directors.

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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### **(B) Maturity analysis of non-derivative financial liabilities of Cathay United Bank**

The table below shows the analysis of the cash outflow of non-derivative financial liabilities on time remaining until the contractual maturity date. The amount disclosed is based on the contractual cash flows and may be different from that included in the consolidated balance sheets.

2016.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$36,668,211	\$19,582,460	\$11,159,327	\$11,987	\$67,421,985
Securities sold under agreements to repurchase	32,151,648	18,162,666	-	6,458,060	56,772,374
Payables	17,087,536	1,882,092	68,098	402,241	19,439,967
Deposits and remittances	270,499,401	837,032,161	764,993,589	123,482,329	1,996,007,480
Financial debentures payable	7,800	3,986,939	37,213	48,250,000	52,281,952
Other capital outflow at maturity	26,286,100	30,646,766	4,455,094	389,911	61,777,871

2015.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$18,302,306	\$10,012,450	\$10,387,327	\$76,893	\$38,778,976
Securities sold under agreements to repurchase	37,882,342	5,166,967	-	11,005,959	54,055,268
Payables	10,963,288	8,487,879	111,856	799,521	20,362,544
Deposits and remittances	261,487,276	717,033,377	757,807,236	113,396,994	1,849,724,883
Financial debentures payable	7,779	336,018	37,111	51,900,000	52,280,908
Other capital outflow at maturity	22,467,662	32,764,319	6,434,595	5,732,362	67,398,938

### **b. Maturity analysis of derivative financial liabilities**

#### **(A) Net settled derivative financial instruments**

Net settled derivatives engaged by Cathay United Bank include:

- i Foreign exchange derivative instruments: foreign exchange options, non-delivery forwards;
- ii Interest rate derivative instruments: swap options, net settled interest rate swaps and other interest rate agreements.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

The table below shows the net settled derivative financial instruments on time remaining until the contractual maturity date. Analysis of contractual maturity date helps to illustrate all derivative financial instruments listed in the consolidated balance sheet. The amount disclosed is based on contractual cash flow and may be different from that included in the consolidated balance sheet. Maturity analysis of net settled derivative financial liabilities was as follows:

2016.12.31	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	\$121,095	\$1,576,083	\$1,796,462	\$307	\$3,493,947
- Interest rate derivative instruments	1,886,141	419,128	88,343	22,041,123	24,434,735
Total	\$2,007,236	\$1,995,211	\$1,884,805	\$22,041,430	\$27,928,682

2015.12.31	0-30 days	31-180 days	181 days -1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	\$89,376	\$112,235	\$1,436,061	\$4,267,106	\$5,904,778
- Interest rate derivative instruments	12,016	51,356	156,012	26,549,494	26,768,878
Total	\$101,392	\$163,591	\$1,592,073	\$30,816,600	\$32,673,656

### **(B) Maturity analysis of gross settled derivative financial instruments**

Gross settled derivatives engaged by Cathay United Bank include:

- i. Foreign exchange derivative instruments: currency futures and swaps;
- ii. Interest rate derivative instruments: cross currency swaps;
- iii. Credit derivative instruments: all derivatives shown in gross pay a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of such a credit event.

The contract maturity date is the basic element to understand Cathay United Bank's gross settled derivative instruments as at balance sheet dates. The amount disclosed is based on the contractual cash flows and may be different from that included in the consolidated balance sheets. Maturity analysis of gross settled derivative financial liabilities was as follows:

**English Translation of Financial Statements Originally Issued in Chinese**

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

2016.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
- Cash outflow	\$(2,608,154)	\$(7,043,669)	\$(1,487,912)	\$(330,246)	\$(11,469,981)
- Cash inflow	31,816	48,284	69,423	-	149,523
- Interest rate derivative instruments					
- Cash outflow	(169,357)	(880,692)	(617,141)	(1,021,022)	(2,688,212)
- Cash inflow	-	-	-	-	-
Cash outflow subtotal	(2,777,511)	(7,924,361)	(2,105,053)	(1,351,268)	(14,158,193)
Cash inflow subtotal	31,816	48,284	69,423	-	149,523
Net cash flow	\$(2,745,695)	\$(7,876,077)	\$(2,035,630)	\$(1,351,268)	\$(14,008,670)

2015.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
- Cash outflow	\$(5,831,519)	\$(7,551,584)	\$(2,169,857)	\$(461,724)	\$(16,014,684)
- Cash inflow	59,346	52,955	134,790	45,820	292,911
- Interest rate derivative instruments					
- Cash outflow	(309,781)	(579,714)	(572,038)	(2,254,893)	(3,716,426)
- Cash inflow	-	-	-	-	-
Cash outflow subtotal	(6,141,300)	(8,131,298)	(2,741,895)	(2,716,617)	(19,731,110)
Cash inflow subtotal	59,346	52,955	134,790	45,820	292,911
Net cash flow	\$(6,081,954)	\$(8,078,343)	\$(2,607,105)	\$(2,670,797)	\$(19,438,199)

c. Maturity analysis of off-balance sheet items

- (A) Irrevocable commitments: Irrevocable commitments include irrevocable loan commitments and credit card commitments.
- (B) Financial guarantee contracts: Cathay United Bank acts as a guarantor or an issuer of credit line in a financing guarantee agreement.
- (C) Leasing commitments: Cathay United Bank acts as a lessee in an irrevocable operating lease agreement and the minimum lease payments are shown as follows:

2016.12.31	Not later than		Later than	Total
	1 year	1~5 years	5 years	
Irrevocable loan commitments	\$129,060,972	\$51,146,768	\$2,330,502	\$182,538,242
Credit card lines commitments	78,376,870	229,495,576	276,694,449	584,566,895
Financial guarantee contracts	9,837,073	1,035,270	11,334	10,883,677
Leasing commitments				
Non-cancellable operating lease payments	1,657,098	3,472,465	113,195	5,242,758
Total	\$218,932,013	\$285,150,079	\$279,149,480	\$783,231,572

## **English Translation of Financial Statements Originally Issued in Chinese**

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

2015.12.31	Not later than 1 year	1~5 years	Later than 5 years	Total
Irrevocable loan commitments	\$144,888,414	\$38,372,470	\$3,952,409	\$187,213,293
Credit card lines commitments	56,229,614	199,442,211	256,359,037	512,030,862
Financial guarantee contracts	12,520,417	2,209,659	20,028	14,750,104
Leasing commitments Non-cancellable operating lease payments	851,937	1,439,316	90,579	2,381,832
Total	\$214,490,382	\$241,463,656	\$260,422,053	\$716,376,091

### Cathay Century and its subsidiaries

Cathay Century and its subsidiaries' principal financial risk management objective are to manage the market risk, credit risk and liquidity risk related to its operating activities. Cathay Century and its subsidiaries identify measures and manage the aforementioned risks based on the Company's policy and risk appetite.

Cathay Century and its subsidiaries have established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. Cathay Century and its subsidiaries comply with its financial risk management policies at all times.

#### A. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise foreign currency risk, interest rate risk and other price risk (such as equity risk).

In practice, it is rarely the case that a single risk variable will change independently from other risk variable; there is usually interdependency between risk variables. However the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

##### 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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

Cathay Century and its subsidiaries is further exposed to exchange rate risk for engaging in reinsurance business involving transactions denominated in non-functional currency. Because this type of transaction usually has a relatively shorter collection period, the exchange rate fluctuations are not significant. Cathay Century and its subsidiaries do not engage in hedging in relation to this type of transaction.

Cathay Century and its subsidiaries' self-evaluation showed that the terms of the hedging instrument and the hedged items are the same, so as to maximize the effectiveness of the hedge.

### **b. Interest rate risk**

Interest rate risk results from changes in the market interest rates which cause the fair value of financial instruments or the future cash flow to fluctuate. Cathay Century and its subsidiaries' interest rate risk primarily results from floating rate investments classified as available-for-sale financial assets and fixed rate preferred shares liabilities.

### **c. Equity price risk**

Cathay Century and its subsidiaries hold equity securities of local and foreign listed companies. Their prices are affected by uncertainties about the future values of the investment securities. Equity securities of listed companies held by Cathay Century and its subsidiaries are classified under held for trading financial assets or available-for-sale financial assets. Cathay Century and its subsidiaries manage the equity price risk through diversification and placing limits on individual and total equity instruments.

## **B. Credit risk**

### **a. Credit risk management policies**

Cathay Century and its subsidiaries trade only with established and creditworthy third parties. Cathay Century and its subsidiaries' policy is that all customers who trade on credit terms are subject to credit verification procedures and that premium receivable and notes receivable collections are monitored on an ongoing basis. Therefore, Cathay Century and its subsidiaries' bad debt are insignificant. On the other hand, in the event counterparty's creditworthiness deteriorates, Cathay Century and its subsidiaries will suspend the related contracts and resume exercising relevant rights and obligations when transaction status is restored.

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.

**English Translation of Financial Statements Originally Issued in Chinese**

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

Cathay Century and its subsidiaries' credit risk exposure of financial transaction include: issuer risk, counterparty risk and the credit risk of underlying assets.

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

b. Credit concentration risk analysis

- (A) The amounts of credit risk exposure of Cathay Century and its subsidiaries' financial assets are as follows:

Financial assets	The amount of credit risk exposure - by area					
	2016.12.31					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$5,569,029	\$97	\$62,267	\$296,291	\$1,020,239	\$6,947,923
Financial assets at fair value through profit or loss	875,543	-	-	-	-	875,543
Available-for-sale financial assets	7,272,630	-	367,936	310,979	720,706	8,672,251
Debt instruments investments with no active market exists	1,400,000	-	347,116	332,006	432,934	2,512,056
Held-to-maturity investments	799,987	-	1,025,896	2,919,855	1,366,727	6,112,465
Other financial assets	529,664	-	-	-	8,677	538,341
Total	\$16,446,853	\$97	\$1,803,215	\$3,859,131	\$3,549,283	\$25,658,579
Each area percentage	64.10%	0.00%	7.03%	15.04%	13.83%	100.00%

**English Translation of Financial Statements Originally Issued in Chinese**

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

Financial assets	The amount of credit risk exposure - by area					
	2015.12.31					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$5,485,530	\$-	\$58,273	\$841,130	\$6,119,560	\$12,504,493
Financial assets at fair value through profit or loss	1,408,854	-	-	-	579,506	1,988,360
Available-for-sale financial assets	5,257,855	-	398,491	247,748	1,655,216	7,559,310
Debt instruments investments with no active market exists	1,600,000	-	355,325	672,062	1,050,698	3,678,085
Held-to-maturity investments	207,094	-	852,253	2,208,347	1,194,394	4,462,088
Other financial assets	541,415	-	-	-	8,598	550,013
Total	\$14,500,748	\$-	\$1,664,342	\$3,969,287	\$10,607,972	\$30,742,349
Each area percentage	47.17%	0.00%	5.41%	12.91%	34.51%	100.00%

c. Credit risk quality analysis

(A) Credit quality classifications of Cathay Century and its subsidiaries' financial assets are as follows:

Financial assets	Credit quality of financial assets				
	2016.12.31				
	Normal assets		Past due but not impaired	Impaired	Total
Investment level	Non-investment level				
Cash and cash equivalents	\$6,947,923	\$-	\$-	\$-	\$6,947,923
Financial assets at fair value through profit or loss	875,543	-	-	-	875,543
Available-for-sale financial assets	8,672,251	-	-	-	8,672,251
Debt instruments investments with no active market exists	2,512,056	-	-	-	2,512,056
Held-to-maturity investments	6,112,465	-	-	-	6,112,465
Other financial assets	538,341	-	-	-	538,341
Total	\$25,658,579	\$-	\$-	\$-	\$25,658,579

**English Translation of Financial Statements Originally Issued in Chinese**

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

Financial assets	Credit quality of financial assets				
	2015.12.31				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$12,504,493	\$-	\$-	\$-	\$12,504,493
Financial assets at fair value through profit or loss	1,988,360	-	-	-	1,988,360
Available-for-sale financial assets	7,559,310	-	-	-	7,559,310
Debt instruments investments with no active market exists	3,678,085	-	-	-	3,678,085
Held-to-maturity investments	4,462,088	-	-	-	4,462,088
Other financial assets	550,013	-	-	-	550,013
Total	\$30,742,349	\$-	\$-	\$-	\$30,742,349

Note: Investment level means the credit rating above BBB- and non-investment level means the credit rating less than BBB-.

(B) Secured loans

Secured loans	2016.12.31							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$139,740	\$-	\$-	\$-	\$139,335	\$279,075	\$3,477	\$275,598
Corporate Finance	64,100	-	-	-	15,750	79,850	636	79,214
Total	\$203,840	\$-	\$-	\$-	\$155,085	\$358,925	\$4,113	\$354,812

Secured loans	2015.12.31							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$170,367	\$-	\$-	\$-	\$121,836	\$292,203	\$3,874	\$288,329
Corporate Finance	62,280	-	-	-	16,200	78,480	554	77,926
Total	\$232,647	\$-	\$-	\$-	\$138,036	\$370,683	\$4,428	\$366,255

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### C. Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal controls, employee fraud or misconduct and management negligence. To mitigate the operational risk, Cathay Century adapts and implements the internal control regulations and sheets. Cathay Century and its subsidiaries establish the information systems to accommodate the aforementioned policies.

### D. Liquidity risk

#### a. Source of liquidity risk

Liquidity risk includes ‘Funding liquidity risk’ and ‘Market liquidity risk’. The ‘funding liquidity risk’ is the risk of insufficient funding or inability to realize the assets to meet Cathay Century’s commitment when due. ‘Market liquidity risk’ occurs when drastic change of market price is triggered by market turmoil or lack of market depth to dispose of or offset the holding positions.

#### b. Liquidity risk management

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

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

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

In the event of cash flow gap, the risk management department will conduct an internal discussion and report the result to supervisors and the funding management department. The risk management department will take necessary measures to prevent further stressful events.

**English Translation of Financial Statements Originally Issued in Chinese**

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

- c. The table below summarizes the maturity profile of Cathay Century and its subsidiaries' financial liabilities based on contractual undiscounted payments.

Liabilities	2016.12.31						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,663,593	\$1,389,106	\$1,371,338	\$8,293	\$1,013	\$8,462	\$-
Financial liabilities at fair value through profit or loss	54,590	54,590	46,807	7,783	-	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	1,000,000	-	-

Liabilities	2015.12.31						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$3,084,816	\$1,510,574	\$1,483,552	\$14,998	\$6,207	\$5,817	\$-
Financial liabilities at fair value through profit or loss	192,554	194,195	160,082	26,722	7,391	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	1,000,000	-

E. Market risk analysis

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

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

a. Value-at-risk

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

Value-at-risk model must reasonably completely and accurately measure the maximum potential risk that can be Cathay Century and its subsidiaries' risk management model. The use of risk management model must continue to conduct back testing daily to ensure the model can effectively measure financial instrument and what the maximum potential risk of a portfolio is.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### 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.

##### 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

**English Translation of Financial Statements Originally Issued in Chinese**

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

2016.12.31	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$(500,093)
Interest rate risk (Yield curve)	20bp	(162,035)
Foreign currency risk (Exchange rate)	USD depreciates 1 dollar against NTD	(99,465)
Commodity risk (Price)	-10%	-

2016.12.31		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	\$117	\$714
	CNY appreciate 1 %	8,564	2,619
	HKD appreciate 1 %	543	2,729
	NTD appreciate 1 %	(28,412)	(9,085)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(5,226)	(93)
	Yield curve (CNY) flat rises 1bp	(1)	(58)
	Yield curve (NTD) flat rises 1bp	(1,605)	(1,119)
Equity securities price sensitivity	Increase 1% in equity price	300	49,709

2015.12.31	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$(426,608)
Interest rate risk (Yield curve)	20bp	(145,720)
Foreign currency risk (Exchange rate)	USD depreciates 1 dollar against NTD	(116,285)
Commodity risk (Price)	-10%	-

2015.12.31		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	\$132	\$831
	CNY appreciate 1 %	16,208	792
	HKD appreciate 1 %	737	2,923
	NTD appreciate 1 %	(37,243)	(7,934)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(4,691)	(118)
	Yield curve (CNY) flat rises 1bp	(49)	(71)
	Yield curve (NTD) flat rises 1bp	(1,087)	(1,271)
Equity securities price sensitivity	Increase 1% in equity price	-	42,661

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### c. Cathay Securities and its subsidiaries

#### (A) Risk management policies

##### i. Risk management objectives

Adhere to the risk management policies of the Company, Cathay Financial Holding, Cathay Securities and its subsidiaries manage the risks efficiently and elastically on operating activities to maximize the profit in conformity with domestic and foreign regulations.

##### ii. Risk management policies

Cathay Securities uses “risk management policies” as a guiding principle to establish risk management objectives, coverage, organization duties and operating, management principles and reports etc.

The management policies of Cathay Securities and its subsidiaries cover different types of risk including market risk, credit risk, operation risk, liquidity risk, capital adequacy management, regulation risk and other risks related to operating activities. Cathay Securities and its subsidiaries identify relevant risks and have integrated planning of risk management in accordance with the management policies before operating business.

##### iii. Risk management organizational structure

- Board of directors

The board of directors has the ultimate responsibilities for risk management. The board has the primary responsibility for the determination of the risk management strategies and for ensuring that approved risk management policies are in accordance with the nature of operating activities, types of operating business and they cover different types of risk. Also, the board is required to monitor the implementation of risk management policies is effective.

- , Risk Management Committee

The Risk Management Committee is responsible for reviewing risk management policies, principles, and directions of trading management, and for determining the appropriate degree of risk exposures and monitoring the implementation of the risk management policies. Risk Management Committee is established by the board of directors and the members include General Manager, finance executive, accounting executive, and risk management executive, as relevant trading executive. The committee meetings are typically held quarterly and provisional meetings are called by the chairman of the Board.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### *f* Risk Management Department

Risk management department is belonging to the board of directors. The supervisor and staff of the department are prohibited to hold the positions at trading or settlement department simultaneously. Their responsibilities are to plan and implement risk management policies, principles and directions, review policies periodically to ensure that those policies are suitable for the business development. Risk management department also establishes online monitor and prevention system and reaction mechanism.

