

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For the three-month periods ended
31 March 2015 and 2014
With Independent Auditors' Review Report

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

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

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

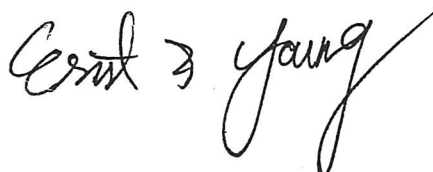
We have reviewed the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the “Company”) and its subsidiaries as of 31 March 2015 and 31 March 2014, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended 31 March 2015 and 2014. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our reviews.

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

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

As described in Note 3 to the consolidated financial statements, the Company and its subsidiaries prepare the condensed consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”), International Accounting Standards, and Interpretations issued, revised or amended (which exclude IFRS 9), which are recognized by FSC and would be applicable for annual periods beginning on or after 1 January 2015 and restated retrospectively the consolidated financial statements for the three-month periods ended 31 March 2014, and the related consolidated balance sheets as of 1 January 2014 and 31 December 2014.

Ernst & Young
Taipei, Taiwan
The Republic of China
30 April 2015



Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated Balance Sheets

As at 31 March 2015, 31 December 2014, 31 March 2014 and 1 January 2014

(31 March 2015 and 2014 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in thousands of New Taiwan Dollars)

	<u>Notes</u>	<u>2015.3.31</u>	<u>2014.12.31 (adjusted)</u>	<u>2014.3.31 (adjusted)</u>	<u>2014.1.1 (adjusted)</u>
Assets					
Cash and cash equivalents	4, 6	\$372,500,934	\$435,006,606	\$419,927,339	\$331,666,078
Due from the Central Bank and call loans to banks		167,303,594	151,289,044	136,763,894	151,945,066
Financial assets at fair value through profit or loss	4, 7	232,297,737	223,007,168	242,154,421	244,023,246
Available-for-sale financial assets -net	4, 8	1,408,038,943	1,405,300,159	1,346,438,280	1,357,106,776
Derivative financial assets for hedging	4	655,161	665,390	1,241,132	1,300,914
Securities purchased under agreements to resell	4	43,093,107	56,515,170	19,654,926	12,960,817
Receivables -net	4, 9	161,075,851	134,368,376	157,195,423	169,590,966
Current income tax assets	4	7,375,165	7,374,177	6,056,424	5,585,301
Assets held for sale -net		-	-	-	81,950
Loans -net	4, 10	1,830,447,499	1,812,773,579	1,729,891,326	1,667,391,682
Reinsurance assets -net		5,993,347	6,377,012	6,121,332	5,740,684
Held-to-maturity financial assets -net	4, 11	89,008,359	81,658,512	59,421,462	54,970,153
Investments accounted for using the equity method -net	4, 12	6,069,063	4,545,318	3,160,085	3,152,848
Other financial assets -net	4, 13	2,228,535,089	2,131,815,297	1,786,930,321	1,724,797,817
Investment properties -net	4, 14	338,132,992	338,336,979	309,921,736	292,314,597
Property and equipment -net	4, 15	93,316,302	92,877,629	93,716,463	103,394,363
Intangible assets -net	4, 16	9,340,458	9,283,025	9,240,347	9,223,432
Deferred tax assets -net	4	13,665,332	16,081,618	14,012,706	14,657,474
Other assets -net		38,159,864	37,562,177	30,885,279	26,963,941
Total assets		\$7,045,008,797	\$6,944,837,236	\$6,372,732,896	\$6,176,868,105

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 at 31 March 2015, 31 December 2014, 31 March 2014 and 1 January 2014

(31 March 2015 and 2014 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in thousands of New Taiwan Dollars)

Liabilities & equity	Notes	2015.3.31	2014.12.31 (adjusted)	2014.3.31 (adjusted)	2014.1.1 (adjusted)
Liabilities					
Due to the Central Bank and call loans from banks		\$67,031,921	\$58,816,432	\$68,976,603	\$56,985,225
Bankers acceptances and funds borrowed		628,020	1,585,900	1,525,500	1,497,500
Financial liabilities at fair value through profit or loss	4, 17	87,119,663	108,286,154	25,329,193	28,754,621
Derivative financial liabilities for hedging		-	-	-	5,148
Securities sold under agreements to repurchase	4	61,616,178	62,021,921	64,936,638	60,931,600
Commercial paper payable -net	4, 18	26,428,229	26,790,000	10,990,000	10,050,000
Payables		52,282,701	50,417,151	51,241,386	37,548,440
Current income tax liabilities	4	470,300	237,634	37,003	37,003
Deposits	19	1,733,676,545	1,702,302,143	1,608,618,909	1,585,031,001
Bonds payable	4, 20	107,399,878	107,613,949	92,513,375	92,417,213
Provisions	4, 22	3,857,417,619	3,800,562,744	3,543,089,772	3,475,059,961
Other financial liabilities -net	4, 21	544,775,424	543,279,993	459,714,320	413,414,217
Deferred tax liabilities	4	25,662,283	27,171,920	17,906,605	18,936,918
Other liabilities		21,182,941	16,630,845	31,142,653	14,712,855
Total liabilities		6,585,691,702	6,505,716,786	5,976,021,957	5,795,381,702
Equity attributable to owners of parent					
Capital stock					
Common stock	24	125,632,102	125,632,102	119,649,621	119,649,621
Capital surplus	25	88,782,304	88,782,304	89,063,184	89,063,184
Retained earnings	26				
Legal reserve		19,784,401	19,784,401	16,922,773	16,922,773
Special reserve		82,262,652	82,305,614	82,294,618	82,314,780
Undistributed earnings		78,919,430	60,939,777	49,552,529	37,273,569
Other equity		58,152,310	56,036,407	34,909,650	32,082,136
Non-controlling interests	4, 27	5,783,896	5,639,845	4,318,564	4,180,340
Total equity		459,317,095	439,120,450	396,710,939	381,486,403
Total liabilities and equity		\$7,045,008,797	\$6,944,837,236	\$6,372,732,896	\$6,176,868,105

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the three-month periods ended 31 March 2015 and 2014
(Reviewed only, not audited in accordance with the generally accepted auditing standards)
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