### *„* Business unit

Each business unit participates in the planning of risk management mechanism and executing daily risk management and report to ensure that the risk model services division implements is with the same base of the consistency of credibility and is in accordance with the internal control procedures to conform to the regulations and risk management policies.

### *...* Auditing office

Auditing office participates in the planning of risk management mechanism and executes risk management and internal control procedures periodically. All staff members should be also responsible for monitoring and documenting problems of internal control procedures periodically to ensure that the appropriate actions to improve have been taken in time.

### *†* Finance Department

Finance department participates in the planning of risk management mechanism. The department is responsible of executing liquidity risk management and providing the liquidity risk report to risk management department periodically.

### *‡* Accounting Department

The accounting department participates in the planning of risk management mechanism and providing the form of capital adequacy to risk management department monthly.

### *^* Legal Affairs Office

Legal Affairs Office executes regulation risk management to ensure that business operations and risk management procedures are all in accordance with regulations.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### iv. Risk Management Workflows

Risk management workflows for Cathay Securities and its subsidiaries include risk identification, risk measurement, risk management mechanism, and risk reporting. Risk assessment and response strategies to each risk are addressed as follows:

- Market Risk

- (a) Definition

- Market risk is the risk of losses in positions that include stocks, bonds, and derivatives etc. arising from the movement in market prices.

- (b) Controls:

- Cathay Securities and its subsidiaries set up training directions including the limits of authorization, risk limitation, stop-loss rules, and responses to the exceeded limits by each product or service line and actual operations and implement those control procedures efficiently through the risk control staff in front desk and on-line monitor system. Furthermore, Cathay Securities and its subsidiaries provide market risk management report periodically that includes market price assessments, the dollar amounts of surplus/shortfall and arbitrage, Value at Risk, back-testing model and perform pressure test by each extreme scenario to control the risks that Cathay Securities and its subsidiaries face and manage all risks as a whole efficiently.

- Credit Risk

- (a) Definition

- Credit risk is the risk that counterparty will not meet its obligations under a contract due to the aggravation of financial conditions or other factors, leading to a financial loss.

- (b) Controls

- Cathay Securities and its subsidiaries check and review credit position to each counterparty before trading and manage risk exposure after trading. Risks arising from securities trading are monitored and controlled based on credit rating model. Investment concentration and risk are analyzed and documented periodically. Investment limit to each counterparty is established by its credit rating (TCRI, Taiwan Ratings, S&P, Moody's, and Fitch).

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### *f* Operational Risk

#### (a) Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes the legal risk, but excludes strategy risk and credit risk.

#### (b) Controls

Cathay Securities and its subsidiaries establish authority levels and the segregation of duties for the processes of front, middle and back offices. Trading, confirmation, settlement, financial accounting, and trading document are archive for future reference. The strict processes are also established to prevent fraud and negligence. Cathay Securities and its subsidiaries request each department to establish and implement internal audit and control policies authentically. The reporting mechanism for loss events from operational risk and database are established to understand causes of the loss.

Besides, auditing office is established and belongs to the Board of Directors. The functions of the office are to implement daily process check to establish completed internal audit control and provide internal review report periodically to lower the loss arising from the operation failures.

### *„* Liquidity Risk

#### (a) Definition

Liquidity is defined as the capability of the company to acquire the sufficient capital and to support assets growth and payout the liabilities.

#### (b) Controls

Measurement index for liquidity risk is established and Cathay Securities compile the liquidity risk management report periodically to review capital conditions and cash flow gap as of balance dates. Capital allocation planning is based on the compiled structure analysis as of balance sheet dates. Meanwhile, acquiring the credit line of short-term financing from other financial institutions and managing receipts and payments properly to sustain appropriate liquidity and ensure the ability to make the payment.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

... 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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### (b) Controls

Cathay Securities and its subsidiaries establish internal responses and reactions to the reputation risk and strategy risk for mitigation of damages.

Risk management policies and principles are established based on above mentioned risks and management mechanisms from each risk source are set out specifically. Cathay Securities and its subsidiaries also establish the constraint for each risk and review the appropriateness of each constraint periodically. Besides, the risk management implementation reports are reported to the risk management committee, board of directors, and risk management office of Cathay financial holdings to elaborate on Cathay Securities and its subsidiaries' risk tolerance and the appropriateness of current risk management scheme.

### v. Hedge and Mitigation of Risk Strategy

The hedge and mitigation of risk strategy for Cathay Securities and its subsidiaries are implemented the dynamic hedge through investment products to duplicate the same cash flows when derivatives are matured. The hedge for outstanding stock warrants and structured products are used Delta Neutral as a principle. If the prices of those investment positions fluctuate wildly in the financial market, the violation of hedge operating due to the impact from the significant events, or the violation of the hedge operating rules from the operators, the business department is required to explain by written and report to the risk management department.

Cathay Securities establish the approval limit and stop-loss mechanism by each attributes of the product. When the position meets the prevention point, the risk management department will inform the supervisor or position administrator in time and monitor the change of the position. Besides, the business department should operate in accordance with approval limits. If the stop-loss point is met, the investment position should be sold or the business department is required to provide the exception report. The reason and specific responses are also need to be informed.

### (B) Credit risk analysis

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

- 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.

## English Translation of Financial Statements Originally Issued in Chinese

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

- ii Counterparty credit risk is a risk that the counterparty will not live up to its obligations to perform or pay on the designated dates and Cathay Securities and its subsidiaries are exposed to the risk of financial losses
- iii Underlying asset credit risk is a risk that Cathay Securities and its subsidiaries may encounter the losses from the fact that the credit quality turns weak and credit charges increase, credit rating reduces, or the terms of contract are violated from underlying asset which is related to the certain financial instruments.

Financial assets which make Cathay Securities face the credit risk include bank accounts, debt securities, the trading from Over-the-Counter derivatives, repurchase and resell debts, trading from the securities lending, refundable deposits, futures deposit in bank, other refundable deposits and account receivables etc.

### (C) Capital Liquidity Risk Analysis:

- i Cash flow analysis

Capital liquidity risk is the risk that Cathay Securities and its subsidiaries are unable to acquire the sufficient capital at the reasonable cost within the reasonable time and results in cash flow gap, or the risk that Cathay Securities and its subsidiaries sell assets at a loss to meet the cash flow requirement.

2016.12.31					
Cash Flows Analysis of Financial Liabilities					
Financial Liabilities	Payment Terms				Total
	Less than 1 month	1 to 3 months	3 to 6 months	More than 6 months	
Short-term loans	\$87,229	\$-	\$-	\$-	\$87,229
Bonds payables	5,598,838	-	-	-	5,598,838
Financial liabilities at fair value through profit or loss -current	2,035,784	-	-	-	2,035,784
Liabilities for bonds with repurchase agreements	2,339,864	-	-	-	2,339,864
Deposits for securities borrowed	34,913	69,826	104,739	418,951	628,429
Futures trader's equity	2,971,487	-	-	-	2,971,487
Securities lending margin – deposit received	1,863	3,726	5,589	22,351	33,529
Account payables	4,135,340	-	-	88,032	4,223,372
Others	36,030	-	589	-	36,619
<b>Total</b>	<b>\$17,241,348</b>	<b>\$73,552</b>	<b>\$110,917</b>	<b>\$529,334</b>	<b>\$17,955,151</b>
% to the total	96.02%	0.41%	0.62%	2.95%	100.00%

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

2016.12.31					
Cash Flow Gap					
Received Terms					
Financial Assets	Less than 1 month	1 to 3 months	3 to 6 months	More than 6 months	Total
Cash and cash equivalents	\$2,315,219	\$-	\$-	\$-	\$2,315,219
Financial assets at fair value through profit or loss -current					
Operations Security	6,966,542	-	-	-	6,966,542
Open-end Funds	59,810	-	-	-	59,810
Call option-futures	16,288	-	-	-	16,288
Futures trading margin	326,894	-	-	-	326,894
Available for sale financial assets	134,664	-	-	305,534	440,198
Securities financing receivables	176,032	352,064	528,096	2,112,385	3,168,577
Refinancing margin and refinancing deposits receivable	1,825	3,650	5,475	21,905	32,855
Client margin accounts	2,973,537	-	-	-	2,973,537
Security lending deposits price and security lending margin – deposits paid	120,142	240,284	360,426	1,441,704	2,162,556
Account receivables	3,946,278	-	-	17,877	3,964,155
Others	268,760	-	-	919,064	1,187,824
Subtotal	17,305,991	595,998	893,997	4,818,469	23,614,455
Residual cash	\$64,643	\$522,446	\$783,080	\$4,289,135	\$5,659,304

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:

## **English Translation of Financial Statements Originally Issued in Chinese**

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

- 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:

- Price value of basis point (PVBP): denoting the change in the value of a position given a basis point change in the yield curve.
- , Delta: measuring the change in the value of a position given 1% price change of a certain underlying asset.
- ƒ 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.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

VaR at one single trading day within 99% confidence level

<u>2016.1.1~2016.12.31</u>	<u>NT\$ (in thousands)</u>
Period Ended	\$15,016
Average	34,504
Lowest	15,016
Highest	53,719

### iii Stress Test

Cathay Securities and its subsidiaries perform monthly Stress Test to assess the degree of impact on the asset portfolio arising from foreign and domestic significant events and find the risk simples which have more significant influence on the asset portfolio. Follow-up and review report will be documented. Customized or extreme scenario which take rapid changes in foreign and domestic financial environment into consideration are also performed irregularly and measured the maximized losses arising from these scenarios for ensuring that Cathay Securities and its subsidiaries manage each potential scenario effectively.

- Historical Scenario

Cathay Securities and its subsidiaries assess the dollar amount of losses for the investment portfolio by choosing a specific time frame of historical event and taking the fluctuation of risk simples into the consideration such as the immediate, significant, and comprehensive impact on financial market from bankruptcy of Lehman Brothers in 2008 and Great East Japan earthquake in 2011.

- , Hypothesis Scenario

Cathay Securities and its subsidiaries make hypothesis with rational expectations from the extreme market movements to assess the dollar amount of losses for the investment position by taking the movement of relevant risk simples into consideration including 10% drops on the total values of stock market arising from the global system breakdown.

**English Translation of Financial Statements Originally Issued in Chinese**

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

2016.12.31

Table of Stress Test

<u>Risk Simple</u>	<u>Price Risk</u>	<u>Changes (+/-)</u>	<u>Changes in profit and loss</u>
Equity Risk	Stock index	<u>-10%</u>	\$(119,577)
Interest Risk	Yield Curve	<u>+100bps</u>	(96,896)
Exchange Risk	Exchange Rate	<u>+3%</u>	(7,249)
Product Risk	Price	<u>-10%</u>	-

(8) Structured entities

A. Consolidated structured entities

Cathay life and its subsidiaries own real estate investment and management organizations as consolidated structured entities. As of 31 December 2016 and 31 December 2015, Cathay life and its subsidiaries provide loans amounting to GBP £345,000 thousand and £345,000 thousand to the consolidated structured entities, respectively.

B. Unconsolidated structured entities

a. The Group do not provide financial support or other support to the unconsolidated structured entities. The Group's maximum exposure to loss from its interests in the unconsolidated structured entities are limited to the carrying amount of assets the Group recognized. The information of the recognized unconsolidated structured entities is disclosed as follows:

<u>Types of structured entity</u>	<u>Nature and purpose</u>	<u>Interests owned</u>
Private equity fund	Investment in private equity funds to receive returns	Investment in shares or limited partnership interests issued by the fund
Securitization vehicle	Investment in asset-backed security to receive returns	Investment in securitization vehicles issued by the entity

b. As of 31 December 2016 and 2015, the carrying amount of assets recognized by Cathay Life and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

**English Translation of Financial Statements Originally Issued in Chinese**

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

	2016.12.31	
	Private equity funds	Asset-backed securities
Available-for-sale financial assets	\$40,455,678	\$100,957,444
Debt instrument investments with no active market	-	106,571,086
Held-to-maturity financial assets	-	342,391,487
<b>Total</b>	<b>\$40,455,678</b>	<b>\$549,920,017</b>

	2015.12.31	
	Private equity funds	Asset-backed securities
Available-for-sale financial assets	\$32,950,640	\$120,360,084
Debt instrument investments with no active market	-	185,055,820
<b>Total</b>	<b>\$32,950,640</b>	<b>\$305,415,904</b>

- c. As of 31 December 2016 and 2015, the carrying amount of assets recognized by Cathay United Bank and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

	2016.12.31	
	Private Fund	Asset Securitization commodity
Available-for-sale financial assets	\$-	\$922,506
Held-to-maturity financial assets	-	12,296,939
Debt instrument investments with no active market	-	28,079,749
<b>Total</b>	<b>\$-</b>	<b>\$41,299,194</b>

	2015.12.31	
	Private Fund	Asset Securitization commodity
Available-for-sale financial assets	\$-	\$1,208,713
Held-to-maturity financial assets	-	15,165,099
Debt instrument investments with no active market	-	12,307,158
<b>Total</b>	<b>\$-</b>	<b>\$28,680,970</b>

**English Translation of Financial Statements Originally Issued in Chinese**

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

d. As of 31 December 2016 and 2015, the carrying amount of assets recognized by Cathay Century and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

	2016.12.31	
	Asset Securitization	
	Private Fund	commodity
Available-for-sale financial assets	\$-	\$136,785
Held-to-maturity financial assets	-	880,018
<b>Total</b>	<b>\$-</b>	<b>\$1,016,803</b>

	2015.12.31	
	Asset Securitization	
	Private Fund	commodity
Available-for-sale financial assets	\$-	\$112,549
Held-to-maturity financial assets	-	1,069,768
<b>Total</b>	<b>\$-</b>	<b>\$1,182,317</b>

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

	2016.12.31			2015.12.31		
	Foreign	Exchange	NT\$	Foreign	Exchange	NT\$
	Currency	Rate		Currency	Rate	
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	\$81,192,047	32.2790	\$2,620,798,085	\$65,214,274	33.0660	\$2,156,375,184
CNY	18,365,459	4.6219	84,883,315	35,057,071	5.0326	176,428,216
<u>Non-Monetary Items</u>						
USD	11,858,753	32.2790	382,788,688	9,827,120	33.0660	324,943,550
<u>Financial Liabilities</u>						
<u>Monetary Items</u>						
USD	11,210,625	32.2790	361,867,764	8,839,718	33.0660	292,294,115

## **English Translation of Financial Statements Originally Issued in Chinese**

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

As the Group has a large variety of foreign currencies, it is not possible to disclose the foreign currency exchange gains or losses based on each foreign currency's exposure to major impact. The foreign currency exchange gains for the years ended 31 December 2016 and 2015 were \$(42,817,155) thousand and \$50,027,860 thousand, respectively.

### (10) Discretionary account management

#### A. Discretionary account management for Cathay Life

Item	2016.12.31		2015.12.31	
	Carrying amount	Fair value	Carrying amount	Fair value
Listed stocks	\$111,615,056	\$111,615,056	\$108,750,029	\$108,750,029
Overseas stocks	43,865,191	43,865,191	46,578,040	46,578,040
Repurchase bonds	8,570,400	8,570,400	4,348,000	4,348,000
Cash in banks	18,580,579	18,580,579	12,738,482	12,738,482
Beneficiary certificates	710,198	710,198	2,233,839	2,233,839
Futures and options	247,321	247,321	1,157,650	1,157,650
Total	<u>\$183,588,745</u>	<u>\$183,588,745</u>	<u>\$175,806,040</u>	<u>\$175,806,040</u>

As of 31 December 2016, Cathay Life entered into discretionary account management contracts in the amounts of \$90,748,903 thousand, US\$1,185,000 thousand, and HK\$1,780,000 thousand. As of 31 December 2015, Cathay Life entered into discretionary account management contracts in the amounts of \$97,000,000 thousand, US\$1,237,000 thousand, and HK\$1,780,000 thousand.

#### B. Discretionary account management for Cathay Century

Item	2016.12.31		2015.12.31	
	Carrying amount	Fair value	Carrying amount	Fair value
Listed stocks	\$747,794	\$747,794	\$410,018	\$410,018
Overseas stocks	132,666	132,666	77,752	77,752
Repurchase bonds	600,050	600,050	215,147	215,147
Cash in banks	104,183	104,183	47,526	47,526
Futures and options	2,007	2,007	2,005	2,005
Total	<u>\$1,586,700</u>	<u>\$1,586,700</u>	<u>\$752,448</u>	<u>\$752,448</u>

As of 31 December 2016 and 2015, Cathay Century entered into discretionary account management contracts in the amounts of \$1,500,000 thousand and \$700,000 thousand, respectively.

**English Translation of Financial Statements Originally Issued in Chinese**

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

(11) Capital management:

Currently, the Company and its subsidiaries' capital adequacy ratios meet the statutory requirements. Under the pretext that the Company and its subsidiaries meet the statutory capital adequacy requirement, dynamic capital management mechanism is employed to increase the capital efficiency of the subsidiaries. After the redistribution of capital, the subsidiaries' ability to take risks will not be affected. Under such scenario, the Company will conduct overall planning based on the distribution of the subsidiaries' capital in order to strengthen the efficiency of capital operation within the Group.

A. Capital adequacy ratio on a consolidated basis:

Capital adequacy ratios

2016.12.31

Item	Ownership interest	Eligible capital	Statutory capital
The Company	100.00%	\$522,841,915	\$544,461,814
Cathay United Bank	100.00%	214,610,255	130,408,330
Cathay Securities	100.00%	5,042,620	1,757,108
Cathay Life	100.00%	427,858,678	280,769,853
Cathay Century	100.00%	9,385,177	4,877,648
Cathay Venture	100.00%	3,728,806	1,868,265
Cathay Securities Investment Trust	100.00%	2,141,926	1,263,804
Less: Item		(568,922,573)	(543,808,375)
Subtotal		(A) \$616,686,804	(B) \$421,598,447
Consolidated capital adequacy ratios		(C) =(A)/(B)	146.27%

2015.12.31

Item	Ownership interest	Eligible capital	Statutory capital
The Company	100.00%	\$454,181,540	\$490,471,538
Cathay United Bank	100.00%	214,974,118	104,925,328
Cathay Securities	100.00%	5,150,200	1,952,273
Cathay Life	100.00%	371,970,149	244,273,877
Cathay Century	100.00%	7,733,145	4,308,568
Cathay Venture	100.00%	2,923,824	1,471,000
Cathay Securities Investment Trust	100.00%	2,151,661	1,323,560
Less: Item		(516,761,405)	(489,536,590)
Subtotal		(A) \$542,323,232	(B) \$359,189,554
Consolidated capital adequacy ratios		(C) =(A)/(B)	150.99%

**English Translation of Financial Statements Originally Issued in Chinese**

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

B. Eligible capital

2016.12.31

Item	(NT\$)
Common Stock	\$125,632,102
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	8,333,000
Preferred Stocks and subordinated financial debenture	-
Capital collected in advance	-
Capital surplus	130,448,697
Legal reserve	30,577,724
Special reserve	149,108,336
Accumulated profit	73,001,761
Equity adjustments	6,222,952
Less: Goodwill	-
Less: Deferred assets	(482,657)
Less: Treasury stock	-
Consolidated eligible capital	\$522,841,915

2015.12.31

Item	(NT\$)
Common Stock	\$125,632,102
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	-
Capital collected in advance	-
Capital surplus	88,781,174
Legal reserve	24,820,095
Special reserve	140,185,120
Accumulated profit	65,190,213
Equity adjustments	10,448,290
Less: Goodwill	-
Less: Deferred assets	(875,454)
Less: Treasury stock	-
Consolidated eligible capital	\$454,181,540

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### (12) Business or trading activities within Subsidiaries:

#### A. Business or trading behaviors

Please refer Note 33 for further details.

#### B. Integrate business activities:

By integrating the insurance, securities, banking and other various financial institutions, the Company has become a full-functioning financial platform. Through 730 branches and nearly 30 thousand professional sales representatives across Taiwan, the Company is able to develop its cross-selling marketing strategy and provide a one-stop shopping service for its customers.

#### 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 “Cross-selling Activities Acts between Cathay Financial Holdings and its Subsidiaries”, “Cross-selling Activities Contracts between Cathay Financial Holdings and its Subsidiaries”, “Non-disclosure Agreement of Business Information and Customers’ Personal Data between Cathay Financial Holdings and its Subsidiaries”, “Non-disclosure Measures Declaration of Cathay Financial Holdings and its Subsidiaries”, “Cathay Financial Holdings’ Supervision of its Subsidiaries’ Marketing Practices”, and “Points Governing Cathay Financial Holdings’ Data Storage Management Measures” to provide customers with exit mechanism and to cross-utilize customers’ personal data under a safe and secure environment and provide comprehensive and integrated financial service to the customers.

#### D. Locations and business utilities:

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

All the business units of Cathay United Bank (162 branches) may engage in cross-selling activities for insurance business and securities business. According to the opening regulations, Cathay United Bank may engage in life insurance business and promote life insurance products.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

Cathay Life may engage in cross-selling activities for banking, property and casualty insurance businesses in all its business and service units (179 locations).

Cathay Security may engage in cross-selling activities in Cathay United Bank's Banxin branch (and other 26 branches) and Cathay Life's Taitung branch. The shared business locations are available for account opening.

### E. Allocation of revenues, costs, expenses, profits and losses:

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

### (13) Significant contracts:

None

### (14) Information regarding investment in Mainland China:

A. On 25 December 2002 and 24 July 2003, MOEAIC authorized Cathay Life to remit US\$22,850 thousand and US\$27,150 thousand, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from US\$50,000 to US\$48,330 thousand approved by MOEAIC on 20 December 2010. Also, MOEAIC authorized Cathay Life to remit US\$59,000 thousand as the registered capital again on 16 May 2008. MOEAIC authorized Cathay Life to remit US\$3,400 thousand as the registered capital again on 2 April 2012. MOEAIC also authorized the revision of the amount of US\$32,520 thousand of unexecuted project to CNY¥200,000 thousand to avoid currency risk on 14 September 2013. The total registered capital was US\$110,730 thousand. On 25 September 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life's subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on 29 December 2004 and changed its name to Cathay Lujiazui Life Insurance Company Ltd. following approval by the China Insurance Regulatory Commission on 12 August 2014. Cathay Life has remitted US\$48,330 thousand to the subsidiary as of 31 December 2009. Cathay Life injected additional US\$29,880 thousand on 29 September 2010 and CNY¥200,000 thousand on 8 May 2014. As of 31 December 2016, Cathay Life's remittances to the subsidiary totaled approximately CNY¥200,000 thousand and US\$78,210 thousand.

**English Translation of Financial Statements Originally Issued in Chinese**

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

- B. On 17 October 2007, MOEAIC authorized Cathay Life to remit US\$26,390 thousand as the registered capital to establish a China-based general insurance subsidiary (in the form of a joint venture with Cathay Century Insurance) of which was also approved by China Insurance Regulatory Commission on 8 October 2007. On 6 March 2008, MOEAIC authorized Cathay Life to increase the remittances from US\$26,390 thousand to US\$28,960 thousand. On 15 August 2008, MOEAIC further authorized Cathay Life to revise the remittance from US\$28,960 thousand to US\$28,140 thousand. The joint venture company named Cathay Insurance Company Ltd. (China) established by Cathay Life and Cathay Century Insurance in Shanghai has acquired a business license of an enterprise as legal person on 26 August 2008. On 28 May 2013, MOEAIC authorized Cathay Life to remit CNY¥200,000 thousand to increase the share capital. As of 31 December 2016, Cathay Life's remittances to this general insurance company totaled approximately CNY¥200,000 thousand and US\$28,140 thousand.
- C. On 1 November 2011 and 11 April 2012, MOEAIC authorized Cathay Life to remit CNY¥300,000 (US\$47,000) thousand and CNY¥500,000 (US\$80,000) thousand, respectively, as the registered capital to establish a China-based company named Lin Yuan (Shanghai) Real Estate Co., Ltd. Cathay Life's subsidiary, Lin Yuan (Shanghai) Real Estate Co., Ltd. has acquired a business license of an enterprise as legal person on 15 August 2012. On 1 April 2013, MOEAIC authorized Cathay Life to remit CNY¥700,000 (US\$111,000) thousand to increase the share capital. As of 31 December 2016, Cathay Life's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately CNY¥1,500,000 thousand.
- D. On 31 December 2006, MOEAIC authorized Cathay Century to remit US\$28,960 thousand as the registered capital to establish a China-based general insurance subsidiary (in the form of joint venture with Cathay Life.) Cathay Century and Cathay Life have received approved from the China Insurance Regulatory Commission on 8 October 2007 to form a joint venture general insurance company in China. Cathay Century and Cathay Life's subsidiary, Cathay Insurance Company Ltd. (China) has acquired a business license of an enterprise legal person on 26 August 2008. MOEAIC authorized Cathay Century to remit CNY¥200,000 thousand as the equity capital on 28 May 2013. As of 31 December 2016, Cathay Century's remittances to this company totaled approximately US\$60,560 thousand.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

- E. MOEAIC approved Cathay United Bank to remit to China CNY¥400,000 (US\$60,070) thousand. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank's Shanghai Branch was CNY¥400,000 (US\$59,770) thousand. The remaining amount of US\$300 thousand was repatriated by Shanghai Branch, Cathay United Bank on 5 November 2010. The investment amounts were revised by Cathay United Bank by reporting to MOEAIC in 18 January 2011 and were approved on 24 January 2011. In addition, MOEAIC further approved Cathay United Bank to remit CNY¥600,000 (US\$95,020) thousand to China. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank's Shanghai Branch was CNY¥600,000 (US\$94,930) thousand. The remaining amount of US\$90 thousand was repatriated by Cathay United Bank's Shanghai Branch on 1 February 2012. The investment amounts were revised by Cathay United Bank by reporting to MOEAIC on 20 March 2012 and were approved on 26 March 2012. MOEAIC approved Cathay United Bank's Shanghai Branch to increase the working capital of CNY¥1,000,000 (US\$164,000) thousand on 27 February 2014. According to MOEAIC, further approved working capital of Cathay United Bank's Qingdao Branch was CNY¥600,000 (US\$94,310) thousand on 21 January 2014. And the approved working capital of Cathay United Bank's Shamchun Branch was CNY¥400,000 thousand on 5 January 2015.
- F. On 9 January 2012, MOEAIC authorized Cathay Securities Investments Trust to remit CNY¥66,600 thousand as the registered capital to establish a China-based company named CDBS Cathay Asset Management (in the form of a joint venture with China Development Bank Securities). Cathay Securities Investment Trust held 33.3% number of shares. CDBS Cathay Asset Management's capital is CNY¥200,000 thousand, and has acquired a business license of an enterprise legal person on 16 August 2013. As of 31 December 2016, Cathay Securities Investment Trust remittances to CDBS Cathay Asset Management totaled approximately CNY¥66,600 thousand.
- G. On 5 March 2014, MOEAIC authorized Cathay Securities to invest in Cathay Investment Consulting (Shanghai) Co. Ltd., which was granted business license with registration number 310115400293635 on 11 June 2014 by Shanghai Pudong New Area Market Supervisory Authority of the People's Republic of China. The registered paid-in capital amounted to CNY¥8,000 (NT\$38,970) thousand.

### (15) Segment information

The Group separated operating segments based on the natures of business and they classified into five reportable segments for the purpose of management:

## English Translation of Financial Statements Originally Issued in Chinese

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

- A. Banking operating segments: Banking operating segments operate the permitted businesses of commercial banks provided by the Banking Act of the Republic of China, foreign exchange business, guarantee business, advisory service of foreign currency investments, trust business, offshore banking units and other financial business of investments from returning expatriates.
- B. Life insurance operating segments: Life insurance operating segments operate the sales of traditional insurance policies, investment-linked insurance policies and floating-rate annuity insurance products.
- C. Properties insurance operating segments: Properties insurance operating segments engage in fire insurance, marine insurance, land and air insurance, liability insurance, bonding insurance, reinsurance and other insurance.
- D. Securities operating segments: Securities operating segments are responsible for securities brokerage, discretionary and underwriting and dedicates to the innovation and development of financial products and services by providing a variety of new financial products.
- E. Other operating segments: Such segments include assets, liabilities, revenue and expenditure which are not able to be allocated to certain operating segments.

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

### A. Income information of reporting segment

2016.1.1~2016.12.31

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$25,960,366	\$127,218,298	\$555,781	\$158,359	\$(414,901)	\$153,477,903
Net income other than interest	13,536,600	351,426,736	8,369,597	1,869,732	10,599,616	385,802,281
Total income	39,496,966	478,645,034	8,925,378	2,028,091	10,184,715	539,280,184
Bad debt expenses and Provision for premiums reserve	(4,455,361)	(776,855)	576	-	-	(5,231,640)
The net change of insurance liabilities	-	(408,398,319)	(215,636)	-	-	(408,613,955)
Operating expenses	(26,040,630)	(36,589,976)	(4,406,719)	(1,612,068)	(6,600,691)	(75,250,084)
Income (loss) from continuing operations before income taxes	9,000,975	32,879,884	4,303,599	416,023	3,584,024	50,184,505
Income taxes (expense) benefit	(2,231,832)	2,514,328	(491,519)	(68,659)	(1,867,623)	(2,145,305)
Consolidated net income	6,769,143	35,394,212	3,812,080	347,364	1,716,401	48,039,200

**English Translation of Financial Statements Originally Issued in Chinese**

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

2015.1.1~2015.12.31

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$26,795,323	\$113,683,525	\$549,828	\$172,416	\$(1,202,898)	\$139,998,194
Net income other than interest	10,484,161	277,326,678	7,683,603	1,841,638	3,930,765	301,266,845
Total income	37,279,484	391,010,203	8,233,431	2,014,054	2,727,867	441,265,039
Bad debt expenses and Provision for premiums reserve	(1,921,511)	(545,750)	(191)	-	-	(2,467,452)
The net change of insurance liabilities	-	(305,863,820)	(734,455)	-	-	(306,598,275)
Operating expenses	(24,051,612)	(32,243,125)	(4,522,005)	(1,559,343)	(2,691,025)	(65,067,110)
Income (loss) from continuing operations before income taxes	11,306,361	52,357,508	2,976,780	454,711	36,842	67,132,202
Income taxes (expense) benefit	(2,512,520)	(4,572,733)	(287,150)	(58,335)	(1,819,093)	(9,249,831)
Consolidated net income	8,793,841	47,784,775	2,689,630	396,376	(1,782,251)	57,882,371

B. Segment information

Revenue from external customers

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Taiwan	\$47,070,965	\$48,072,100
Other countries	106,406,938	91,926,094
Total	<u>\$153,477,903</u>	<u>\$139,998,194</u>

Revenue is classified by the residency of customers.

Note:

- (1) Revenues from each external customer are all less than 10% of total revenue of the Group.
- (2) Income of operating segments is measured before taxes. Income of operating segments is the basis of resources distribution and performance evaluation.

**English Translation of Financial Statements Originally Issued in Chinese**  
**Cathay Financial Holding Co., Ltd.**

**Balance sheet**

**As of 31 December 2016 and 31 December 2015**  
**(Expressed in thousands of New Taiwan Dollars)**

	2016.12.31	2015.12.31
<b>Assets</b>		
Cash and cash equivalents	\$14,822,959	\$4,143,951
Available-for-sale financial assets - net	85,689	79,451
Securities purchased under agreements to resell	79,968	499,422
Receivables - net	537,085	822,620
Current income tax assets	4,215,323	4,323,586
Held-to-maturity financial assets	41,000,000	16,000,000
Investments accounted for using the equity method - net	507,608,375	487,136,590
Other financial assets - net	430,111	-
Property and equipment - net	7,699	7,249
Intangible assets - net	11,968	17,288
Deferred tax assets - net	482,657	875,454
Other assets - net	10,998	8,340
<b>Total assets</b>	<b>\$569,292,832</b>	<b>\$513,913,951</b>
<b>Liabilities &amp; Equity</b>		
<b>Liabilities</b>		
Commercial paper payable	\$35,980,000	\$28,820,000
Payables	5,625,178	8,278,845
Current income tax liabilities	3,031,746	946,549
Bonds payable	-	20,000,000
Provisions	918,764	726,597
Deferred tax liabilities	226,707	2,915
Other liabilities	185,865	82,051
<b>Total liabilities</b>	<b>45,968,260</b>	<b>58,856,957</b>
<b>Equity</b>		
Capital stock		
Common stock	125,632,102	125,632,102
Perferred stock	8,333,000	-
Capital surplus	130,448,697	88,781,174
Retained earnings		
Legal reserve	30,577,724	24,820,095
Special reserve	149,108,336	140,185,120
Undistributed earnings	73,001,761	65,190,213
Other equity	6,222,952	10,448,290
<b>Total equity</b>	<b>523,324,572</b>	<b>455,056,994</b>
<b>Total liabilities and equity</b>	<b>\$569,292,832</b>	<b>\$513,913,951</b>

**English Translation of Financial Statements Originally Issued in Chinese**

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

**Statements of Comprehensive Income**

**For the years ended 31 December 2016 and 2015**

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

	2016.1.1~2016.12.31	2015.1.1~2015.12.31
<b>Income</b>		
Gains on investment - equity method	\$48,764,631	\$59,789,114
Other operating income	1,800,203	1,206,780
	<u>50,564,834</u>	<u>60,995,894</u>
<b>Expenses and loss</b>		
Operating expenses	(772,271)	(648,992)
Other expenses and losses	(599,464)	(1,328,856)
	<u>(1,371,735)</u>	<u>(1,977,848)</u>
<b>Profit before income tax from continuing operations</b>	49,193,099	59,018,046
<b>Income tax expense</b>	(1,574,286)	(1,504,474)
<b>Profit after income tax from continuing operations</b>	<u>47,618,813</u>	<u>57,513,572</u>
<b>Net Income</b>	<u>47,618,813</u>	<u>57,513,572</u>
<b>Other comprehensive income</b>		
<b>Not to be reclassified to profit or loss in subsequent periods:</b>		
Remeasurements of defined benefit plans	(8,793)	(10,334)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method - not to be reclassified to profit or loss in subsequent periods	661,996	(2,345,300)
Income tax relating to the components not to be reclassified to profit or loss in subsequent periods	1,495	1,757
<b>To be reclassified to profit or loss in subsequent periods:</b>		
Unrealized gains (losses) from available-for-sale financial assets	6,238	(141,335)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method - to be reclassified to profit or loss in subsequent periods	(4,886,274)	(43,102,881)
Income tax relating to the components to be reclassified to profit or loss in subsequent periods	-	24,149
<b>Other comprehensive income, net of tax</b>	<u>(4,225,338)</u>	<u>(45,573,944)</u>
<b>Total comprehensive income</b>	<u><u>\$43,393,475</u></u>	<u><u>\$11,939,628</u></u>
<b>Earnings per share (expressed in dollars)</b>		
Basic earnings per share:		
Net income	<u>\$3.79</u>	<u>\$4.58</u>

**English Translation of Financial Statements Originally Issued in Chinese**  
**Cathay Financial Holding Co., Ltd.**  
**Statements of Changes in Equity**  
**For the years ended 31 December 2016 and 2015**  
**(Expressed in thousands of New Taiwan Dollars)**