	Notes	2015.1.1~2015.3.31	2014.1.1~2014.3.31 (adjusted)
Interest income	4	\$37,117,958	\$34,430,762
Less: Interest expenses		(4,238,597)	(3,886,466)
Net interest income	4	<u>32,879,361</u>	<u>30,544,296</u>
Net income other than interest			
Net commission and handling fee		337,034	222,782
Net premiums from insurance business		47,654,569	38,105,169
Gains (losses) on financial assets and liabilities at fair value through profit or loss		3,524,422	(14,947,556)
Gains from investment properties		2,226,506	3,116,052
Realized gains on available-for-sale financial assets		20,925,792	10,902,514
Realized (losses) gains on held-to-maturity financial assets		(47,964)	1,282
(Losses) gains on foreign exchange		(14,078,929)	15,441,047
Impairment losses on assets		-	(7,123)
Share of profit of associates and joint ventures accounted for using the equity method		51,696	29,833
Net other non-interest gains		10,685,316	2,294,211
Total income		<u>104,157,803</u>	<u>85,702,507</u>
Bad debt expenses and provision for premiums reserve		<u>(112,293)</u>	<u>7,675</u>
Changes in insurance liabilities and provisions		<u>(70,365,746)</u>	<u>(60,276,071)</u>
Operating expenses	28		
Employee benefits expenses		(9,122,251)	(8,395,781)
Depreciation and amortizations expenses		(612,439)	(625,550)
Other general and administration expenses		(4,039,527)	(3,784,905)
Subtotal		<u>(13,774,217)</u>	<u>(12,806,236)</u>
Profit before income tax from continuing operations		19,905,547	12,627,875
Income tax expense	4, 30	<u>(1,796,875)</u>	<u>(300,949)</u>
Net income		<u>18,108,672</u>	<u>12,326,926</u>
Other comprehensive income	4, 29		
Not to be reclassified to profit or loss in subsequent periods:			
Revaluation surplus		-	902,335
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk		(287,160)	-
Income tax relating to the components not to be reclassified to profit or loss in subsequent periods		48,817	(74,726)
To be reclassified to profit or loss in subsequent periods:			
Exchange differences resulting from translating the financial statements of a foreign operation		(1,531,137)	286,489
Unrealized gains from available-for-sale financial assets		4,399,625	1,290,362
Losses on cash flow hedges		(3,207)	(75,850)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method - to be reclassified to profit or loss in subsequent periods		17,342	7,053
Income tax relating to the components to be reclassified to profit or loss in subsequent periods		(556,307)	561,947
Other comprehensive income, net of tax		<u>2,087,973</u>	<u>2,897,610</u>
Total comprehensive income		<u>\$20,196,645</u>	<u>\$15,224,536</u>
Net income attributable to:			
Owners of parent		\$17,922,518	\$12,258,798
Non-controlling interests		186,154	68,128
Subtotal		<u>\$18,108,672</u>	<u>\$12,326,926</u>
Total comprehensive income attributable to:			
Owners of parent		\$20,052,594	\$15,086,312
Non-controlling interests		144,051	138,224
Subtotal		<u>\$20,196,645</u>	<u>\$15,224,536</u>
Earnings per share (expressed in dollars) :	31		
Basic earnings per share:			
Net income		<u>\$1.43</u>	<u>\$0.98</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Statements of changes in equity

For the three-month periods ended 31 March 2015 and 2014

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

(Expressed in thousands of New Taiwan Dollars)

Items	Equity attributable to owners of parent													Total	Non-controlling interests	Total equity
	Capital stock		Retained earnings				Other equity									
	Common stock	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of a foreign operation	Unrealized gains (losses) from available-for-sale financial assets	Gains (losses) on cash flow hedges	Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	Remeasurements of defined benefit plans	Revaluation Surplus	Others				
Balance on 1 January 2014	\$119,649,621	\$89,063,184	\$16,922,773	\$82,314,780	\$37,287,956	\$(528,034)	\$20,230,491	\$382,306	\$-	\$-	\$10,007,738	\$(953)	\$375,329,862	\$4,180,340	\$379,510,202	
Amounts of retrospective adjustments	-	-	-	-	(14,387)	-	-	-	-	1,990,588	-	-	1,976,201	-	1,976,201	
Balance on 1 January 2014(adjusted)	119,649,621	89,063,184	16,922,773	82,314,780	37,273,569	(528,034)	20,230,491	382,306	-	1,990,588	10,007,738	(953)	377,306,063	4,180,340	381,486,403	
Reversal of special reserve				(20,162)	20,162											
Net income for the three-month periods ended 31 March 2014(adjusted)					12,258,798								12,258,798	68,128	12,326,926	
Other comprehensive income for the three-month periods ended 31 March 2014(adjusted)						188,424	1,874,587	(63,106)			827,609		2,827,514	70,096	2,897,610	
Comprehensive income for the three-month periods ended 31 March 2014(adjusted)	-	-	-	-	12,258,798	188,424	1,874,587	(63,106)	-	-	827,609	-	15,086,312	138,224	15,224,536	
Balance on 31 March 2014(adjusted)	<u>\$119,649,621</u>	<u>\$89,063,184</u>	<u>\$16,922,773</u>	<u>\$82,294,618</u>	<u>\$49,552,529</u>	<u>\$(339,610)</u>	<u>\$22,105,078</u>	<u>\$319,200</u>	<u>\$-</u>	<u>\$1,990,588</u>	<u>\$10,835,347</u>	<u>\$(953)</u>	<u>\$392,392,375</u>	<u>\$4,318,564</u>	<u>\$396,710,939</u>	
Balance on 1 January 2015(adjusted)	\$125,632,102	\$88,782,304	\$19,784,401	\$82,305,614	\$60,939,777	\$601,786	\$44,257,646	\$180,453	\$48,151	\$918,988	\$10,030,820	\$(1,437)	\$433,480,605	\$5,639,845	\$439,120,450	
Reversal of special reserve				(42,962)	42,962											
Net income for the three-month periods ended 31 March 2015					17,922,518								17,922,518	186,154	18,108,672	
Other comprehensive income for the three-month periods ended 31 March 2015						(1,430,715)	3,801,785	(2,651)	(238,343)				2,130,076	(42,103)	2,087,973	
Comprehensive income for the three-month periods ended 31 March 2015	-	-	-	-	17,922,518	(1,430,715)	3,801,785	(2,651)	(238,343)	-	-	-	20,052,594	144,051	20,196,645	
Others					14,173						(14,173)					
Balance on 31 March 2015	<u>\$125,632,102</u>	<u>\$88,782,304</u>	<u>\$19,784,401</u>	<u>\$82,262,652</u>	<u>\$78,919,430</u>	<u>\$(828,929)</u>	<u>\$48,059,431</u>	<u>\$177,802</u>	<u>\$(190,192)</u>	<u>\$918,988</u>	<u>\$10,016,647</u>	<u>\$(1,437)</u>	<u>\$453,533,199</u>	<u>\$5,783,896</u>	<u>\$459,317,095</u>	

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Statements of cash flows

For the three-month periods ended 31 March 2015 and 2014

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

(Expressed in thousands of New Taiwan Dollars)