Items	Equity attributable to owners of parent													Total
	Capital stock			Retained earnings				Other equity						
	Common stock	Preferred stock	Capital Surplus	Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of a foreign operation	Unrealized gains (losses) from available-for-sale financial assets	Gains (losses) on cash flow hedges	Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	Remeasurements of defined benefit plans	Revaluation Surplus	Others	
Balance on 1 January 2015	\$125,632,102	\$-	\$88,782,304	\$19,784,401	\$82,305,614	\$60,939,777	\$601,786	\$44,257,646	\$180,453	\$48,151	\$918,332	\$10,030,820	\$(781)	\$433,480,605
Appropriations and distribution for 2014														
Legal reserve				5,035,694		(5,035,694)								-
Cash dividends					23,148,991	(23,148,991)								-
Stock dividends						(25,126,420)								(25,126,420)
Reversal of special reserve					(33,796)	33,796								-
Other additional paid-in capital														
Share of changes in net assets of associates and joint ventures accounted for using the equity method			(1,130)											(1,130)
Net income for the year ended 31 December 2015 (Note 1)						57,513,572								57,513,572
Other comprehensive income for the year ended 31 December 2015							1,263,580	(44,674,719)	191,071	35,311	(2,481,087)	92,136	(236)	(45,573,944)
Comprehensive income for the year ended 31 December 2015	-	-	-	-	-	57,513,572	1,263,580	(44,674,719)	191,071	35,311	(2,481,087)	92,136	(236)	11,939,628
Others					34,764,311	14,173						(14,173)		34,764,311
Balance on 31 December 2015	\$125,632,102	\$-	\$88,781,174	\$24,820,095	\$140,185,120	\$65,190,213	\$1,865,366	\$(417,073)	\$371,524	\$83,462	\$(1,562,755)	\$10,108,783	\$(1,017)	\$455,056,994
Appropriations and distribution for 2015														
Legal reserve				5,757,629		(5,757,629)								-
Special reserve					8,923,216	(8,923,216)								-
Cash dividends						(25,126,420)								(25,126,420)
Other additional paid-in capital														
Share of changes in net assets of associates and joint ventures accounted for using the equity method			2,523											2,523
Net income for the year ended 31 December 2016 (Note 2)						47,618,813								47,618,813
Other comprehensive income for the year ended 31 December 2016							(9,140,278)	4,440,232	(179,990)	36,859	616,822	-	1,017	(4,225,338)
Comprehensive income for the year ended 31 December 2016	-	-	-	-	-	47,618,813	(9,140,278)	4,440,232	(179,990)	36,859	616,822	-	1,017	43,393,475
Issue of preferred stock		8,333,000	41,665,000											49,998,000
Balance on 31 December 2016	\$125,632,102	\$8,333,000	\$130,448,697	\$30,577,724	\$149,108,336	\$73,001,761	\$(7,274,912)	\$4,023,159	\$191,534	\$120,321	\$(945,933)	\$10,108,783	\$-	\$523,324,572

Note1: For the year ended 2015, the remuneration to directors and supervisors in the amount of \$2,100 thousand and employees' compensation in the amount of \$5,903 thousand have been deducted from the Statement of Comprehensive Income.

Note2: For the year ended 2016, the remuneration to directors and supervisors in the amount of \$1,800 thousand and employees' compensation in the amount of \$4,920 thousand have been deducted from the Statement of Comprehensive Income.

**English Translation of Financial Statements Originally Issued in Chinese**

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

**Statements of Cash Flows**

**For the years ended 31 December 2016 and 2015**

**(Expressed in thousands of New Taiwan Dollars)**

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
<b>Cash flows from operating activities</b>		
Profit before income tax from continuing operations	\$49,193,099	\$59,018,046
Adjustments :		
Income and other adjustments with no cash flow effects		
Depreciation	1,777	1,561
Amortization	5,319	5,319
Interest expenses	544,652	1,286,390
Interest income	(424,407)	(944,072)
Share of profit of associates and joint ventures accounted for using the equity method	(48,764,631)	(59,789,114)
Losses on disposal of property and equipment	-	285
Gains on disposal of investments	-	(220,298)
Unrealized foreign exchange losses (gains)	20,173	(8,748)
Others	(1,325,222)	(8,346)
Changes in operating assets and liabilities		
Decrease in available-for-sale financial assets	-	705,548
Decrease (increase) in accounts receivable	62,527	(198,585)
Decrease in held-to-maturity financial assets	10,000,000	15,000,000
Increase in held-to-maturity financial assets	(35,000,000)	-
Increase in other financial assets	(430,111)	-
(Increase) decrease in other assets	(2,658)	137,793
Decrease in payables	(2,530,242)	(2,556,772)
Increase (decrease) in provisions	183,374	(1,792)
Increase in other liabilities	103,814	72,511
Cash generated from operations		
Interest received	647,415	4,946,663
Interest paid	(668,076)	(1,299,979)
Income taxes received	1,237,259	2,719,431
<b>Net cash flows (used in) from operating activities</b>	<b>(27,145,938)</b>	<b>18,865,841</b>
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment	(2,227)	(2,366)
Dividends received	25,953,687	18,505,732
<b>Net cash from investing activities</b>	<b>25,951,460</b>	<b>18,503,366</b>
<b>Cash flows from financing activities</b>		
Increase in commercial paper payable	7,160,000	8,470,000
Decrease in bonds payable	(20,000,000)	(20,000,000)
Dividends paid	(25,126,420)	(25,126,420)
Increase in cash capital	49,998,000	-
Acquisition of subsidiary	(557,375)	-
<b>Net cash flows from (used in) financing activities</b>	<b>11,474,205</b>	<b>(36,656,420)</b>
<b>Effects of exchange rate changes on cash and cash equivalents</b>	<b>(20,173)</b>	<b>8,748</b>
<b>Increase in cash and cash equivalents</b>	<b>10,259,554</b>	<b>721,535</b>
<b>Cash and cash equivalents at the beginning of periods</b>	<b>4,643,373</b>	<b>3,921,838</b>
<b>Cash and cash equivalents at the end of periods</b>	<b>\$14,902,927</b>	<b>\$4,643,373</b>
<b>The components of cash and cash equivalents</b>		
Cash and cash equivalents presented in balance sheet	\$14,822,959	\$4,143,951
Securities purchased under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7	79,968	499,422
<b>Cash and cash equivalents at the end of periods</b>	<b>\$14,902,927</b>	<b>\$4,643,373</b>

**English Translation of Financial Statements Originally Issued in Chinese**

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

**Cathay Life Insurance Co., Ltd.  
Condensed Balance Sheet  
As of 31 December 2016 and 31 December 2015  
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.12.31	2015.12.31
<b>Assets</b>		
Cash and cash equivalents	\$140,831,329	\$137,148,959
Receivables	67,241,645	57,251,695
Financial asset at fair value through profit or loss	38,630,178	34,963,052
Available-for-sale financial assets	1,412,651,333	1,332,387,023
Derivative financial assets for hedging	232,269	447,326
Investments accounted for using the equity method	84,609,212	72,786,479
Investment in debt securities with no active market	2,116,583,614	1,836,032,459
Held-to-maturity financial assets	26,551,251	23,478,810
Other financial assets	7,661,395	18,000,000
Investment property	415,029,800	411,265,270
Loans	621,186,946	655,130,382
Reinsurance contract assets	703,844	638,818
Property and equipment	27,983,884	25,684,589
Intangible assets	37,657,462	39,684,351
Deferred tax assets	11,140,995	11,519,847
Other assets	28,031,900	25,529,297
Separate account product assets	497,855,802	480,366,122
<b>Total assets</b>	<b>\$5,534,582,859</b>	<b>\$5,162,314,479</b>
<b>Liabilities</b>		
Payables	\$21,434,245	\$17,906,669
Financial liability at fair value through profit or loss	26,982,208	38,859,128
Bonds payable	35,000,000	-
Preferred stock liability	5,000,000	15,000,000
Insurance liability	4,539,152,066	4,151,262,555
Reserve for insurance contract		
with feature of financial instruments	4,392,757	49,123,102
Foreign exchange volatility reserve	9,871,478	16,026,449
Liability reserve	56,245	4,350,842
Deferred tax liability	27,254,976	36,235,508
Other liability	6,287,921	7,277,007
Separate account product liabilities	497,855,802	480,366,122
<b>Total liabilities</b>	<b>5,173,287,698</b>	<b>4,816,407,382</b>
<b>Stockholders' equity</b>		
Capital stock	53,065,274	53,065,274
Capital surplus	13,768,468	13,028,012
Retained earnings	298,348,294	283,470,744
Others	(3,886,875)	(3,656,933)
<b>Total stockholders' equity</b>	<b>361,295,161</b>	<b>345,907,097</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$5,534,582,859</b>	<b>\$5,162,314,479</b>

**Cathay Life Insurance Co., Ltd.  
Condensed Statement of Comprehensive Income  
For the years ended 31 December 2016 and 2015  
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	\$836,502,388	\$719,744,096
Operating costs	(786,309,932)	(656,926,461)
Operating expenses	(24,154,280)	(20,380,952)
Operating profit	26,038,176	42,436,683
Non-operating income and expenses	1,955,342	1,284,333
Profit from continuing operations before income tax	27,993,518	43,721,016
Income tax profit (expense)	2,135,142	(5,478,377)
Profit from continuing operations after income tax	30,128,660	38,242,639
Net income	30,128,660	38,242,639
Other comprehensive loss	(229,942)	(45,386,605)
<b>Total comprehensive income (loss)</b>	<b>\$29,898,718</b>	<b>\$(7,143,966)</b>
Primary earnings per share	\$5.68	\$7.21

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Century Insurance Co., Ltd.  
Condensed Balance Sheet  
As of 31 December 2016 and 31 December 2015  
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.12.31	2015.12.31
<b>Assets</b>		
Cash and cash equivalents	\$6,795,981	\$7,501,128
Receivables	1,946,466	2,417,043
Financial asset at fair value through profit or loss	875,543	1,408,854
Available-for-sale financial assets	9,201,915	7,228,280
Investments accounted for using the equity method	1,893,711	918,299
Investment in debt securities with no active market	2,468,267	3,369,173
Held-to-maturity financial assets	5,682,189	4,035,718
Loans	354,812	366,255
Reinsurance contract assets	7,777,095	5,325,295
Property and equipment	90,794	124,877
Intangible assets	32,096	21,497
Deferred tax assets	132,374	93,269
Other assets	642,153	661,876
<b>Total assets</b>	<b>\$37,893,396</b>	<b>\$33,471,564</b>
<b>Liabilities</b>		
Payables	\$2,636,465	\$2,701,827
Financial liability at fair value through profit or loss	54,590	192,554
Preferred stock liability	1,000,000	1,000,000
Insurance liability	23,993,602	21,475,467
Liability reserve	380,158	381,016
Deferred tax liability	260,485	35,991
Other liability	352,115	790,994
<b>Total liabilities</b>	<b>28,677,415</b>	<b>26,577,849</b>
<b>Stockholders' equity</b>		
Capital stock	2,889,552	2,802,202
Retained earnings	6,849,656	4,466,535
Others	(523,227)	(375,022)
<b>Total stockholders' equity</b>	<b>9,215,981</b>	<b>6,893,715</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$37,893,396</b>	<b>\$33,471,564</b>

**Cathay Century Insurance Co., Ltd.  
Condensed Statement of Comprehensive Income  
For the years ended 31 December 2016 and 2015  
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	\$17,678,368	\$15,291,494
Operating costs	(9,646,130)	(8,939,052)
Operating expenses	(5,063,048)	(4,880,894)
Operating profit	2,969,190	1,471,548
Non-operating income and expenses	(7,151)	(2,867)
Profit from continuing operations before income tax	2,962,039	1,468,681
Income tax expense	(491,568)	(287,144)
Profit from continuing operations after income tax	2,470,471	1,181,537
Net income	2,470,471	1,181,537
Other comprehensive loss	(148,205)	(411,580)
<b>Total comprehensive income</b>	<b>\$2,322,266</b>	<b>\$769,957</b>
Primary earnings per share	\$8.55	\$4.09

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Lujiazui Life Insurance Co., Ltd.  
Condensed Balance Sheet  
As of 31 December 2016 and 31 December 2015  
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.12.31	2015.12.31
<b>Assets</b>		
Cash and cash equivalents	\$2,260,384	\$887,809
Receivables	633,632	402,282
Financial asset at fair value through profit or loss	371,693	941,191
Available-for-sale financial assets	2,807,016	4,202,509
Investment in debt securities with no active market	9,396,965	6,723,855
Held-to-maturity financial assets	881,767	1,248,771
Loans	102,607	75,069
Reinsurance contract assets	34,935	25,237
Property and equipment	64,909	112,697
Intangible assets	28,042	47,980
Other assets	1,574,840	1,688,828
Separate account product assets	158,408	202,239
<b>Total assets</b>	<b>\$18,315,198</b>	<b>\$16,558,467</b>
<b>Liabilities</b>		
Short-term debt	\$46,444	\$61,104
Payables	1,381,443	869,955
Reserve for insurance contract with feature of financial instruments	5,927,993	4,879,862
Insurance liability	6,794,489	6,032,812
Other liability	27,833	24,085
Separate account product liabilities	158,408	202,239
<b>Total liabilities</b>	<b>14,336,610</b>	<b>12,070,057</b>
<b>Stockholders' equity</b>		
Capital stock	7,067,795	7,067,795
Retained earnings	(3,330,427)	(3,448,140)
Others	241,220	868,755
<b>Total stockholders' equity</b>	<b>3,978,588</b>	<b>4,488,410</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$18,315,198</b>	<b>\$16,558,467</b>

**Cathay Lujiazui Life Insurance Co., Ltd.  
Condensed Statement of Comprehensive Income  
For the years ended 31 December 2016 and 2015  
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	\$5,477,738	\$4,596,219
Operating costs	(3,891,114)	(2,961,995)
Operating expenses	(1,467,901)	(1,209,613)
Operating profit	118,723	424,611
Non-operating income and expenses	(1,010)	(24,227)
Profit from continuing operations before income tax	117,713	400,384
Income tax expense	-	-
Profit from continuing operations after income tax	117,713	400,384
Net income	117,713	400,384
Other comprehensive (loss) income	(627,535)	154,960
<b>Total comprehensive (loss) income</b>	<b>\$(509,822)</b>	<b>\$555,344</b>
Primary earnings per share	<u>Note</u>	<u>Note</u>

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Company (Vietnam)  
Condensed Balance Sheet  
As of 31 December 2016 and 31 December 2015  
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.12.31	2015.12.31
Assets		
Cash and cash equivalents	\$262,961	\$119,309
Receivables	373,027	242,289
Available-for-sale financial assets	6,158,060	3,774,324
Investment in debt securities with no active market	198,520	200,634
Loans	22,820	17,524
Property and equipment	14,877	15,239
Intangible assets	174	242
Other assets	43,477	41,299
Total assets	<u>\$7,073,916</u>	<u>\$4,410,860</u>
Liabilities		
Payables	\$56,232	\$41,066
Current income tax liability	8,308	2,567
Insurance liability	1,185,667	792,620
Other liability	425	499
Total liabilities	<u>1,250,632</u>	<u>836,752</u>
Stockholders' equity		
Capital stock	5,410,990	3,424,930
Retained earnings	398,269	212,054
Others	14,025	(62,876)
Total stockholders' equity	<u>5,823,284</u>	<u>3,574,108</u>
Total liabilities and stockholders' equity	<u>\$7,073,916</u>	<u>\$4,410,860</u>

**Cathay Life Insurance Company (Vietnam)  
Condensed Statement of Comprehensive Income  
For the years ended 31 December 2016 and 2015  
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	\$1,032,372	\$637,259
Operating costs	(511,133)	(424,757)
Operating expenses	(292,840)	(202,286)
Operating profit	228,399	10,216
Non-operating income and expenses	1,930	4,851
Profit from continuing operations before income tax	230,329	15,067
Income tax expense	(44,114)	(2,554)
Profit from continuing operations after income tax	186,215	12,513
Net income	186,215	12,513
Other comprehensive income (loss)	76,901	(104,943)
Total comprehensive income (loss)	<u>\$263,116</u>	<u>\$(92,430)</u>
Primary earnings per share	<u>Note</u>	<u>Note</u>

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Lin Yuan (Shanghai) Real Estate Co., Ltd.  
Condensed Balance Sheet  
As of 31 December 2016 and 31 December 2015  
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.12.31	2015.12.31
Assets		
Current assets	\$654,653	\$482,681
Investment property	6,623,574	6,854,985
Property and equipment	574,700	649,670
Total assets	<u>\$7,852,927</u>	<u>\$7,987,336</u>
Liabilities		
Current liability	\$1,617	\$312
Deferred tax liability	267,939	144,527
Other liability	91,823	91,579
Total liabilities	<u>361,379</u>	<u>236,418</u>
Stockholders' equity		
Capital stock	7,223,435	7,223,435
Retained earnings	481,748	40,289
Others	(213,635)	487,194
Total stockholders' equity	<u>7,491,548</u>	<u>7,750,918</u>
Total liabilities and stockholders' equity	<u>\$7,852,927</u>	<u>\$7,987,336</u>

**Lin Yuan (Shanghai) Real Estate Co., Ltd.  
Condensed Statement of Comprehensive Income  
For the years ended 31 December 2016 and 2015  
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	\$649,152	\$282,668
Operating expenses	(65,118)	(81,032)
Operating profit	584,034	201,636
Non-operating income and expenses	(18)	8,087
Profit from continuing operations before income tax	584,016	209,723
Income tax expense	(142,557)	(47,897)
Profit from continuing operations after income tax	441,459	161,826
Net income	441,459	161,826
Other comprehensive loss	(700,829)	(31,402)
Total comprehensive (loss) income	<u>\$(259,370)</u>	<u>\$130,424</u>
Primary earnings per share	<u>Note</u>	<u>Note</u>