Items	2015.1.1~2015.3.31	2014.1.1~2014.3.31 (adjusted)	Items	2015.1.1~2015.3.31	2014.1.1~2014.3.31 (adjusted)
Cash flows from operating activities			Subtotal of Changes in operating assets and liabilities	(101,724,551)	2,562,034
Profit before income tax from continuing operations	\$19,905,547	\$12,627,875	Subtotal of Adjustment	(106,200,846)	43,029,148
Adjustments :			Cash generated from operations	(86,295,299)	\$55,657,023
Income and other adjustments with no cash flow effects			Interest received	34,708,413	33,298,807
Depreciation expenses	528,494	554,568	Dividends received	1,341,443	625,051
Amortizations expenses	83,945	70,982	Interest paid	(3,453,849)	(2,861,586)
Bad debt expense	112,293	(7,675)	Income taxes paid	(709,574)	(946,905)
Net (gains) losses on financial assets and liabilities at fair value through profit or loss	(2,761,543)	16,631,267	Net cash flows (used in) from operating activities	(54,408,866)	85,772,390
Interest expenses	4,238,597	3,886,466			
Interest revenue	(37,117,958)	(34,430,762)	Cash flows from investing activities		
Dividend income	(1,339,748)	(624,706)	Acquisition of financial assets at fair value through profit or loss	(438,506)	(55,000)
Net changes in insurance liabilities and provisions	61,276,375	67,215,024	Disposal of financial assets at fair value through profit or loss	1,682,991	30,000
Net changes of other liabilities and provisions	(4,411,418)	799,075	Acquisition of financial assets available for sale	(321,455)	(252,492)
Share of gain of associates and joint ventures accounted for using the equity method	(51,696)	(29,833)	Disposal of financial assets available for sale	189,806	149,049
Losses (gains) on disposal or scrapping of property and equipment	283	(32,492)	Acquisition of investments accounted for using the equity method	(1,455,000)	(10,060)
Gains on disposal of investment properties	(37,277)	(1,263,272)	Disposal of investments accounted for using the equity method	-	39,706
Gains on disposal of investments	(24,963,173)	(12,350,624)	Disposal of assets held for sale	-	65,981
Impairment losses on non-financial assets	-	7,123	Acquisition of property and equipment	(232,580)	(301,982)
Unrealized foreign exchange (gains) losses	(44,927)	24,061	Disposal of property and equipment	2,315	51,760
Revaluation losses on investment properties	11,458	17,912	Increase in clearing and settlement funds	(244)	(509)
Subtotal	(4,476,295)	40,467,114	Increase in guarantee deposits paid	(17,857)	-
Changes in operating assets and liabilities			Decrease in guarantee deposits paid	-	13,500
Changes in operating assets			Acquisition of intangible assets	(36,764)	(34,066)
Increase in due from the Central Bank and call loans to banks	(248,679)	(215,578)	Acquisition of investment properties	(1,720,771)	(7,541,035)
Decrease in financial assets at fair value through profit or loss	7,240,002	10,593,272	Disposal of investment properties	190,727	1,430,000
Decrease in available-for-sale financial assets	20,685,963	21,934,513	Increase in other assets	(2,794,250)	(1,270,267)
Decrease (increase) in derivative financial assets for hedging	7,023	(16,068)	Net cash used in investing activities	(4,951,588)	(7,685,415)
Increase in securities purchased under agreements to resell	(100,000)	-	Cash flows from financing activities		
(Increase) decrease in accounts receivable	(24,176,677)	14,741,807	Decrease in short-term borrowings	(400,000)	-
Increase in loans	(17,932,167)	(62,521,541)	(Decrease) increase in funds borrowed from Central Bank and banks	(957,880)	28,000
Decrease (increase) in reinsurance contract assets	369,589	(381,239)	(Decrease) increase in commercial paper payable	(360,000)	940,000
Increase in financial assets held to maturity	(7,449,185)	(4,403,002)	(Decrease) increase in bank debentures	(214,071)	96,162
Increase in other financial assets	(87,956,792)	(22,488,317)	(Decrease) increase in bills and bonds sold under agreements to repurchase	(42,174)	14,720
Decrease (increase) in other assets	1,986,698	(2,930,650)	Increase in other liabilities	1,470,754	14,850
Subtotal	(107,574,225)	(45,686,803)	Net cash flows (used in) from financing activities	(503,371)	1,093,732
Changes in operating liabilities			Effects of exchange rate changes on cash and cash equivalents	(315,328)	357,254
Increase in due to the Central Bank and call loans from banks	8,263,029	11,846,076	(Decrease) increase in cash and cash equivalents	(60,179,153)	79,537,961
Decrease in financial liabilities at fair value through profit or loss	(36,151,803)	(27,935,662)	Cash and cash equivalents at the beginning of periods	597,008,819	453,686,200
Decrease in derivative financial liabilities for hedging	-	(5,148)	Cash and cash equivalents at the end of periods	\$536,829,666	\$533,224,161
(Decrease) increase in securities purchased under agreements to repurchase	(263,569)	3,990,318			
Increase in payables	652,156	12,122,520	The components of cash and cash equivalents		
Increase in deposits	31,832,596	23,221,600	Cash and cash equivalents presented in balance sheet	\$372,500,934	\$419,927,339
Increase in provisions for the liabilities of employee benefits	33,657	173,807	Due from the Central Bank and call loans to banks satisfied the definition of cash and cash equivalents under IAS No.7	121,235,625	93,641,896
Decrease in reserves for the operations and liabilities	(244)	(140,227)	Bills sold under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7	43,093,107	19,654,926
(Decrease) increase in other financial liabilities	(1,543,252)	8,529,650	Cash and cash equivalents at the end of periods	\$536,829,666	\$533,224,161
Increase in other liabilities	3,027,104	16,445,903			
Subtotal	5,849,674	48,248,837			

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 March 2015 and 2014

(31 March 2015 and 2014 reviewed only, not audited in accordance with the generally accepted auditing standards)

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

1. Organization and business scope

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

As of 31 March 2015, 31 December 2014, 31 March 2014, and 1 January 2014, the total numbers of the employees of the Company and Subsidiaries (the Group) were 44,439, 44,542, 43,974, and 44,487, respectively.

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

The consolidated financial statements of the Group for the three-month periods ended 31 March 2015 and 2014 were authorized for issue in accordance with a resolution of the Board of Directors on 30 April 2015.

3. Newly issued or revised standards and interpretations

- (1) Changes in accounting policies resulting from applying for the first time certain standards and amendments

The Group applied for the first time the International Financial Reporting Standards, International Accounting Standards, and interpretations issued, revised or amended which are recognized by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after 1 January 2015. The nature and the impact of each new standard and amendment that has a material effect on the Group are described below:

A. IAS 19 “Employee Benefits”

The revised IAS 19 brought about the following changes to defined benefit plans which are summarized below:

- (a) The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net-interest amount under the revised IAS 19, which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period.
- (b) In the previous version of IAS 19, past service cost is recognized as an expense immediately to the extent that the benefits are already vested, or on a straight-line basis over the average period until the benefits become vested. Under the revised IAS 19, all past service costs are recognized at the earlier of when the amendment/curtailment occurs or when the related restructuring or termination costs are recognized. Therefore unvested past service cost is no longer deferred over future vesting periods.
- (c) The revised IAS 19 required more disclosure.

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- (d) The Group applied the revised IAS 19 *Employee Benefits* retrospectively in the current period in accordance with the transitional provisions set out in the revised standard except that the carrying amount of assets was not adjusted for changes in employee benefit cost that were included in the carrying amount before 1 January 2014. The figures of the earliest comparative period presented and the comparative period have been accordingly restated.
- (e) In the previous version of IAS 19, the Company and its subsidiaries amortize the amount that net cumulative unrecognized actuarial gains and losses exceed 10% of the greater of the present value of the defined benefit obligation and the fair value of the plan assets over the expected remaining working lives of employees participating in the plan. Under the amended standard, the remeasurement of net defined benefit liability (asset) will be recognized in other comprehensive income and other equity immediately when occurs.

Impact on the statement of comprehensive income:

	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Net income other than interest	<u>\$6</u>	<u>\$7</u>
Operating expense:		
Employee benefits expenses	<u>(10,564)</u>	<u>(31,673)</u>
Profit before income tax from continuing operations	(10,558)	(31,666)
Income tax profit	<u>1,793</u>	<u>5,384</u>
Net income	<u><u>\$(8,765)</u></u>	<u><u>\$(26,282)</u></u>

Impact on the balance sheet:

As at	<u>2015.3.31</u>	<u>2014.12.31</u>	<u>2014.3.31</u>	<u>2014.1.1</u>
Investments accounted for using the equity method -net	\$(1,399)	\$(1,405)	\$(465)	\$(472)
Deferred tax assets-net	(163,095)	(163,909)	(399,364)	(404,748)
Other assets-net	741	741	664	664
Provisions	(959,377)	(964,165)	(2,349,197)	(2,380,870)
Deferred tax liabilities	126	126	113	113
Retained earnings	(123,489)	(119,521)	(40,669)	(14,387)
Other equity	918,987	918,987	1,990,588	1,990,588

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B. IAS 9 “Financial Instruments”

- (a) According to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the amount of change in the fair value of the financial liability presented in current profit or loss is revised to be attributable to credit risk of that liability shall be presented in other comprehensive income, except that to avoid the accounting mismatch in profit or loss or loan commitments and financial guarantee contract that shall be presented in profit or loss.
- (b) The Group adopts the amendments to IAS 9 “Financial Instruments” and the figures of the earliest comparative period presented and the comparative periods have been accordingly restated.

Impact on the statement of comprehensive income:

	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Net income other than interest:		
Financial assets at fair value through profit or loss	\$287,160	\$-
Profit before income tax from continuing operations	287,160	-
Income tax expense	(48,817)	-
Net income	\$238,343	\$-

Impact on the balance sheet:

	2015.3.31	2014.12.31	2014.3.31	2014.1.1
Retained earnings	\$190,192	\$(48,151)	\$-	\$-
Other equity	(190,192)	48,151	-	-

C. IFRS 7 “Financial Instruments Disclosures” – Transfers of Financial Assets

The amendments require that additional quantitative and qualitative disclosure on financial assets that have been transferred but not derecognized at reporting date and that have been derecognized but for which the entity retains continuing involvement. The Group has added additional nature and quantitative disclosures for transferred financial assets.

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D. *IFRS 7 “Financial Instruments Disclosures” – Offsetting Financial Assets and Financial Liabilities*

The amendments require the entity disclose more information about offsetting of financial instrument. The disclosure shall enable users to evaluate the effect of offsetting on the entity's financial position. Financial instruments that offset in accordance with IAS 32 Financial Instruments: Presentation and that do not offset but subject to enforceable master netting arrangement or other similar agreements but not offset are included in the disclosure. The Group has added additional nature and quantitative disclosures for transferred financial assets.

E. *IFRS 12 “Disclosure of Interests in Other Entities”*

IFRS 12 *Disclosure of Interests in Other Entities* sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements, for example, summarized financial information about the associate or disclosure on subsidiaries with material non-controlling interests. Please refer to Note 12 for more details.

F. *IFRS 13 “Fair Value Measurements”*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. The Group re-assessed its policies for measuring fair values. Application of IFRS 13 has not materially impacted the fair value measurements of the Group.

Additional disclosures where required under IFRS 13, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 38. According to the transitional provisions of IFRS 13, IFRS 13 is applied prospectively as of 1 January 2015; the disclosure requirements of IFRS 13 need not be applied in comparative information before 1 January 2015.

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G. *IAS 1 “Presentation of Financial Statements” – Presentation of items of other comprehensive income*

Beginning 1 January 2014, the Group presented its items of other comprehensive income that will be reclassified to profit or loss separately from items that will not be reclassified in accordance with the amendments to IAS 1. The amendments affect presentation of statement of comprehensive income only and have no impact on the Group’s financial position or performance.

H. *IAS 1 “Presentation of Financial Statements” – Clarification of the requirement for comparative information*

Beginning 1 January 2014, according to the amendments to IAS 1, when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements, the opening statement of financial position does not have to be accompanied by comparative information in the related notes. The amendments affect notes accompanying the financial statements only and have no impact on the Group’s financial position or performance.

- (2) Standards or interpretations issued by IASB but not yet recognized by FSC at the date of issuance of the Group’s financial statements are listed below.

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

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

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B. *IFRIC 21 “Levies”*

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

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

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

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

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

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

IFRS 2 “Share-based Payment”

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

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IFRS 3 “Business Combinations”

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

IFRS 8 “Operating Segments”

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

IFRS 13 “Fair Value Measurement”

The amendment to the Basis for Conclusions of IFRS 13 clarifies that when deleting paragraph B5.7.12 of IFRS 9 *Financial Instruments* and paragraph AG79 of IAS 39 *Financial Instruments: Recognition and Measurement* as consequential amendments from IFRS 13 *Fair Value Measurement*, the IASB did not intend to change the measurement requirements for short-term receivables and payables.

IAS 16 “Property, Plant and Equipment”

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

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IAS 24 “Related Party Disclosures”

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

IAS 38 “Intangible Assets”

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

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

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

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

IFRS 3 “Business Combinations”

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

IFRS 13 “Fair Value Measurement”

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

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IAS 40 “Investment Property”

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

G. *IFRS 14 “Regulatory Deferral Accounts”*

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

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

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

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

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

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

The core principle of the new Standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The Standard is effective for annual periods beginning on or after 1 January 2017.

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

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

L. *IFRS 9 “Financial Instruments”*

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

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.

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

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

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

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

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

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

The amendments address the inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full. IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors’ interests in the associate or joint venture. The amendment is effective for annual periods beginning on or after 1 January 2016.