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Woolgate Exchange Holding 1 Limited**  
**Condensed Balance Sheet**  
**As of 31 December 2016 and 31 December 2015**  
**(Expressed in thousands of New Taiwan Dollars)**

<u>Items</u>	<u>2016.12.31</u>	<u>2015.12.31</u>
Assets		
Current assets	\$1,773,667	\$1,938,494
Investment property	12,696,899	15,152,874
Total assets	<u>\$14,470,566</u>	<u>\$17,091,368</u>
Liabilities		
Current liability	\$92,333	\$223,331
Total liabilities	<u>92,333</u>	<u>223,331</u>
Stockholders' equity		
Capital stock	16,654,013	16,654,013
Retained earnings	1,653,963	844,375
Others	(3,929,743)	(630,351)
Total stockholders' equity	<u>14,378,233</u>	<u>16,868,037</u>
Total liabilities and stockholders' equity	<u>\$14,470,566</u>	<u>\$17,091,368</u>

**Cathay Woolgate Exchange Holding 1 Limited**  
**Condensed Statement of Comprehensive Income**  
**For the years ended 31 December 2016 and 2015**  
**(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

<u>Items</u>	<u>2016.1.1~2016.12.31</u>	<u>2015.1.1~2015.12.31</u>
Operating income	\$1,222,268	\$875,555
Operating expenses	(889)	(584)
Operating profit	<u>1,221,379</u>	<u>874,971</u>
Profit from continuing operations before income tax	1,221,379	874,971
Income tax expense	(39,003)	(162,183)
Profit from continuing operations after income tax	<u>1,182,376</u>	<u>712,788</u>
Net income	1,182,376	712,788
Other comprehensive loss	(3,299,392)	(100,854)
Total comprehensive (loss) income	<u>\$(2,117,016)</u>	<u>\$611,934</u>
Primary earnings per share	<u>Note</u>	<u>Note</u>

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Woolgate Exchange Holding 2 Limited  
Condensed Balance Sheet  
As of 31 December 2016 and 31 December 2015  
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.12.31	2015.12.31
Assets		
Current assets	\$18,075	\$18,458
Investment property	128,251	153,059
Total assets	<u>\$146,326</u>	<u>\$171,517</u>
Liabilities		
Current liability	\$842	\$2,256
Total liabilities	<u>842</u>	<u>2,256</u>
Stockholders' equity		
Capital stock	168,222	168,222
Retained earnings	16,992	7,400
Others	(39,730)	(6,361)
Total stockholders' equity	<u>145,484</u>	<u>169,261</u>
Total liabilities and stockholders' equity	<u>\$146,326</u>	<u>\$171,517</u>

**Cathay Woolgate Exchange Holding 2 Limited  
Condensed Statement of Comprehensive Income  
For the years ended 31 December 2016 and 2015  
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	\$12,342	\$8,840
Operating expenses	(830)	(677)
Operating profit	11,512	8,163
Profit from continuing operations before income tax	11,512	8,163
Income tax expense	(143)	(1,639)
Profit from continuing operations after income tax	11,369	6,524
Net income	11,369	6,524
Other comprehensive loss	(33,369)	(1,019)
Total comprehensive (loss) income	<u>\$(22,000)</u>	<u>\$5,505</u>
Primary earnings per share	<u>Note</u>	<u>Note</u>

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Walbrook Holding 1 Limited**  
**Condensed Balance Sheet**  
**As of 31 December 2016 and 31 December 2015**  
**(Expressed in thousands of New Taiwan Dollars)**

Items	2016.12.31	2015.12.31
Assets		
Current assets	\$668,335	\$860,770
Investment property	21,561,429	25,368,906
Other non-current assets	6,813	68,808
Total assets	<u>\$22,236,577</u>	<u>\$26,298,484</u>
Liabilities		
Current liability	\$69,664	\$65,009
Other non-current liability	12,982,046	16,074,007
Total liabilities	<u>13,051,710</u>	<u>16,139,016</u>
Stockholders' equity		
Capital stock	10,189,090	10,189,090
Retained earnings	761,707	(321,891)
Others	(1,765,930)	292,269
Total stockholders' equity	<u>9,184,867</u>	<u>10,159,468</u>
Total liabilities and stockholders' equity	<u>\$22,236,577</u>	<u>\$26,298,484</u>

**Cathay Walbrook Holding 1 Limited**  
**Condensed Statement of Comprehensive Income**  
**For the years ended 31 December 2016**  
**and for the nine-month periods ended 31 December 2015**  
**(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.12.31	2015.4.1~2015.12.31
Operating income	\$1,604,078	\$231,771
Operating cost	(498,330)	(347,830)
Operating expense	(2,178)	(159,667)
Operating profit (loss)	1,103,570	(275,726)
Profit (loss) from continuing operations before income tax	1,103,570	(275,726)
Income tax expense	(19,972)	(46,165)
Profit (loss) from continuing operations after income tax	1,083,598	(321,891)
Net income (loss)	1,083,598	(321,891)
Other comprehensive (loss) income	(2,058,199)	292,269
Total comprehensive loss	<u>\$(974,601)</u>	<u>\$(29,622)</u>
Primary earnings per share	<u>Note 1</u>	<u>Note 1</u>

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

Note 2: Cathay Walbrook Holding 1 Limited was incorporated to the consolidated financial statements on 31 March 2015.

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Walbrook Holding 2 Limited**  
**Condensed Balance Sheet**  
**As of 31 December 2016 and 31 December 2015**  
**(Expressed in thousands of New Taiwan Dollars)**

<u>Items</u>	<u>2016.12.31</u>	<u>2015.12.31</u>
Assets		
Current assets	\$33,652	\$44,670
Investment property	1,134,812	1,335,206
Other non-current assets	359	3,622
Total assets	<u>\$1,168,823</u>	<u>\$1,383,498</u>
Liabilities		
Current liability	\$3,667	\$3,422
Other non-current liability	683,265	846,000
Total liabilities	<u>686,932</u>	<u>849,422</u>
Stockholders' equity		
Capital stock	536,268	536,268
Retained earnings	38,341	(17,572)
Others	(92,718)	15,380
Total stockholders' equity	<u>481,891</u>	<u>534,076</u>
Total liabilities and stockholders' equity	<u>\$1,168,823</u>	<u>\$1,383,498</u>

**Cathay Walbrook Holding 2 Limited**  
**Condensed Statement of Comprehensive Income**  
**For the years ended 31 December 2016**  
**and for the nine-month periods ended 31 December 2015**  
**(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

<u>Items</u>	<u>2016.1.1~2016.12.31</u>	<u>2015.4.1~2015.12.31</u>
Operating income	\$84,425	\$12,199
Operating cost	(26,228)	(18,307)
Operating expense	(1,234)	(9,034)
Operating profit (loss)	<u>56,963</u>	<u>(15,142)</u>
Profit (loss) from continuing operations before income tax	56,963	(15,142)
Income tax expense	(1,050)	(2,430)
Profit (loss) from continuing operations after income tax	<u>55,913</u>	<u>(17,572)</u>
Net income (loss)	55,913	(17,572)
Other comprehensive (loss) income	(108,098)	15,380
Total comprehensive loss	<u>\$(52,185)</u>	<u>\$(2,192)</u>
Primary earnings per share	<u>Note 1</u>	<u>Note 1</u>

Note 1: Cathay Walbrook Holding 2 Limited is a limited company; there is no information about earnings per share.

Note 2: Cathay Walbrook Holding 2 Limited was incorporated to the consolidated financial statements on 31 March 2015.

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Insurance Co., Ltd (Vietnam)  
Condensed Balance Sheet  
As of 31 December 2016 and 31 December 2015  
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.12.31	2015.12.31
<b>Assets</b>		
Cash and cash equivalents	\$165,874	\$54,030
Receivables	36,843	67,574
Investment in debt securities with no active market	52,466	113,805
Held-to-maturity financial assets	430,276	426,370
Reinsurance contract assets	251,967	336,500
Property and equipment	468	954
Intangible assets	2,328	1,696
Deferred tax assets	2	-
Other assets	30,122	28,841
<b>Total assets</b>	<b>\$970,346</b>	<b>\$1,029,770</b>
<b>Liabilities</b>		
Payables	\$27,903	\$31,123
Liability reserve	323,426	402,045
Deferred tax liability	-	44
Other liability	6,346	3,642
<b>Total liabilities</b>	<b>357,675</b>	<b>436,854</b>
<b>Stockholders' equity</b>		
Capital stock	845,585	845,585
Retained earnings	(139,183)	(153,945)
Others	(93,731)	(98,724)
<b>Total stockholders' equity</b>	<b>612,671</b>	<b>592,916</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$970,346</b>	<b>\$1,029,770</b>

**Cathay Insurance Co., Ltd (Vietnam)  
Condensed Statement of Comprehensive Income  
For the years ended 31 December 2016 and 2015**

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	\$183,870	\$121,703
Operating costs	(62,696)	(35,299)
Operating expenses	(106,618)	(87,985)
Operating profit (loss)	14,556	(1,581)
Non-operating income and expenses	158	4
Profit (loss) from continuing operations before income tax	14,714	(1,577)
Income tax profit (expense)	48	(5)
Profit (loss) from continuing operations after income tax	14,762	(1,582)
Net income (loss)	14,762	(1,582)
Other comprehensive income (loss)	4,993	(12,104)
<b>Total comprehensive income (loss)</b>	<b>\$19,755</b>	<b>\$(13,686)</b>
Primary earnings per share	Note	Note

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Conning Holdings Limited**  
**Condensed Balance Sheet**  
**As of 31 December 2016 and 31 December 2015**  
**(Expressed in thousands of New Taiwan Dollars)**

Items	2016.12.31	2015.12.31
<b>Assets</b>		
Current assets	\$4,785,821	\$1,813,701
Financial asset at fair value through profit or loss	\$80,102	-
Investment in debt securities with no active market	3,250	3,330
Held-to-maturity financial assets	342,391	-
Property and equipment	199,970	134,459
Intangible assets	11,359,876	7,873,404
Deferred tax assets	1,499,196	-
Other non-current assets	224,632	236,222
<b>Total assets</b>	<b>\$18,495,238</b>	<b>\$10,061,116</b>
<b>Liabilities</b>		
Current liability	\$1,652,779	\$984,287
Liability reserve	367,981	48,607
Deferred tax liability	1,335,556	600,373
Other non-current liability	387,097	331,147
<b>Total liabilities</b>	<b>3,743,413</b>	<b>1,964,414</b>
<b>Stockholders' equity</b>		
Capital stock	90,113	326
Capital surplus	14,417,767	7,839,350
Retained earnings	(58,528)	(71,440)
Others	(396,992)	245,014
Non-controlling interest	699,465	83,452
<b>Total stockholders' equity</b>	<b>14,751,825</b>	<b>8,096,702</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$18,495,238</b>	<b>\$10,061,116</b>

**Conning Holdings Limited**  
**Condensed Statement of Comprehensive Income**  
**For the years ended 31 December 2016**  
**and from 18 September 2015 to 31 December 2015**  
**(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.12.31	2015.9.18~2015.12.31
Operating income	\$5,625,559	\$1,084,564
Operating costs	(739,117)	(196,010)
Operating expenses	(4,789,513)	(986,846)
Operating profit (loss)	96,929	(98,292)
Profit (loss) from continuing operations before income tax	96,929	(98,292)
Income tax (expense) profit	(36,912)	31,401
Profit (loss) from continuing operations after income tax	60,017	(66,891)
Net income (loss)	60,017	(66,891)
Other comprehensive (loss) income	(671,025)	245,995
<b>Total comprehensive (loss) income</b>	<b>\$(611,008)</b>	<b>\$179,104</b>
Primary earnings per share	Note	Note

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay United Bank Co., Ltd.  
Condensed Balance Sheet  
As of 31 December 2016 and 31 December 2015  
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.12.31	2015.12.31
<b>Assets</b>		
Cash and cash equivalents	\$56,011,450	\$61,271,514
Due from the Central Bank and call loans to banks	68,782,302	91,643,190
Financial assets at fair value through profit or loss	196,166,871	254,226,830
Securities purchased under agreements to resell	36,466,540	44,508,936
Receivables	79,273,844	81,027,553
Discounts and loans	1,403,835,506	1,101,512,688
Available-for-sale financial assets	151,932,723	130,557,629
Held-to-maturity financial assets	42,894,957	49,612,107
Investments accounted for using the equity method	7,877,956	7,783,391
Other financial assets	3,373	1,350
Investment in debt securities with no active market	397,475,008	442,764,138
Property and equipment	24,208,305	24,485,549
Investment property	1,554,600	1,635,249
Intangible assets	7,413,407	7,161,759
Deferred tax assets	1,410,010	1,864,066
Other assets	36,538,491	42,545,783
<b>Total assets</b>	<b>\$2,511,845,343</b>	<b>\$2,342,601,732</b>
<b>Liabilities</b>		
Due to the Central Bank and call loans from banks	\$67,298,569	\$38,639,771
Financial liabilities at fair value through profit or loss	88,060,416	100,397,997
Securities sold under agreements to repurchase	56,752,751	54,037,877
Payables	22,183,733	17,848,009
Current income tax liabilities	269,766	415,211
Deposits and remittances	1,993,999,765	1,847,919,684
Financial debentures payable	51,900,000	51,900,000
Other financial liabilities	61,566,809	67,227,106
Liability reserve	3,053,964	3,199,030
Deferred tax liability	1,552,030	1,919,645
Other liability	9,116,761	6,089,508
<b>Total liabilities</b>	<b>2,355,754,564</b>	<b>2,189,593,838</b>
<b>Stockholders' equity</b>		
Capital stock	72,099,815	69,479,605
Capital surplus	23,969,412	23,969,412
Retained earnings	59,763,752	55,594,202
Others	257,800	3,964,675
<b>Total stockholders' equity</b>	<b>156,090,779</b>	<b>153,007,894</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$2,511,845,343</b>	<b>\$2,342,601,732</b>

**Cathay United Bank Co., Ltd.  
Condensed Statement of Comprehensive Income  
For the years ended 31 December 2016 and 2015  
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Interest income	\$37,666,600	\$40,186,848
Interest expenses	(13,558,911)	(14,743,422)
Operating profit	24,107,689	25,443,426
Non-interest income	25,395,260	21,306,628
<b>Total income</b>	<b>49,502,949</b>	<b>46,750,054</b>
Bad debt expense and reserve for loss on guarantees	(4,069,204)	(1,656,210)
Operating expenses	(26,166,045)	(24,079,250)
Profit from continuing operations before income tax	19,267,700	21,014,594
Income tax expense	(2,056,000)	(2,416,300)
Profit from continuing operations after income tax	17,211,700	18,598,294
Net income	17,211,700	18,598,294
Other comprehensive (loss) income	(3,706,875)	532,284
<b>Total comprehensive income</b>	<b>\$13,504,825</b>	<b>\$19,130,578</b>
 Primary earnings per share	 \$2.39	 \$2.58

**English Translation of Financial Statements Originally Issued in Chinese**

**Indovina Bank Limited**  
**Condensed Balance Sheet**  
**As of 31 December 2016 and 31 December 2015**  
**(Expressed in thousands of New Taiwan Dollars)**

Items	2016.12.31	2015.12.31
<b>Assets</b>		
Cash and cash equivalents	\$6,623,200	\$1,228,870
Due from the Central Bank and call loans to banks	6,881,758	9,508,249
Financial assets at fair value through profit or loss	3,150,720	700,421
Securities purchased under agreements to resell	1,673,379	-
Available-for-sale financial assets	4,220,410	3,464,546
Receivables	874,067	968,457
Discounts and loans	27,240,509	21,495,243
Held-to-maturity financial assets	5,043,907	2,906,670
Property and equipment	434,134	477,415
Intangible assets	17,110	23,606
Other assets	635,766	500,880
<b>Total assets</b>	<b>\$56,794,960</b>	<b>\$41,274,357</b>
<b>Liabilities</b>		
Due to the Central Bank and call loans from banks	\$14,872,722	\$4,669,522
Financial liabilities at fair value through profit or loss	76,569	-
Payables	1,685,991	349,873
Current income tax liabilities	2,041	-
Deposits and remittances	32,230,220	28,533,979
Deferred tax liability	51,566	17,177
Other liability	121,538	182,004
<b>Total liabilities</b>	<b>49,040,647</b>	<b>33,752,555</b>
<b>Stockholders' equity</b>		
Capital stock	6,094,911	6,094,911
Retained earnings	1,494,205	1,089,144
Others	165,197	337,747
<b>Total stockholders' equity</b>	<b>7,754,313</b>	<b>7,521,802</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$56,794,960</b>	<b>\$41,274,357</b>

**Indovina Bank Limited**  
**Condensed Statement of Comprehensive Income**  
**For the years ended 31 December 2016 and 2015**  
**(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Interest income	\$2,568,961	\$1,979,310
Interest expenses	(1,169,298)	(944,970)
Net interest income	1,399,663	1,034,340
Non-interest income	160,968	197,760
<b>Total income</b>	<b>1,560,631</b>	<b>1,232,100</b>
Bad debt expense and reserve for loss on guarantees	(269,072)	(239,579)
Operating expenses	(546,923)	(572,294)
Profit from continuing operations before income tax	744,636	420,227
Income tax expense	(145,517)	(83,018)
Profit from continuing operations after income tax	599,119	337,209
Net income	599,119	337,209
Other comprehensive (loss) income	(172,550)	270,116
<b>Total comprehensive income</b>	<b>\$426,569</b>	<b>\$607,325</b>
Primary earnings per share	<u>Note</u>	<u>Note</u>

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay United Bank (Cambodia) Corporation Limited**  
**Condensed Balance Sheet**  
**As of 31 December 2016 and 31 December 2015**  
**(Expressed in thousands of New Taiwan Dollars)**