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O. *Improvements to International Financial Reporting Standards (2012-2014 cycles):*

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

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

IFRS 7 “Financial Instruments: Disclosures”

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

IAS 19 “Employee Benefits”

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

IAS 34 “Interim Financial Reporting”

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

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P. *IAS 1 “Presentation of Financial Statements” (Amendment):*

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

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

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

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

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4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Group for the three-month periods ended 31 March 2015 and 2014 have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies”, the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, the “Regulations Governing the Preparation of Financial Reports by Securities Firms” and IAS 34 “*Interim Financial Reporting*” as recognized by the FSC.

(2) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments and investment properties that have been measured at fair value. The consolidated financial statements are expressed in 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

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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.

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	2015.3.31	2014.12.31	2014.3.31	Notes
The Company	Cathay Life Insurance Co., Ltd. ("Cathay Life")	Life insurance	100.00	100.00	100.00	Cathay Life was incorporated in Taiwan on 23 October 1962, under the ROC Company Act (the "Company Act").
The Company	Cathay United Bank Co., Ltd. ("Cathay United Bank")	Commercial banking operations	100.00	100.00	100.00	UWCCB was enfranchised by the ROC government on 4 January 1975. On 27 October 2003, UWCCB was merged with the former Cathay United Bank which was dissolved after the merger; the merged entity was renamed Cathay United Bank. The new Cathay United Bank merged with Lucky Bank on 1 January 2007.

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Investor	Subsidiary	Business nature	2015.3.31	2014.12.31	2014.3.31	Notes
The Company	Cathay Century Insurance Co., Ltd. (“Cathay Century”)	Property and casualty insurance	100.00	100.00	100.00	Cathay Century was incorporated in Taiwan on 19 July 1993, under the Company Act. Cathay Century changed its name from “Tong Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.” on 2 August 2002.
The Company	Cathay Securities Corporation (“Cathay Securities”)	Securities	100.00	100.00	100.00	Cathay Securities was incorporated on 12 May 2004, under the Company Act. The securities department and the securities agent (Taipei branch) of Cathay United Bank were assigned to Cathay Securities along with its business, assets and liabilities. The assignment date was 13 August 2004.
The Company	Cathay Venture Inc. (“Cathay Venture”)	Venture capital investment	100.00	100.00	100.00	Cathay Venture was incorporated on 16 April 2003, under the Company Act. Cathay Venture is the surviving company from the merger with Cathay Venture, Cathay II Venture and Cathay Capital Management on 10 August 2009.
The Company	Cathay Securities Investment Trust Co., Ltd. (“Cathay Securities Investment Trust”)	Securities investment trust	100.00	100.00	100.00	Cathay Securities Investment Trust was incorporated on 11 February 2000.
Cathay Life	Cathay Lujiazui Life Insurance Company Limited. (“Cathay Lujiazui Life”)	Life insurance	50.00	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	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.

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Investor	Subsidiary	Business nature	2015.3.31	2014.12.31	2014.3.31	Notes
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	Lin Yuan (Shanghai) Real Estate Co., Ltd (“Lin Yuan”)	Office equipment leasing company	100.00	100.00	100.00	Lin Yuan was incorporated on 15 August 2012.
Cathay Life, Cathay Century	Cathay Insurance Co., Ltd. (China) (“Cathay Century (China)”)	Property and casualty insurance	100.00	100.00	100.00	Cathay Century (China) was incorporated on 26 August 2008. Cathay Life and Cathay Century each owns 50% interest of Cathay Century (China).
Cathay Century	Cathay Insurance (Vietnam) Co., Ltd. (“Cathay Century (Vietnam)”)	Property and casualty insurance	100.00	100.00	100.00	Cathay Century (Vietnam) was incorporated on 2 November 2010.
Cathay United Bank	Indovina Bank Limited (“Indovina Bank”)	Wholesale banking	50.00	50.00	50.00	Indovina Bank was incorporated in Vietnam on 21 November 1990. Cathay United Bank and Vietinbank each owns 50% interest of Indovina Bank.
Cathay United Bank	Cathay United Bank (Cambodia) Corporation Limited (“CUBC Bank”)	Wholesale banking	100.00	100.00	100.00	SBC Bank was incorporated in Cambodia on 1993 and renamed as CUBC Bank on 14 January 2014.
Cathay Securities	Cathay Futures Co., Ltd. (“Cathay Futures”)	Futures related business	99.99	99.99	99.99	Cathay Futures, former Seaward Futures Agency Co., Ltd., was incorporated on 29 December 1993, under the Company Act and was renamed Seaward Futures Corp. on 6 March 1998. On 24 December 2003, Seaward Futures Corp. changed its name to Cathay Futures Corp. On 10 February 2006, Cathay United Bank sold all stocks of Cathay Futures to Cathay Securities.

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

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

The Board of Cathay United Bank approved to raise capital of CUBC by US\$43,000 thousand, and after that, the paid-in capital would amount to US\$60,000 thousand. On 25 June 2014, Cathay United Bank had transferred investment of US\$43,000 thousand which is presented as “investment accounted for using equity method”.

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

Investor	Investee	Business	2015.3.31 Ownership interest	2014.12.31 Ownership interest	2014.3.31 Ownership interest	Notes
Cathay Life	Cathay Insurance (Bermuda) Co., Ltd. (“Cathay Insurance (Bermuda)”)	Class 3 general business insurers and a long-term insurer	100.00	100.00	100.00	Cathay Insurance (Bermuda) was incorporated on 24 January 2000.
Cathay Life	Cathay Securities Investment Consulting Co., Ltd. (“Cathay Securities Investment Consulting”)	Securities investment research analysis	100.00	100.00	100.00	Cathay Securities Investment Consulting was incorporated on 25 November 2002.
Cathay United Bank	Seaward Card Co., Ltd. (“Seaward Card”)	Temporary employment	100.00	100.00	100.00	Seaward Card was incorporated on 9 April 1999.
Cathay Securities	Cathy Investment Consulting (Shanghai) Co., Ltd.	Investment Consulting	100.00	100.00	-	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.

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

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

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

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

(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.

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The following partial disposals are accounted for as disposals:

- A. when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation; and
- B. when the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

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

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

(6) Cash and cash equivalents

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

(7) The transaction of Repo notes and bonds

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

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(8) Financial instruments

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

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

A. Financial assets

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

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

Financial assets at fair value through profit or loss

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

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

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

- 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.

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

Available-for-sale financial assets

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

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

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

Held-to-maturity financial assets

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

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

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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.

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A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

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

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

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

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

Derecognition of financial assets

Financial asset is derecognized when:

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

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

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The reclassification of financial assets

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

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

B. Financial liabilities and equity

Classification between liabilities or equity

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

Equity instruments

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

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.

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

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

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

On conversion of a convertible bond before maturity, the carrying amount of the liability component being the amortized cost at the date of conversion is transferred to equity.