Items	2016.12.31	2015.12.31
<b>Assets</b>		
Cash and cash equivalents	\$840,466	\$1,077,849
Due from the Central Bank and call loans to banks	1,828,862	1,332,617
Available-for-sale financial assets	826	846
Receivables	120,494	24,765
Discounts and loans	6,454,893	4,799,195
Property and equipment	165,991	166,363
Intangible assets	49,287	44,752
Other assets	48,555	91,255
<b>Total assets</b>	<b>\$9,509,374</b>	<b>\$7,537,642</b>
<b>Liabilities</b>		
Due to the Central Bank and call loans from banks	\$1,065,207	\$335,929
Payables	132,120	115,356
Current income tax liabilities	22,795	1,577
Deposits and remittances	6,369,803	5,203,546
Deferred tax liability	7,615	-
Other liability	50,568	23,619
<b>Total liabilities</b>	<b>7,648,108</b>	<b>5,680,027</b>
<b>Stockholders' equity</b>		
Capital stock	1,786,169	1,786,169
Retained earnings	(56,169)	(104,528)
Others	131,266	175,974
<b>Total stockholders' equity</b>	<b>1,861,266</b>	<b>1,857,615</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$9,509,374</b>	<b>\$7,537,642</b>

**Cathay United Bank (Cambodia) Corporation Limited**  
**Condensed Statement of Comprehensive Income**  
**For the years ended 31 December 2016 and 2015**  
**(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Interest income	\$525,542	\$320,711
Interest expenses	(122,854)	(69,909)
Net interest income	402,688	250,802
Non-interest income	35,772	86,332
<b>Total income</b>	<b>438,460</b>	<b>337,134</b>
Bad debt expense and reserve for loss on guarantees	(117,085)	(25,722)
Operating expenses	(245,774)	(199,263)
Profit from continuing operations before income tax	75,601	112,149
Income tax expense	(27,242)	(13,264)
Profit from continuing operations after income tax	48,359	98,885
Net profit	48,359	98,885
Other comprehensive (loss) income	(44,708)	71,938
<b>Total comprehensive income</b>	<b>\$3,651</b>	<b>\$170,823</b>
Primary earnings per share	\$0.77	\$1.65

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Securities Corporation  
Condensed Balance Sheet  
As of 31 December 2016 and 31 December 2015  
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.12.31	2015.12.31
Assets		
Current assets	\$19,343,177	\$18,130,690
Available-for-sale financial assets	18	18
Investments accounted for using the equity method	1,589,073	1,230,114
Property and equipment	157,703	171,632
Intangible assets	44,151	53,420
Deferred tax assets	4,948	29,024
Other non-current assets	497,032	429,117
Total assets	<u>\$21,636,102</u>	<u>\$20,044,015</u>
Liabilities		
Current liability	\$14,613,294	\$13,181,818
Deferred tax liability	24,947	1,392
Other non-current liability	19,175	22,063
Total liabilities	<u>14,657,416</u>	<u>13,205,273</u>
Stockholders' equity		
Capital stock	5,330,000	4,950,000
Capital surplus	491,766	491,766
Retained earnings	914,989	1,037,424
Others	241,931	359,552
Total stockholders' equity	<u>6,978,686</u>	<u>6,838,742</u>
Total liabilities and stockholders' equity	<u>\$21,636,102</u>	<u>\$20,044,015</u>

**Cathay Securities Corporation  
Condensed Statement of Comprehensive Income  
For the years ended 31 December 2016 and 2015  
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Revenues	\$2,146,465	\$2,408,971
Service fee expenses	(74,747)	(81,544)
Employee benefit expenses	(846,513)	(835,868)
Share of the profit of associates and joint ventures accounted for using the equity method	(14,418)	(11,209)
Operating expenses	(891,170)	(910,788)
Non-operating income and expenses	6,607	25,712
Profit from continuing operations before income tax	326,224	595,274
Income tax expense	(68,659)	(58,335)
Profit from continuing operations after income tax	257,565	536,939
Net income	257,565	536,939
Other comprehensive (loss) income	(117,621)	146,541
Total comprehensive income	<u>\$139,944</u>	<u>\$683,480</u>
Primary earnings per share	<u>\$0.48</u>	<u>\$1.01</u>

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Securities (Hong Kong) Limited**  
**Condensed Balance Sheet**  
**As of 31 December 2016 and 31 December 2015**  
**(Expressed in thousands of New Taiwan Dollars)**

Items	2016.12.31	2015.12.31
Assets		
Current assets	\$688,463	\$304,760
Property and equipment	21,129	21,531
Intangible assets	2,055	2,108
Other non-current assets	77,774	7,346
Total assets	<u>\$789,421</u>	<u>\$335,745</u>
Liabilities		
Current liability	<u>\$354,690</u>	<u>\$217,565</u>
Total liabilities	<u>354,690</u>	<u>217,565</u>
Stockholders' equity		
Capital stock	728,544	360,069
Retained earnings	(273,500)	(241,880)
Others	<u>(20,313)</u>	<u>(9)</u>
Total stockholders' equity	<u>434,731</u>	<u>118,180</u>
Total liabilities and stockholders' equity	<u>\$789,421</u>	<u>\$335,745</u>

**Cathay Securities (Hong Kong) Limited**  
**Condensed Statement of Comprehensive Income**  
**For the years ended 31 December 2016**  
**and from 4 September 2015 to 31 December 2015**  
**(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.12.31	2015.9.4~2015.12.31
Revenues	\$88,961	\$1,273
Service fee expenses	(2,033)	(58)
Employee benefit expenses	(42,509)	(10,413)
Operating expenses	(75,274)	(18,150)
Non-operating income and expenses	<u>(765)</u>	<u>(381)</u>
Loss from continuing operations before income tax	<u>(31,620)</u>	<u>(27,729)</u>
Income tax expense	-	-
Loss from continuing operations after income tax	<u>(31,620)</u>	<u>(27,729)</u>
Net loss	<u>(31,620)</u>	<u>(27,729)</u>
Other comprehensive loss	<u>(20,304)</u>	<u>(9)</u>
Total comprehensive loss	<u>\$(51,924)</u>	<u>\$(27,738)</u>
Primary earnings per share	<u>Note 1</u>	<u>Note 1</u>

Note 1: Cathay Securities (Hong Kong) Limited is a limited company; there is no information about earnings per share.

Note 2: Cathay Securities (Hong Kong) Limited was incorporated to the consolidated financial statements on 4 September 2015.

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Venture Inc.  
Condensed Balance Sheet  
As of 31 December 2016 and 31 December 2015  
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.12.31	2015.12.31
<b>Assets</b>		
Current assets	\$683,197	\$344,458
Available-for-sale financial assets	2,775,518	2,304,204
Investments accounted for using the equity method	271,764	291,485
Property and equipment	3,414	211
Deferred tax assets	5,797	805
Other non-current assets	1,962	837
<b>Total assets</b>	<b>\$3,741,652</b>	<b>\$2,942,000</b>
<b>Liabilities</b>		
Current liability	\$8,548	\$11,065
Deferred tax liability	-	2,375
Other non-current liability	4,298	4,736
<b>Total liabilities</b>	<b>12,846</b>	<b>18,176</b>
<b>Stockholders' equity</b>		
Capital stock	3,000,000	2,403,000
Capital surplus	128,625	-
Retained earnings	304,538	280,305
Others	295,643	240,519
<b>Total stockholders' equity</b>	<b>3,728,806</b>	<b>2,923,824</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$3,741,652</b>	<b>\$2,942,000</b>

**Cathay Venture Inc.  
Condensed Statement of Comprehensive Income  
For the years ended 31 December 2016 and 2015  
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	\$240,197	\$250,401
Operating costs	(30,331)	(25,793)
Operating expenses	(17,378)	(16,315)
Non-operating income and expenses	(1,185)	-
Profit from continuing operations before income tax	191,303	208,293
Income tax profit (expense)	1,180	(21,347)
Profit from continuing operations after income tax	192,483	186,946
Net income	192,483	186,946
Other comprehensive income (loss)	55,124	(297,646)
<b>Total comprehensive income (loss)</b>	<b>\$247,607</b>	<b>\$(110,700)</b>
Primary earnings per share	\$0.70	\$0.73

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Securities Investment Trust Co., Ltd.**  
**Condensed Balance Sheet**  
**As of 31 December 2016 and 31 December 2015**  
**(Expressed in thousands of New Taiwan Dollars)**

Items	2016.12.31	2015.12.31
Assets		
Current assets	\$1,896,666	\$1,888,759
Available-for-sale financial assets	74,695	60,746
Financial assets carried at cost	5,745	-
Investments accounted for using the equity method	263,243	291,178
Property and equipment	66,975	84,179
Intangible assets	9,493	13,808
Deferred tax assets	14,722	13,422
Other non-current assets	257,859	295,027
Total assets	<u>\$2,589,398</u>	<u>\$2,647,119</u>
Liabilities		
Current liability	\$302,534	\$319,000
Other non-current liability	144,938	176,458
Total liabilities	<u>447,472</u>	<u>495,458</u>
Stockholders' equity		
Capital stock	1,500,000	1,500,000
Capital surplus	13,908	13,908
Retained earnings	655,353	639,227
Others	(27,335)	(1,474)
Total stockholders' equity	<u>2,141,926</u>	<u>2,151,661</u>
Total liabilities and stockholders' equity	<u>\$2,589,398</u>	<u>\$2,647,119</u>

**Cathay Securities Investment Trust Co., Ltd.**  
**Condensed Statement of Comprehensive Income**  
**For the years ended 31 December 2016 and 2015**  
**(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	\$1,506,682	\$1,405,507
Operating expenses	<u>(1,135,175)</u>	<u>(1,075,974)</u>
Operating gross profit	371,507	329,533
Non-operating income and expenses	<u>(14,305)</u>	<u>44,068</u>
Profit from continuing operations before income tax	357,202	373,601
Income tax expense	<u>(60,440)</u>	<u>(59,598)</u>
Profit from continuing operations after income tax	<u>296,762</u>	<u>314,003</u>
Net income	296,762	314,003
Other comprehensive loss	<u>(25,861)</u>	<u>(25,358)</u>
Total comprehensive income	<u>\$270,901</u>	<u>\$288,645</u>
Primary earnings per share	<u>\$1.98</u>	<u>\$2.09</u>

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Futures Co., Ltd.**

**Condensed Balance Sheet**

**As of 31 December 2016 and 31 December 2015**

**(Expressed in thousands of New Taiwan Dollars)**

Items	2016.12.31	2015.12.31
Assets		
Current assets	\$4,122,394	\$4,060,732
Available-for-sale financial assets	305,516	278,087
Property and equipment	75,032	67,328
Investment property	290,341	286,253
Intangible assets	29,775	10,009
Other non-current assets	147,337	147,047
Total assets	<u>\$4,970,395</u>	<u>\$4,849,456</u>
Liabilities		
Current liability	\$3,832,279	\$3,763,808
Deferred tax liability	6,869	6,788
Other non-current liability	1,455	1,446
Total liabilities	<u>3,840,603</u>	<u>3,772,042</u>
Stockholders' equity		
Capital stock	667,000	650,000
Retained earnings	187,646	179,397
Others	275,146	248,017
Total stockholders' equity	<u>1,129,792</u>	<u>1,077,414</u>
Total liabilities and stockholders' equity	<u>\$4,970,395</u>	<u>\$4,849,456</u>

**Cathay Futures Co., Ltd.**

**Condensed Statement of Comprehensive Income**

**For the years ended 31 December 2016 and 2015**

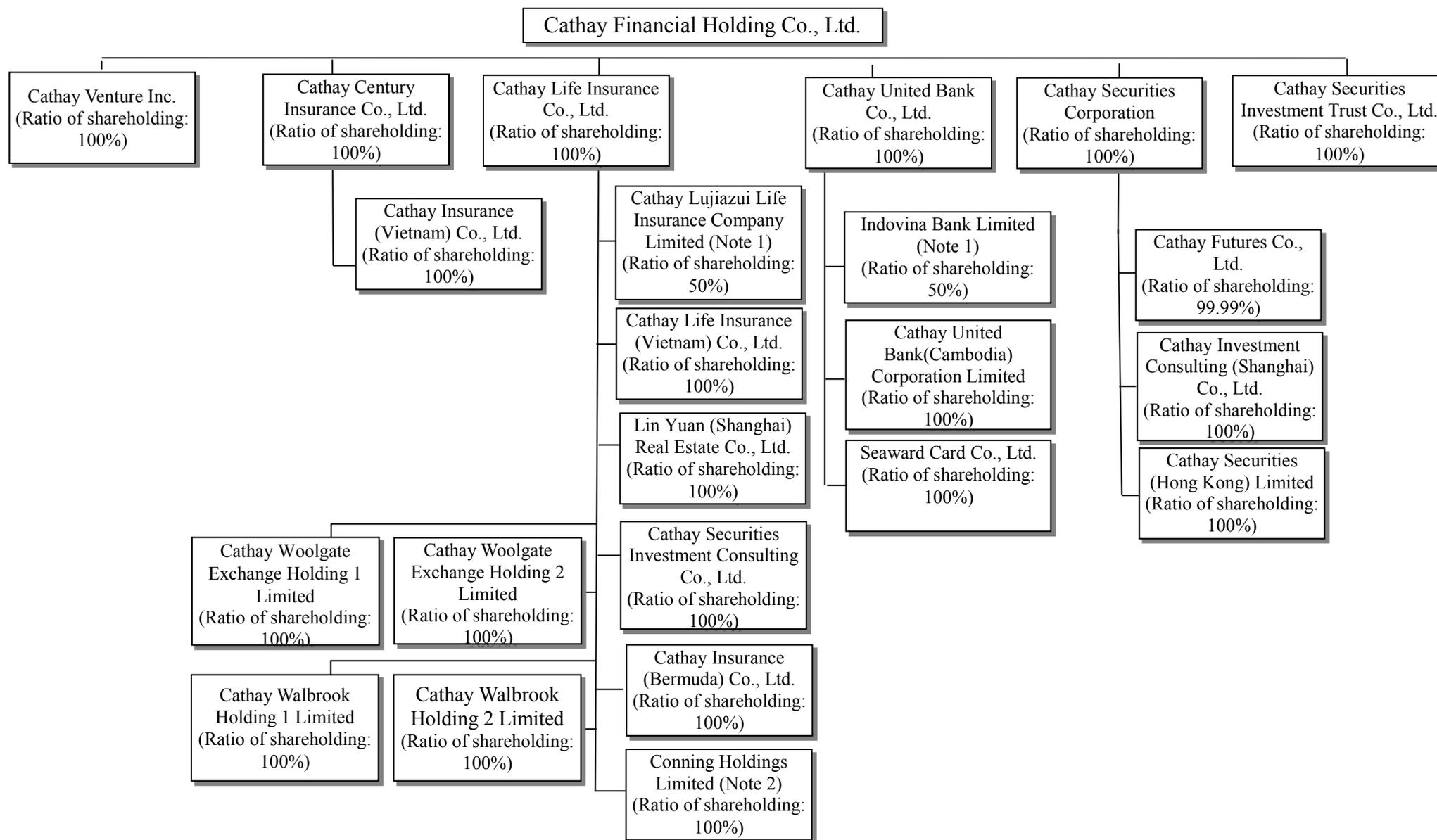
**(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	\$208,758	\$175,913
Operating expenses	<u>(239,394)</u>	<u>(186,070)</u>
Operating loss	(30,636)	(10,157)
Non-operating income and expenses	60,407	40,244
Profit from continuing operations before income tax	29,771	30,087
Income tax expense	<u>(4,522)</u>	<u>(4,760)</u>
Profit from continuing operations after income tax	25,249	25,327
Net income	25,249	25,327
Other comprehensive income	27,129	32,963
Total comprehensive income	<u>\$52,378</u>	<u>\$58,290</u>
Primary earnings per share	<u>\$0.38</u>	<u>\$0.38</u>

**Appendix 2**

**Cathay Financial Holding Co., Ltd.**  
**Consolidated Affiliation business reports**  
**2016**

## Organizational chart of affiliates



Note 1: A subsidiary other than those referred to in Article 4 of the Financial Holding Company Act.