Financial liabilities

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

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:

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

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

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

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

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

Derivative financial liabilities for hedging

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

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.

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Derecognition of financial liabilities

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

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

C. Offsetting of financial instruments

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

D. Fair value of financial instruments

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

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

(9) Derivative financial instrument

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

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

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

(10) Fair value measurement

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

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

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

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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(11) Investments accounted for using the equity method

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

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

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

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

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

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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.

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

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

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

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

(13) Investment property

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

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

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

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(14) Leases

Group as a lessee

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

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

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

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

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

Computer software

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

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

(16) Impairment of non-financial assets

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

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

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

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

(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.

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a. Unearned premium reserve

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

b. Reserve for claims

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

c. Reserve for life insurance liabilities

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

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

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

When an insurer that opts to measure investment property at fair value, the value of its insurance liabilities at the same time must also be measured at fair value. If the results of the measurements indicate that the fair value of the insurance liabilities exceeds book value, the life insurer must set aside the difference to reserve for life insurance liabilities and decrease retained earnings. 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.

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d. Special reserve

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

i. Special capital reserve—Special reserve for major incidents

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

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

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

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

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

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

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

e. Premium deficiency reserve

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

In addition, for the insurance policy which period is within one year and has not met the due date or accidental insurance policy over one year, the following rules applied: If the probable indemnities and expenses are greater than the aggregate of unearned premium serves and collectable premiums in the future, the premium deficiency reserve is set aside based on the difference thereof. The method prescribed by law for computing premium deficiency reserve was amended by the regulator on 28 December 2012.

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f. Liability adequacy reserve

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

g. Reserves for insurance contract with feature of financial instruments

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

h. Foreign exchange volatility reserve

The beginning balance of foreign exchange volatility reserve is in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and “Direction for foreign exchange volatility reserve by Life Insurance Enterprises”.

i. Liability adequacy test

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

B. Cathay Century

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

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a. Unearned premium reserve

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

b. Claims reserve

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

c. Special reserve

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

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

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(A) Special reserve for major incident

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

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

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

(B) Special reserve for fluctuation of risks

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

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

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

d. Premiums deficiency reserve

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

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C. Cathay Lujiazui Life and Cathay Century (China)

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

Other provisions

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

(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.

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Defined benefit plan

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

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

Net interest is calculated by applying the discount rate to the net defined benefit liability or 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 28 of the “Regulations Governing the Preparation of Financial Reports by Public Banks”, when the interest incurred from preferential interest rate deposits exceed the interest generated from market rate, it shall be considered the actuarial amount according to defined benefit plan regulated on IAS 19 “*Employee Benefits*” since the employee’s retirement date.

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(20) Revenue recognition

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

Interest income

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

Handling fee revenue

The Group charge customers by providing a variety of services.

Dividends

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.

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Deferred tax

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

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

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

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

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

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

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

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

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

(22) Business combinations and goodwill

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

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

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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.

(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.

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B. Investment properties

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

C. Operating lease commitment – Group as the lessor

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

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

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

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

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

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

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

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

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

(2) Estimates and assumptions

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

A. Impairment losses on loans and receivables

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

B. Fair value of financial instruments

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

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C. Fair value of investment property

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

D. Impairment of non-financial assets

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

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.

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

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

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

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

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H. Income tax

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

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

6. Cash and cash equivalents

	2015.3.31	2014.12.31	2014.3.31
Petty cash and cash on hand	\$15,396,349	\$16,246,007	\$15,112,062
Cash in banks	55,734,424	80,114,375	48,410,156
Time deposits	179,950,253	193,754,061	250,340,943
Cash equivalents	18,962,207	18,438,948	15,008,702
Checks for clearance	2,631,339	6,090,870	4,610,962
Due from commercial banks	99,826,362	120,362,345	86,444,514
Total	<u>\$372,500,934</u>	<u>\$435,006,606</u>	<u>\$419,927,339</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.

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7. Financial assets at fair value through profit or loss

	2015.3.31	2014.12.31	2014.3.31
Designated financial assets at fair value through profit or loss at initial recognition:			
Corporate bonds	\$2,917,510	\$3,649,136	\$3,520,999
Held for trading:			
Common stock	12,102,998	12,087,584	12,219,325
Funds and beneficiary certificates	37,888,123	33,269,830	51,079,276
Government bonds	11,189,483	9,006,028	14,107,905
Corporate bonds	5,783,857	5,665,311	5,736,820
Financial debentures	489,672	-	-
Overseas debentures	2,897,600	73,584	2,221,712
Structured time deposits	2,315,000	2,299,750	12,598,700
Short-term notes	116,378,215	110,018,729	122,490,164
Margin for futures trading-own funds	387,748	200,838	495,690
Derivative financial instruments	39,947,531	46,736,378	17,683,830
Subtotal	<u>229,380,227</u>	<u>219,358,032</u>	<u>238,633,422</u>
Total	<u>\$232,297,737</u>	<u>\$223,007,168</u>	<u>\$242,154,421</u>

Please refer to Note 34 for related information on the above financial assets at fair value through profit or loss being pledged as collaterals as of 31 March 2015, 31 December 2014, and 31 March 2014.

8. Available-for-sale financial assets

	2015.3.31	2014.12.31	2014.3.31
Common stock	\$510,297,214	\$501,952,140	\$436,044,941
Beneficiary certificates	203,486,202	193,562,279	113,898,260
Funds and beneficiary Securities	2,650,851	6,253,082	10,009,419
Real Estate Investment Trust	12,014,674	11,378,037	11,221,051
Government bonds	206,845,532	204,129,599	227,723,226
Corporate bonds	58,082,134	63,831,625	77,778,365
Financial debentures	135,345,521	137,024,986	169,769,315
Asset-backed securities	1,327,850	1,419,482	2,259,478
Overseas debentures	285,952,692	294,283,758	307,185,957
Short-term notes	128,240	136,157	24,184
Less: Litigation deposits	(39,472)	(35,719)	(47,477)
Less: Securities serving as deposits			
paid-bonds	(8,052,495)	(8,635,267)	(9,428,439)
Total	<u>\$1,408,038,943</u>	<u>\$1,405,300,159</u>	<u>\$1,346,438,280</u>