Note 2: Expressed with the merger entity

## Basic information on affiliates

Expressed in thousands of dollars

Corporate name	Date of Establishment	Address	Total Paid-in Capital	Scope of business/production
Cathay Financial Holding Co., Ltd.	2001.12.31	No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	\$133,965,102	Financial holdings
Cathay Life Insurance Co., Ltd.	1962.10.23	No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	54,315,274	Personal Insurance Representative
Cathay United Bank Co., Ltd.	1975.1.4	No.7, Songren Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)	72,099,815	Commercial bank
Cathay Century Insurance Co., Ltd.	1993.7.19	No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	3,202,052	Property and casualty insurance
Cathay Securities Corporation	2004.5.12	19F. & 20F., No. 333 and 10F., 18F., 19F., 20F., & 21F., Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	5,330,000	Securities Business
Cathay Venture Inc.	2003.4.16	7F., No.68, Sec. 5, Zhongxiao E. Rd., Xinyi Dist., Taipei City, Taiwan (R.O.C.)	3,000,000	Venture Capital Business
Cathay Securities Investment Trust Co., Ltd.	2000.2.11	6F., No. 39, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	1,500,000	Securities Investment Trust
Cathay Lujiazui Life Insurance Company Limited	2004.12.29	19F, Building B, Oriental Financial Plaza, No. 1168 Century Boulevard, Pudong New Area, Shanghai, PRC	7,067,795	Personal Insurance Representative
Cathay Securities Investment Consulting Co., Ltd.	2002.11.25	6F., No.108, Sec. 5, Zhongxiao E. Rd., Xinyi Dist., Taipei City, Taiwan (R.O.C.)	70,000	Securities investment consulting
Cathay Insurance (Bermuda) Co., Ltd.	1999.11.10	Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda	11,751	Class 3 general business insurers and Class C long-term insurer
Lin Yuan (Shanghai) Real Estate Co., Ltd.	2012.8.15	Suite 306, 3 Floor Dining – 2 Department, Huadu Building, No. 828-838 Changyang Road, Shanghai City (China (Shanghai) Pilot Free trade Zone)()	7,223,435	Leasing of proprietary office space
Cathay Life Insurance (Vietnam) Co., Ltd.	2007.11.21	46-48-50 Pham Hong Thai Street, District 1, Ho Chi Minh City, Vietnam	5,410,990	Personal Insurance Representative
Cathay Woolgate Exchange Holding 1 Limited	2014.7.30	13 Castle Street, St Helier, Jersey, JE4 5UT	16,654,013	Management of real estate investment
Cathay Woolgate Exchange Holding 2 Limited	2014.7.30	13 Castle Street, St Helier, Jersey, JE4 5UT	168,222	Management of real estate investment
Cathay Walbrook Holding 1 Limited	2015.3.31	13 Castle Street, St Helier, Jersey, JE4 5UT	10,189,090	Management of real estate investment
Cathay Walbrook Holding 2 Limited	2015.3.31	13 Castle Street, St Helier, Jersey, JE4 5UT	536,268	Management of real estate investment
Conning Holdings Limited	2015.6.10	24 Monument Street, London, EC3R 8AJ, United Kingdom	14,507,059	Holdings Company
Indovina Bank Limited	1990.11.21	97A Nguyen Van Troi Street Ward 12, Phu Nhuan Dist., HCMC, Vietnam	6,094,911	Banking

Corporate name	Date of Establishment	Address	Total Paid-in Capital	Scope of business/production
Cathay United Bank (Cambodia) Corporation Limited	1993.7.5	No.68, Samdech Pan Street (St.214),Sangkat Boeung Raing,Khan Daun Penh, Phnom Penh, Kingdom of Cambodia	1,786,169	Banking
Seaward Card Co., Ltd.	1999.4.9	B1, No.85, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	30,000	Human resources
Cathay Insurance (Vietnam) Co., Ltd.	2010.11.2	6th floor, 46-48-50 Pham Hong Thai Street, District 1, Ho Chi Minh City, Vietnam	845,585	Property and casualty insurance
Cathay Futures Co., Ltd.	1993.12.29	19F., No. 333, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	667,000	Futures Business
Cathay Securities (Hong Kong) Limited	2007.3.22	Room 1001, 10/F, China Building, No. 29 Queen's Road Central, Hong Kong	728,544	Securities brokerage
Cathay Investment Consulting (Shanghai) Co., Ltd.	2014.6.11	Room 1503-B, F15, Building A, 1168 Century Boulevard, Pudong New Area, Shanghai City	38,965	Investment consulting

Information on common shareholders assumed to be in a controlling and subordinate relationship

Unit: NT\$ thousand; Share; %

Reason of assumption	Name (Note 1)	Number of shares held (Note 2)		Date of Establishment	Address	Total Paid-in Capital	Core Business
		Number of shares	Ratio of shareholding				
None							

Note 1: If the subsidiaries share identical shareholders that are corporations, the preparer should fill in the name of the corporations. If the subsidiaries share identical individual shareholders, the preparer should fill in the name of the individuals. Individual shareholders only need to fill in the reason of assumption, the names, and the number of shares held.

Note 2: The preparer fills in the information on stock ownership on the company that shareholders control in the section on the shares held.

Information on directors, supervisors, and presidents of affiliated corporations

Unit: Shares; %

Corporate name	Title	Name or Representative	Number of shares held	
			Number of shares	Ratio of shareholding
Cathay Financial Holding Co., Ltd.	Chairman	Hong-Tu Tsai	76,571,875	0.57%
	Director	Cheng-Ta Tsai (representative of Cathay General Hospital)	25,148,985	0.19%
	Director	Cheng-Chiu Tsai (representative of Chen-Sheng Industrial representative)	27,915,093	0.21%
	Director	Peter V. Kwok (representative of Chia Yi Capital)	55,901,492	0.42%
	Director	Chi-Wei Joong (representative of Chia Yi Capital)	55,901,492	0.42%
	Director	Tsu-Pei Chen (representative of Cathay General Hospital)	25,148,985	0.19%
	Director	Tiao-Kuei Huang (representative of Cathay Life Employees' Welfare Committee)	34,590,372	0.26%
	Director	Chang-Ken Lee (representative of Cathay Life Employees' Welfare Committee)	34,590,372	0.26%
	Director	Ming-Ho Hsiung (representative of Cathay Life Employees' Welfare Committee)	34,590,372	0.26%
	Independent Director	Min-Houng Hong	-	-
	Independent Director	Feng-Chiang Miao	-	-
	Independent Director	Tsing-Yuan Hwang	-	-
	President	Chang-Ken Lee	-	-

Information on directors, supervisors, and presidents of affiliated corporations

Unit: Shares; %

Corporate name	Title	Name or Representative	Number of shares held	
			Number of shares	Ratio of shareholding
Cathay Life Insurance Co., Ltd.	Chairman	Hong-Tu Tsai (representative of Cathay Financial Holdings)	5,431,527,395	100%
	Vice Chairman	Tiao-Kuei Huang (representative of Cathay Financial Holdings)	5,431,527,395	100%
	Director	Cheng-Ta Tsai (representative of Cathay Financial Holdings)	5,431,527,395	100%
	Director	Cheng-Chiu Tsai (representative of Cathay Financial Holdings)	5,431,527,395	100%
	Director	Ming-Ho Hsiung (representative of Cathay Financial Holdings)	5,431,527,395	100%
	Director	Tzung-Han Tsai (representative of Cathay Financial Holdings)	5,431,527,395	100%
	Director	Chung-Yan Tsai (representative of Cathay Financial Holdings)	5,431,527,395	100%
	Director	Chung-Chiang Chu (representative of Cathay Financial Holdings)	5,431,527,395	100%
	Director	Fa-Te Chang (representative of Cathay Financial Holdings)	5,431,527,395	100%
	Director	Wei-Ming Lu (representative of Cathay Financial Holdings)	5,431,527,395	100%
	Director	Yi-Tsung Wang (representative of Cathay Financial Holdings)	5,431,527,395	100%
	Director	Chao-Ting Lin (representative of Cathay Financial Holdings)	5,431,527,395	100%
	Independent Director	Min-Houng Hong (representative of Cathay Financial Holdings)	5,431,527,395	100%
	Independent Director	Tsing-Yuan Hwang (representative of Cathay Financial Holdings)	5,431,527,395	100%
	Independent Director	Feng-Chiang Miao (representative of Cathay Financial Holdings)	5,431,527,395	100%
	Managing Supervisors	Wan-Te Tsai (representative of Cathay Financial Holdings)	5,431,527,395	100%
	Supervisors	Kai-Mo Chen (representative of Cathay Financial Holdings)	5,431,527,395	100%
Supervisors	Chih-Ming Lin (representative of Cathay Financial Holdings)	5,431,527,395	100%	
President	Ming-Ho Hsiung	-	-	

Information on directors, supervisors, and presidents of affiliated corporations

Unit: Shares; %

Corporate name	Title	Name or Representative	Number of shares held	
			Number of shares	Ratio of shareholding
Cathay United Bank Co., Ltd.	Chairman	Tsu-Pei Chen (representative of Cathay Financial Holdings)	7,209,981,464	100%
	Vice Chairman	Tzung-Han Tsai (representative of Cathay Financial Holdings)	7,209,981,464	100%
	Managing Director/Independent Director	Tsing-Yuan Hwang (representative of Cathay Financial Holdings)	7,209,981,464	100%
	Managing Director	Alan Lee (representative of Cathay Financial Holdings)	7,209,981,464	100%
	Managing Director	Chun-Wei Yang (representative of Cathay Financial Holdings)	7,209,981,464	100%
	Director	Chang-Ken Lee (representative of Cathay Financial Holdings)	7,209,981,464	100%
	Director	Chuan-Chuan Hsieh (representative of Cathay Financial Holdings)	7,209,981,464	100%
	Director	Chi-Wei Joong (representative of Cathay Financial Holdings)	7,209,981,464	100%
	Director	Chung-Yi Teng (representative of Cathay Financial Holdings)	7,209,981,464	100%
	Director	Po-Tsang Hsieh (representative of Cathay Financial Holdings)	7,209,981,464	100%
	Director	Tsung-Hsien Tsai (representative of Cathay Financial Holdings)	7,209,981,464	100%
	Director	Shan-Chi Liu (representative of Cathay Financial Holdings)	7,209,981,464	100%
	Director	Jian-Hsing Wu (representative of Cathay Financial Holdings)	7,209,981,464	100%
	Independent Director	Min-Houng Hong (representative of Cathay Financial Holdings)	7,209,981,464	100%
	Independent Director	Feng-Chiang Miao (representative of Cathay Financial Holdings)	7,209,981,464	100%
	Managing Supervisor	Peggy Wang (representative of Cathay Financial Holdings)	7,209,981,464	100%
	Supervisor	Shu-Chen Lan (representative of Cathay Financial Holdings)	7,209,981,464	100%
President	Alan Lee	-	-	

Information on directors, supervisors, and presidents of affiliated corporations

Unit: Shares; %

Corporate name	Title	Name or Representative	Number of shares held	
			Number of shares	Ratio of shareholding
Cathay Century Insurance Co., Ltd.	Chairman	Cheng-Chiu Tsai (representative of Cathay Financial Holdings)	320,205,194	100%
	Vice Chairman	Jung-Hsien, Hsu (representative of Cathay Financial Holdings)	320,205,194	100%
	Director	Kuo-tsai Tsai (representative of Cathay Financial Holdings)	320,205,194	100%
	Director	Tsu-Yao Lu (representative of Cathay Financial Holdings)	320,205,194	100%
	Director	Chih-I Yu (representative of Cathay Financial Holdings)	320,205,194	100%
	Director	Tsung-Hsien Tsai (representative of Cathay Financial Holdings)	320,205,194	100%
	Independent Director	Min-Houng Hong (representative of Cathay Financial Holdings)	320,205,194	100%
	Independent Director	Feng-Chiang Miao (representative of Cathay Financial Holdings)	320,205,194	100%
	Managing Supervisors	Jinn-Shing Leou (representative of Cathay Financial Holdings)	320,205,194	100%
	President	Yi-Min Hu (proxy)	-	-
Cathay Securities Corporation	Chairman	Shih-ting Chu (representative of Cathay Financial Holdings)	533,000,000	100%
	Director	Chang-Ken Lee (representative of Cathay Financial Holdings)	533,000,000	100%
	Director	Shun-Yu Chuang (representative of Cathay Financial Holdings)	533,000,000	100%
	Director	Hung-Hui Liao (representative of Cathay Financial Holdings)	533,000,000	100%
	Director	Jinn-Shing Leou (representative of Cathay Financial Holdings)	533,000,000	100%
	Independent Director	Tsing-Yuan Hwang (representative of Cathay Financial Holdings)	533,000,000	100%
	Independent Director	Wei-Kang Pan (representative of Cathay Financial Holdings)	533,000,000	100%
	Supervisors	Wan-Chu Ma (representative of Cathay Financial Holdings)	533,000,000	100%
	Supervisors	Chi-Chang Huang (representative of Cathay Financial Holdings)	533,000,000	100%
	President	Shun-Yu Chuang	-	-

Information on directors, supervisors, and presidents of affiliated corporations

Unit: Shares; %

Corporate name	Title	Name or Representative	Number of shares held	
			Number of shares	Ratio of shareholding
Cathay Venture Inc.	Chairman	Jen-Ho Chang (representative of Cathay Financial Holdings)	300,000,000	100%
	Director	Shang-Chi Liu (representative of Cathay Financial Holdings)	300,000,000	100%
	Director	Yi-Tsung Wang (representative of Cathay Financial Holdings)	300,000,000	100%
	Director	Yi-Fang Tsai (representative of Cathay Financial Holdings)	300,000,000	100%
	Director	Shih-Chiao Lin (representative of Cathay Financial Holdings)	300,000,000	100%
	Supervisors	Shun-Yu Chuang (representative of Cathay Financial Holdings)	300,000,000	100%
	President	Chuan-Yen Hu	-	-
Cathay Securities Investment Trust Co., Ltd.	Chairman	Jeff Chang (representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Yung-Chuan Chang (representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Kuo-Chung Huang (representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Yi-Tsung Wang (representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Chih-Ping Chiang (representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Linwood Earle Bradford JR (representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Bo Rolf Anders Kratz (representative of Cathay Financial Holdings)	150,000,000	100%
	Supervisors	Jui-hung, Hung (representative of Cathay Financial Holdings)	150,000,000	100%
	President	Yung-chuan, Chang	-	-
Cathay Lujiazui Life Insurance Company Limited	Chairman	Yung, Ho (representative of Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd.)	-	50%
	Director	Hung, Chang (representative of Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd.)	-	50%
	Director	Ling-chueh, Wang (representative of Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd.)	-	50%
	Director	Chin-Shu, Lin (representative of Cathay Life Insurance)	-	50%
	Director	Chun-hung, Wu (representative of Cathay Life Insurance)	-	50%
	Director	Ming-hung, Liao (representative of Cathay Life Insurance)	-	50%
	President	Ming-hung, Liao	-	-

Information on directors, supervisors, and presidents of affiliated corporations

Unit: Shares; %

Corporate name	Title	Name or Representative	Number of shares held	
			Number of shares	Ratio of shareholding
Cathay Securities Investment Consulting Co., Ltd.	Chairman	David P. Sun (representative of Cathay Life Insurance)	7,000,000	100%
	Director	Bo Rolf Anders Kratz (representative of Cathay Life Insurance)	7,000,000	100%
	Director	Kuan-Cheng, Chou (representative of Cathay Life Insurance)	7,000,000	100%
	Director	Chun-hung, Wu (representative of Cathay Life Insurance)	7,000,000	100%
	Director	Su-Chu, Li (representative of Cathay Life Insurance)	7,000,000	100%
	Supervisors	Wei-Chi, Li (representative of Cathay Life Insurance)	7,000,000	100%
	President	Kuan-Cheng, Chou	-	-
Cathay Insurance (Bermuda)Co.,Ltd.	Chairman	Ta-Kun, Liu (representative of Cathay Life Insurance)	370,000	100%
	Vice Chairman	Hsien-chung, Lin (representative of Cathay Life Insurance)	370,000	100%
	Director	Chun-hung, Wu (representative of Cathay Life Insurance)	370,000	100%
	President	Hsien-chung, Lin	-	-
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Chairman	Wen-Kai Kuo (representative of Cathay Life Insurance)	-	100%
	Director	Yi-Hui Chien (representative of Cathay Life Insurance)	-	100%
	Director	Min-Hung Shih (representative of Cathay Life Insurance)	-	100%
	Supervisors	Tu-Chih Kung (representative of Cathay Life Insurance)	-	100%
	President	-	-	-
Cathay Life Insurance (Vietnam) Co., Ltd.	Chairman	Chin-Shu, Lin (representative of Cathay Life Insurance)	-	100%
	Director	Wan-Hsiang, Chen (representative of Cathay Life Insurance)	-	100%
	Director	Hsun-yu, Li (representative of Cathay Life Insurance)	-	100%
	Supervisors	Chun-hung, Wu (representative of Cathay Life Insurance)	-	100%
	President	Hsun-yu, Li	-	-

Corporate name	Title	Name or Representative		Number of shares held	
				Number of shares	Ratio of shareholding
Cathay Woolgate Exchange Holding 1 Limited	Director	Wen-Kai Kuo	(representative of Cathay Life Insurance)	326,700,000	100%
	Director	Ting-Lun Li	(representative of Cathay Life Insurance)	326,700,000	100%
	Director	Min-Hung Shih	(representative of Cathay Life Insurance)	326,700,000	100%
	President	-		-	-
Cathay Woolgate Exchange Holding 2 Limited	Director	Wen-Kai Kuo	(representative of Cathay Life Insurance)	3,300,000	100%
	Director	Yi-Hui Chien	(representative of Cathay Life Insurance)	3,300,000	100%
	Director	Min-Hung Shih	(representative of Cathay Life Insurance)	3,300,000	100%
	President	-		-	-
Cathay Walbrook Holding 1 Limited	Director	Wen-Kai Kuo	(representative of Cathay Life Insurance)	213,750,000	100%
	President	-		-	-
Cathay Walbrook Holding 2 Limited	Director	Min-Hung Shih	(representative of Cathay Life Insurance)	11,250,000	100%
	President	-		-	-
Conning Holdings Limited	Chairman	Linwood Earle Bradford JR	(representative of Cathay Life Insurance)	1,855,283	100%
	Director	David P. Sun	(representative of Cathay Life Insurance)	1,855,283	100%
	Director	Tzung-Han, Tsai	(representative of Cathay Life Insurance)	1,855,283	100%
	Independent Director	John Boneparth	(representative of Cathay Life Insurance)	1,855,283	100%
	Independent Director	Salvatore Correnti	(representative of Cathay Life Insurance)	1,855,283	100%
	Independent Director	Ronald P. Joelson	(representative of Cathay Life Insurance)	1,855,283	100%
	Independent Director	David P. Marks	(representative of Cathay Life Insurance)	1,855,283	100%
	Independent Director	Jason Rotman	(representative of Cathay Life Insurance)	1,855,283	100%
President	-		-	-	
Indovina Bank Limited	Chairman	Nguyen Anh Tuan	(representative of Vietinbank)	-	50%
	Vice Chairman	Ming-Hsien Li	(representative of Cathay United Bank)	-	50%
	Director	Chan-Kun Lu	(representative of Cathay United Bank)	-	50%
	Director	Yi-Fang Chan	(representative of Cathay United Bank)	-	50%
	Director	Le Van Phu	(representative of Vietinbank)	-	50%

Corporate name	Title	Name or Representative	Number of shares held	
			Number of shares	Ratio of shareholding
	Director	Nguyen Thu Hang (representative of Vietinbank)	-	50%
	President	Yi-Fang Chan	-	-
Cathay United Bank(Cambodia)Co., Ltd.	Chairman	Ching-ssu, Liang (representative of Cathay United Bank)	60,000,000	100%
	Director	David P. Sun (representative of Cathay United Bank)	60,000,000	100%
	Director	Chung-Yi, Teng (representative of Cathay United Bank)	60,000,000	100%
	Director	Su-chu, Li (representative of Cathay United Bank)	60,000,000	100%
	Director	Wei-chih, Chen (representative of Cathay United Bank)	60,000,000	100%
	Independent Director	Wu-shui, Cheng (representative of Cathay United Bank)	60,000,000	100%
	Independent Director	Chang-chuan, Hsia (representative of Cathay United Bank)	60,000,000	100%
	President	Wei-chih, Chen	-	-
Seaward Card Co., Ltd.	Chairman	Chun-wei, Yang (representative of Cathay United Bank)	3,000,000	100%
	Director	Chung-Yi, Teng (representative of Cathay United Bank)	3,000,000	100%
	Director	Chien-Ju, Sung (representative of Cathay United Bank)	3,000,000	100%
	Director	Su-chu, Li (representative of Cathay United Bank)	3,000,000	100%
	Director	Yeh-Chiang Wang (representative of Cathay United Bank)	3,000,000	100%
	Supervisors	Shu-Yu, Yu (representative of Cathay United Bank)	3,000,000	100%
	Supervisors	Hung-Chang Yang (representative of Cathay United Bank)	3,000,000	100%
	President	-	-	-
Cathay Insurance (Vietnam) Co., Ltd.	Chairman	Wen-te, Tu (representative of Cathay Century Insurance)	-	100%
	Director	Yu-tang, Lin (representative of Cathay Century Insurance)	-	100%
	Director	Fu-Chi, Huang (representative of Cathay Century Insurance)	-	100%
	President	Yu-tang, Lin	-	-

Information on directors, supervisors, and presidents of affiliated corporations

Unit: Shares; %

Corporate name	Title	Name or Representative	Number of shares held	
			Number of shares	Ratio of shareholding
Cathay Futures Co., Ltd.	Chairman	Chun-Sheng, Chen (representative of Cathay Securities)	66,693,748	99.99%
	Director	Shih-ting, Chu (representative of Cathay Securities)	66,693,748	99.99%
	Director	Chen-Hung Lin (representative of Cathay Securities)	66,693,748	99.99%
	Director	Chao-Kuei, Kuo (representative of Cathay Securities)	66,693,748	99.99%
	Supervisors	Yu-Mei Lee (representative of Cathay Securities)	66,693,748	-
	President	Chia-Chin Lin	-	-
Cathay Securities (Hong Kong) Limited	Managing Director	Chien-Chih Lin (representative of Cathay Securities)	-	100%
	Director	Hsiu-Ling Hsu (representative of Cathay Securities)	-	100%
	Director	Yuan-Chung, Liu (representative of Cathay Securities)	-	100%
	President	Chien-Chih Lin	-	-
Cathay Investment Consulting (Shanghai) Co., Ltd.	Chairman	Chun-Wei, Yang (representative of Cathay Securities)	-	100%
	Director	Hsi-Wei, Chou (representative of Cathay Securities)	-	100%
	Director	Chien-Chih Lin (representative of Cathay Securities)	-	100%
	Supervisor	Jui-ming, Huang (representative of Cathay Securities)	-	100%
	President	Hsi-Wei, Chou	-	-

## Operating overview of affiliated corporations

Expressed in thousands of dollars

Corporate name	Location	Capital	Total assets	Total liabilities	Net worth	Operating income	Operating Profit & Loss /Total income	Current income before taxation	Income tax (expenses) profits	Current income after taxation	Earnings Per Share (NTD) (After-tax)
Cathay Financial Holding Co., Ltd.	Taiwan	133,965,102	569,292,832	45,968,260	523,324,572	Note 1	49,965,370	49,193,099	(1,574,286)	47,618,813	3.79
Cathay Life Insurance Co., Ltd.	Taiwan	54,315,274	5,534,582,859	5,173,287,698	361,295,161	836,502,388	26,038,176	27,993,518	2,135,142	30,128,660	5.68
Cathay United Bank Co., Ltd.	Taiwan	72,099,815	2,511,845,343	2,355,754,564	156,090,779	Note 1	49,502,949	19,267,700	(2,056,000)	17,211,700	2.39
Cathay Century Insurance Co., Ltd.	Taiwan	3,202,052	37,893,396	28,677,415	9,215,981	17,678,368	2,969,190	2,962,039	(491,568)	2,470,471	8.55
Cathay Securities Corporation	Taiwan	5,330,000	21,636,102	14,657,416	6,978,686	2,146,465	334,035	326,224	(68,659)	257,565	0.48
Cathay Venture Inc.	Taiwan	3,000,000	3,741,652	12,846	3,728,806	240,197	192,488	191,303	1,180	192,483	0.7
Cathay Securities Investment Trust Co., Ltd.	Taiwan	1,500,000	2,589,398	447,472	2,141,926	1,506,682	371,507	357,202	(60,440)	296,762	1.98
Cathay Lujiazui Life Insurance Company Limited	Mainland China	7,067,795	18,315,198	14,336,610	3,978,588	5,477,738	118,723	117,713	-	117,713	-
Cathay Securities Investment Consulting Co., Ltd.	Taiwan	70,000	303,061	53,159	249,902	263,445	129,736	131,335	(22,327)	109,008	15.57
Cathay Insurance (Bermuda) Co., Ltd.	Bermuda	11,751	352,351	222,455	129,896	29,663	3,050	3,050	-	3,050	8.24
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Mainland China	7,223,435	7,852,927	361,379	7,491,548	649,152	584,034	584,016	(142,557)	441,459	-
Cathay Life Insurance (Vietnam) Co., Ltd.	Vietnam	5,410,990	7,073,916	1,250,632	5,823,284	1,032,372	228,399	230,329	(44,114)	186,215	-
Cathay Woolgate Exchange Holding 1 Limited	Jersey Island	16,654,013	14,470,566	92,333	14,378,233	1,222,268	1,221,379	1,221,379	(39,003)	1,182,376	-
Cathay Woolgate Exchange Holding 2 Limited	Jersey Island	168,222	146,326	842	145,484	12,342	11,512	11,512	(143)	11,369	-
Cathay Walbrook Holding 1 Limited	Jersey Island	10,189,090	22,236,577	13,051,710	9,184,867	1,604,078	1,103,570	1,103,570	(19,972)	1,083,598	-
Cathay Walbrook Holding 2 Limited	Jersey Island	536,268	1,168,823	686,932	481,891	84,425	56,963	56,963	(1,050)	55,913	-
Conning Holdings Limited (Note 2)	UK	14,507,059	18,495,238	3,743,413	14,751,825	5,625,559	96,929	96,929	(36,912)	60,017	-
Indovina Bank Limited	Vietnam	6,094,911	56,794,960	49,040,647	7,754,313	Note 1	1,560,631	744,636	(145,517)	599,119	-
Cathay United Bank (Cambodia) Co., Ltd.	Cambodia	1,786,169	9,509,374	7,648,108	1,861,266	Note 1	438,460	75,601	(27,242)	48,359	0.77
Seaward Card Co., Ltd.	Taiwan	30,000	62,241	22,448	39,793	298,338	1,994	2,017	(343)	1,674	0.56
Cathay Insurance (Vietnam) Co., Ltd.	Vietnam	845,585	970,346	357,675	612,671	183,870	14,556	14,714	48	14,762	-
Cathay Futures Co., Ltd.	Taiwan	667,000	4,970,395	3,840,603	1,129,792	208,758	(30,636)	29,771	(4,522)	25,249	0.38
Cathay Securities (Hong Kong) Limited	Hong Kong	728,544	789,421	354,690	434,731	88,961	(30,855)	(31,620)	-	(31,620)	-
Cathay Investment Consulting (Shanghai) Co., Ltd.	Mainland China	38,965	16,288	261	16,027	493	(8,045)	(8,045)	-	(8,045)	-

Note 1: Due to revisions in Regulations Governing the Preparation of Financial Reports by Financial Holding Companies and Regulations Governing the Preparation of Financial Reports by Public Banks, the financial statements of such companies do not include items such as operating revenue and operating income. Therefore, the company only discloses total income.

Note 2: Conning Holdings Limited is presented in consolidated entity.

## Brief descriptions of the operations of affiliated corporations

### I. Business lines covered by the operations of all affiliated companies:

- (I) Cathay Financial Holding Co., Ltd.: Financial holdings.
- (II) Cathay Life Insurance Co., Ltd.: Personal insurance representative.
- (III) Cathay United Bank Co., Ltd.: Commercial bank.
- (IV) Cathay Century Insurance Co., Ltd.: Property and casualty insurance.
- (V) Cathay Securities Corporation: Securities business.
- (VI) Cathay Venture Inc.: Venture capital investment.
- (VII) Cathay Securities Investment Trust Co., Ltd.: Securities investment trust.
- (VIII) Cathay Lujiazui Life Insurance Company Limited: Personal insurance representative.
- (IX) Cathay Securities Investment Consulting Co., Ltd.: Securities investment consultant business.
- (X) Cathay Insurance (Bermuda) Co., Ltd.: Class 3 general business insurers and Class C long-term insurer.
- (XI) Lin Yuan (Shanghai) Real Estate Co., Ltd.: Leasing of proprietary office space.
- (XII) Cathay Life Insurance (Vietnam) Co., Ltd.: Personal insurance representative.
- (XIII) Cathay Woolgate Exchange Holding 1 Limited: Management of real estate investment.
- (XIV) Cathay Woolgate Exchange Holding 2 Limited: Management of real estate investment.
- (XV) Cathay Walbrook Holding 1 Limited: Management of real estate investment.
- (XVI) Cathay Walbrook Holding 2 Limited: Management of real estate investment.
- (XVII) Conning Holdings Limited: Holdings Company °
- (XVIII) Indovina Bank Limited: Banking.
- (XIX) Cathay United Bank (Cambodia) Co., Ltd.: Banking.
- (XX) Seaward Card Co., Ltd.: Human resources.
- (XXI) Cathay Insurance (Vietnam) Co., Ltd.: Property and casualty insurance.
- (XXII) Cathay Futures Co., Ltd.: Futures.
- (XXIII) Cathay Securities (Hong Kong) Limited: Securities brokerage.
- (XXIV) Cathay Investment Consulting (Shanghai) Co., Ltd.: Investment consulting.

## II. Cooperation's among all affiliated companies:

### (I) Joint business promotion

To improve competitiveness and operational synergy, our company consolidated diverse financial institutions, including the bank, the insurance company, the securities firm and the asset management corporation, to create an operation platform with comprehensive product lines. By 730 business locations throughout Taiwan and nearly 30,000 well-trained sales staff, the company develops comprehensive financial management and provides one-stop shopping service for customers.

### (II) Interoperability of information

To provide comprehensive financial products and services to customers, our company has stipulated “Regulations Governing Management of Cross-selling Among Subsidiaries of Cathay Financial Holdings,” “Cross-selling Agreement Among Subsidiaries of Cathay Financial Holdings,” “Business and Customer Information Confidentiality Agreement Among Subsidiaries of Cathay Financial Holdings,” “Joint Statement of Confidentiality Measures Among Subsidiaries of Cathay Financial Holdings,” “Regulations Governing Surveillance on Marketing of Subsidiaries by Marketing and Planning Department of Cathay Financial Holdings,” and “Regulations Governing Data Storage Management of Cathay Financial Holdings” pursuant to “Financial Holding Company Act,” “Personal Information Protection Act,” “Regulations Governing Management of Cross-selling Among Subsidiaries of a Financial Holding Company,” “Rules on Self-regulation for Financial Holding Companies and Their Subsidiaries,” and other applicable letters and orders by FSC. Our company also provides exist mechanism for customers, striving for using customer information from one another and providing comprehensive financial products and services in an environment that is as lawful, secure, and confidential as possible.

### (III) Shared business facilities or locations

To implement “one-stop shopping” financial services and continue to expand joint marketing business within the scope provided by laws and orders:

- (1) Cathay United Bank conducts cross-selling for insurance and securities in 162 branches in Taiwan; in addition, Cathay United Bank started to engage in insurance agent business on April 29, 2016 in compliance with the regulatory relaxation. 165 branches of Cathay United Bank collaborate to promote life insurance and property insurance products.

(2) Cathay Life Insurance conducts cross-selling of banking and property insurance at all administrative centers and service centers (altogether 179 locations)..

(3) Cathay Securities Corporation also established cross-selling offices in 26 branches of Cathay United Bank including Cathay United Bank Xin Ban Branch and Cathay Life Insurance Taitung Branch Office. It will be convenient for customers to conduct securities account opening through sharing the operation equipment and places among subsidiaries.

(IV) Amortization and amount of revenue, cost, expense and income

Our company uses the direct attribution method to allocate the revenue, costs, expenses, and income to each relative transaction company for the joint selling and promotion among subsidiaries based on the nature of operation.

Appendix 3

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

**Affiliation report**

**2016**

## Declaration

It is hereby declared that the Affiliation Report for 2016 (from January 1, 2016 to December 31, 2016) was prepared pursuant to the *Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises*, and there are no significant inconsistencies between the information given above and the supplementary information disclosed in the financial statements for the above period.

Hereby certify

Company Name: Cathay Financial Holding Co., Ltd.

Chairman: Hong-Tu Tsai

Dated: March 8, 2017

## Letter

To: Cathay Financial Holding Co., Ltd.

Subject: Expression of opinion on whether the declaration provided by management of your company in the 2016 Affiliation Report is reasonable in all material aspects

Explanation: The 2016 Affiliation Report has been prepared by the management of your company, and your company has provided a declaration to indicate that said report was prepared in compliance with “*Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises.*” In addition, no material discrepancy exists between the information disclosed therein and the information disclosed in the footnotes of financial statements in aforementioned duration.

In this opinion of this CPA, the statement provided by the management of your company on the 2016 Affiliation Report is reasonable in all material aspects.

Ernst & Young

Cheng-Tao Chan, CPA

Chin-Lai Wang, CPA

Dated: March 8, 2017

Summary on the relationship between the affiliated company and the controlling company

Unit: shares; %

Name of the controlling company	Reason of control	Share ownership and pledges of the controlling company			Appointment of members of the controlling company as the directors, supervisors, or managers	
		Number of shares held	Ratio of shareholding	Number of shares pledged	Title	Name
None						

Note: When the controlling company of the subordinate company is the subordinate company of another company, the preparer of this information should also fill in the information of that company. The same rule applies when that company is again the subordinate company of another company. The same rule applies hereafter.

## Purchase and Sales

Unit: NT\$ thousand; %

Transactions with the controlling company				Terms of transactions with the controlling company		Arms length terms of transaction		Reason of the difference	Accounts and notes receivable (payable)		NPL			Remarks
Purchase (sales)	Amount	Percentage of total purchase (sales)	Gross profit from sales	Price (NT\$)	Duration of credit	Price (NT\$)	Duration of credit		Balance	Percentage of total accounts and notes receivable (payable)	Amount	Method of processing	Amount of allowance for bad debt	
None														

Note 1: If the company has advanced receipts (payments), the company should describe the reason, articles of the contract, the amounts, and the differences between these transactions and arms length transactions in the remarks section.

Note 2: If none of the stated titles are applicable, the preparers may adjust the titles by themselves. If preparers cannot find titles in the table due to the nature of the industry, preparers do not need to fill in the information.

## Property transactions

Unit: NT\$ thousand

Transaction type (acquisition or disposal)	Name of property	Transaction date or the date when the event occurred	Transaction amount	Delivery or payment terms	Payment and receipt of consideration	Disposal gains (Note 1)	The reasons why transaction counterparties are controlling companies	Previous data transfer (Note 2)				The methods for determining the transactions (Note 3)	The basis for determining the prices	The purpose of acquisition or disposal and the condition of use	Other stipulations
								Holder	Relationship with the company	Transfer date	Amount				
None															

Note 1: The preparer does not need to fill in the information on the acquisition of property.

Note 2: (1) The preparer should provide the information on the original acquisition by the controlling company in the acquisition of property. The preparer should provide the information on the original disposal by the subordinate company in the disposal of property.

(2) Preparer should explain the relationship between the property owner and the subordinate company or controlling company in the “Relationship with the company” section.

(3) If the counterparty in the previous transfer transaction was a related party, the preparer should add the information on the previous transfer from that related party in the same space.

Note 3: The preparer should explain the decision making level of the transaction.

## Financing

Unit: NT\$ thousand; %

Transaction type (Borrowing or lending)	Highest balance	Balance at the end of the period	Interest rate range	Total interest in this period	Duration of financing	Reason of financing	Acquiring (providing) collaterals		The methods for determining the transactions (Note 1)	Provision of the allowance for bad debt (Note2)
							Name	Amount		
None										

Note 1: The preparer should explain the decision making level of the transaction.

Note 2: There is no need to provide the information on borrowing funds.

## Lease of assets

Unit: NT\$ thousand

Transaction type (rent or lease)	Property		Lease duration	Nature of the lease (Note 1)	Basis of determining the rent	Method of collection (payment)	Comparison with regular rent levels	Total rent in this period	Payment and receipt in this period	Other stipulations (Note 2)
	Name	Location								
None										

Note 1: The preparer should explain whether the nature of this transaction is capital lease or operating lease.

Note 2: If there are other encumbrances on the ownership, such as superficies, pledges, and servitude of real property, the preparer should disclose such conditions.

## Endorsements

Unit: NT\$ thousand; %

Highest balance	Balance at the end of the period		Reason for the endorsement	Providing collateral as guarantee			Conditions or dates for releasing the guarantee or recovering the collateral	The amount of contingent loss already recognized in financial statements	Violations of operation regulations codified by the company
	Amount	Percentage of net assets in the financial statement		Name	Quantity	Value			
None									