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- (1) As of 31 March 2015, 31 December 2014, and 31 March 2014, Cathay United Bank and its subsidiaries sold certain available-for-sale financial assets under repurchase agreements with notional amounts of \$15,606,142 thousand, \$15,143,582 thousand, and \$17,772,170 thousand, respectively. Such repurchase agreements amounting to \$12,358,053 thousand, \$11,855,152 thousand, and \$12,838,443 thousand, were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements are settled at \$12,366,094 thousand, \$11,861,068 thousand, and \$12,844,828 thousand, prior to 31 August 2015, 31 January 2015, and 30 September 2014, respectively; as of 31 March 2015, 31 December 2014, and 31 March 2014, Cathay United Bank and its subsidiaries sold certain available-for-sale financial assets under repurchase agreement with notional amounts of \$3,410,088 thousand, \$3,710,003 thousand, and \$5,527,020 thousand without a repurchase date agreed.
- (2) As of 31 March 2015, 31 December 2014, and 31 March 2014, Cathay Securities and its subsidiaries sold certain available-for-sale financial assets under repurchase agreements with notional amounts of \$100,000 thousand, \$100,000 thousand, and \$250,000 thousand, respectively.
- (3) Cathay Life and its subsidiaries recognized an impairment provision as some objective evidences are identified showing impairment indicators associated with stocks and collateralized loans obligation held by Cathay Life and its subsidiaries. As of 31 March 2015, 31 December 2014, and 31 March 2014, Cathay Life and its subsidiaries recognized impairment losses amounting to \$934,430 thousand, \$1,669,430 thousand, and \$1,669,430 thousand, respectively.
- (4) Cathay United Bank has recognized accumulated impairment loss for the available-for-sale financial assets in the amount of \$163,785 thousand, \$163,785 thousand, and \$163,785 thousand as of 31 March 2015, 31 December 2014, and 31 March 2014, respectively, due to the existence of objective impairment evidence.
- (5) Please refer to Note 34 for related information on the above available-for-sale financial assets being pledged as collaterals as of 31 March 2015, 31 December 2014, and 31 March 2014.

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9. Receivable -net

	2015.3.31	2014.12.31	2014.3.31
Notes receivable	\$1,429,783	\$2,115,657	\$1,833,793
Accounts receivable	56,183,224	61,485,841	49,331,863
Interest receivable	35,642,857	33,109,739	31,253,043
Foreign currency receivable	186,948	128,259	72,836
Acceptances	1,285,958	1,276,248	1,026,643
Factoring receivable	40,671,243	18,221,906	57,014,790
Others	27,798,949	20,035,405	19,101,431
Subtotal	163,198,962	136,373,055	159,634,399
Adjustment for discounts and premiums	(6,906)	(7,462)	(6,624)
Less: Allowance for bad debts	(2,116,205)	(1,997,217)	(2,432,352)
Total	<u>\$161,075,851</u>	<u>\$134,368,376</u>	<u>\$157,195,423</u>

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

	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Balance, beginning of the period	\$1,997,217	\$2,199,913
Provision (reversal) of doubtful accounts	87,810	181,453
Write-offs	(89,395)	(91,951)
Debt counseling recoveries	31,418	33,230
Recoveries	121,797	136,466
Reclassification	(31,418)	(33,230)
Effect of exchange rates change	(1,224)	6,471
Balance, end of the period	<u>\$2,116,205</u>	<u>\$2,432,352</u>

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

Item		Accounts Receivable		
		2015.3.31	2014.12.31	2014.3.31
Objective evidence of impairment exists individually	Individual assessment of impairment	\$19,481,159	\$15,305,171	\$11,072,589
	Collective assessment of impairment	157,924	171,362	156,810
Objective evidence of impairment does not exist individually	Collective assessment of impairment	143,559,879	120,896,522	148,405,000

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Item		Allowance for doubtful account		
		2015.3.31	2014.12.31	2014.3.31
Objective evidence of impairment exists individually	Individual assessment of impairment	\$88,154	\$86,432	\$86,810
	Collective assessment of impairment	114,739	128,384	117,281
Objective evidence of impairment does not exist individually	Collective assessment of impairment	1,913,312	1,782,401	2,228,261

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

10. Loans -net

	2015.3.31	2014.12.31	2014.3.31
Inward-outward documentary bills	\$5,547,433	\$9,121,368	\$9,490,273
Loans	1,841,182,193	1,820,033,486	1,733,674,793
Overdrafts	1,713,266	1,429,637	976,553
Delinquent accounts	2,638,612	3,394,386	3,403,828
Subtotal	1,851,081,504	1,833,978,877	1,747,545,447
Adjustment for discounts and premiums	956,817	944,256	976,849
Less: Allowance for bad debts	(21,590,822)	(22,149,554)	(18,630,970)
Total	<u>\$1,830,447,499</u>	<u>\$1,812,773,579</u>	<u>\$1,729,891,326</u>

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

	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Balance, beginning of the period	\$22,149,554	\$18,506,935
Provision of doubtful accounts	90,839	(222,525)
Write-offs	(1,019,656)	(293,887)
Debt counseling recoveries	29,304	29,507
Recoveries	334,440	580,463
Reclassification	31,418	33,230
Effect of exchange rates change	(25,077)	(2,753)
Balance, end of the period	<u>\$21,590,822</u>	<u>\$18,630,970</u>

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(2) Assessment for loans are showed as followed:

Item		Total loans		
		2015.3.31	2014.12.31	2014.3.31
Objective evidence of impairment exists individually	Individual assessment of impairment	\$11,007,081	\$19,620,653	\$24,029,936
	Collective assessment of impairment	11,528,468	10,169,605	10,502,681
Objective evidence of impairment does not exist individually	Collective assessment of impairment	1,828,545,955	1,804,188,619	1,713,012,830

Item		Allowance for bad debts		
		2015.3.31	2014.12.31	2014.3.31
Objective evidence of impairment exists individually	Individual assessment of impairment	\$4,012,205	\$5,136,492	\$5,085,049
	Collective assessment of impairment	2,109,301	1,883,156	1,819,519
Objective evidence of impairment does not exist individually	Collective assessment of impairment	15,469,316	15,129,906	11,726,402

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

	2015.3.31	2014.12.31	2014.3.31
Government bonds	\$32,709,874	\$24,127,874	\$3,964,883
Corporate bonds	10,766,363	10,936,111	8,991,536
Financial debentures	25,600,128	25,972,789	25,485,346
Asset-backed securities	16,110,419	16,712,326	17,364,831
Overseas debentures	4,945,974	4,495,219	3,576,756
Short-term notes	39,233	39,621	38,110
Subtotal	90,171,991	82,283,940	59,421,462
Less: Securities serving as deposits paid-bonds	(1,163,632)	(625,428)	-
Total	\$89,008,359	\$81,658,512	\$59,421,462

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- (1) As of 31 March 2015, 31 December 2014, and 31 March 2014, the held-to-maturity financial assets were sold under repurchase agreements with notional amounts of \$44,706,178 thousand, \$44,301,111 thousand and \$43,476,750 thousand, respectively. Such repurchase agreements amounting to \$39,427,032 thousand, \$40,065,833 thousand and \$40,523,215 thousand, were recorded in the account "Securities sold under agreements to repurchase" on the balance sheets. Repurchase agreements were settled at \$39,439,136 thousand, \$40,087,078 and \$40,547,776 thousand as of 31 May 2015, 31 January 2015, and 30 April 2014, respectively; as of 31 March 2015, certain available-for-sale financial assets under repurchase agreement with notional amounts of \$567,180 were sold without agreeing on a repurchase date.
- (2) Please refer to Note 34 for related information on the above held-to-maturity financial assets being pledged as collaterals as of 31 March 2015, 31 December 2014, and 31 March 2014.

12. Investments accounted for using the equity method

Investee	2015.3.31		2014.12.31		2014.3.31	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Investments in subsidiaries exclude from consolidated:						
Cathay Securities Investment Consulting	\$236,339	100.00	\$214,996	100.00	\$233,289	100.00
Seaward Card	40,139	100.00	39,727	100.00	39,580	100.00
Cathay Insurance (Bermuda)	126,844	100.00	126,123	100.00	113,229	100.00
Cathy Investment Consulting (Shanghai) Co., Ltd.	31,818	100.00	34,880	100.00	-	-
Subtotal	<u>435,140</u>		<u>415,726</u>		<u>386,098</u>	
Investments in associates:						
WK Technology Fund VI Co., Ltd	279,028	21.43	279,946	21.43	288,695	21.43
Vista Technology Venture Capital Corp.	-	-	-	-	5,912	35.00
Taiwan Real-estate Management Corp.	94,741	30.15	95,048	30.15	98,430	30.15
Taiwan Finance Corp.	1,544,331	24.57	1,512,391	24.57	1,504,128	24.57
IBT Venture Capital Corp.	6,937	24.96	7,485	24.96	21,191	24.96
Tien-Tai Energy Corp.	41,861	44.44	41,861	44.44	42,720	44.44
Tien-Tai One Energy Corp.	27,751	33.33	27,751	33.33	31,041	33.33
Tien-Tai Management Consulting Co., Ltd.	210	30.00	210	30.00	210	30.00
CDBS Cathay Asset Management Co., Ltd	278,785	33.33	279,825	33.33	288,136	33.33
Cathay Conning Asset Management Ltd.	82,691	50.00	80,127	50.00	81,107	50.00
Symphox Information Co., Ltd.	469,156	49.12	450,352	49.12	412,417	49.12
Da Sheng Venture Inc.	1,268,521	25.00	1,273,596	25.00	-	-
Chi-Chia Energy Corp.	42,516	29.08	40,500	29.08	-	-
Chao-Yang Energy Corp.	42,395	29.08	40,500	29.08	-	-
Dun-Yang Energy Corp.	35,000	36.90	-	-	-	-
Yong-Chang Energy Corp.	35,000	37.01	-	-	-	-
Ri-Zhao Energy Corp.	35,000	37.01	-	-	-	-
Nan-Gang International 1 Corp.	675,000	45.00	-	-	-	-
Nan-Gang International 2 Corp.	675,000	45.00	-	-	-	-
Subtotal	<u>5,633,923</u>		<u>4,129,592</u>		<u>2,773,987</u>	
Total	<u>\$6,069,063</u>		<u>\$4,545,318</u>		<u>\$3,160,085</u>	

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The Group's investments in the associates are not significant. The aggregate financial information of the Group's investments in the associates is as follows:

	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Profit or loss from continuing operations	\$30,717	\$8,217
Other comprehensive income (post-tax)	18,612	4,933
Total comprehensive income	<u>\$49,329</u>	<u>\$13,150</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) As of 31 March 2015, 31 December 2014, and 31 March 2014, the carrying amount of investments accounted for using the equity method amounted to \$5,633,923 thousand, \$4,129,592 thousand, and \$2,773,987 thousand, respectively. The share of the profits (losses) of associates and joint ventures accounted for using the equity method amounts to \$30,717 thousand and \$8,217 thousand for the three-month periods ended 31 March 2015 and 2014, respectively. The share of the other comprehensive income (loss) of associates and joint ventures accounted for using the equity method amounts to \$18,612 thousand and \$4,933 thousand for the three-month periods ended 31 March 2015 and 2014, respectively. The carrying amount of investments accounted for under the equity method in investees whose financial statements were unreviewed amounts to \$31,264 thousand and \$15,748 thousand for the year ended 31 March 2015 and 2014, respectively. As of 31 March 2015 and 2014, the remaining balance of related investments were \$5,355,138 and \$2,486,935 thousand, respectively.
- (3) No investment in the associates was pledged.

13. Other financial assets

	2015.3.31	2014.12.31	2014.3.31
Investments in debt securities with no active market	\$1,729,754,434	\$1,629,251,574	\$1,334,140,960
Separate account product assets	465,222,411	462,266,776	413,942,267
Structured time deposits	32,900,000	39,200,000	37,400,000
Other miscellaneous financial assets	658,244	1,096,947	1,447,094
Total	<u>\$2,228,535,089</u>	<u>\$2,131,815,297</u>	<u>\$1,786,930,321</u>

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Investments in debt securities with no active market

	2015.3.31	2014.12.31	2014.3.31
Common stocks	\$7,984,017	\$7,984,017	\$8,437,017
Corporate bonds	7,450,221	7,450,248	13,450,000
Financial debentures	36,149,823	32,649,819	15,949,813
Structured debentures	1,256,040	1,268,720	1,220,400
Asset-backed securities	5,990,426	6,389,263	6,337,125
Overseas debentures	1,301,993,753	1,206,127,614	1,013,042,021
Time deposit	367,344,154	365,795,893	275,604,584
Beneficial right of real estate	200,000	200,000	100,000
Beneficiary Securities	1,386,000	1,386,000	-
Total	<u>\$1,729,754,434</u>	<u>\$1,629,251,574</u>	<u>\$1,334,140,960</u>

- (1) A CDO impairment is recognized as objective impairment evidence exists for some overseas bonds held by Cathay Life and its subsidiaries. As of 31 March 2015, 31 December 2014, and 31 March 2014, Cathay Life and its subsidiaries recognized impairment losses amounting to \$408,213 thousand, \$412,334 thousand, and \$396,630 thousand, respectively.
- (2) Cathay United Bank has recognized accumulated impairment loss for the investments in debt securities with no active market in the amount of \$1,345,353 thousand, \$1,358,935 thousand, and \$1,221,751 thousand as of 31 March 2015, 31 December 2014, and 31 March 2014, respectively, due to credit deterioration of securitization and financial debentures.

Cathay United Bank has recognized accumulated impairment loss for the investment in debt securities with no active market in the amount of \$95,586 thousand, \$95,586 thousand, and \$95,586 thousand as of 31 March 2015, 31 December 2014, and 31 March 2014, respectively, due to the default on the convertible bonds.

- (3) As of 31 March 2015, 31 December 2014, and 31 March 2014 certain investments in debt securities with no active market classified as overseas financial instruments with the notional amounts of \$10,770,168 thousand, \$11,597,421 thousand and \$10,940,465 thousand, respectively, were sold at the price amounted to \$3,663,384 thousand, \$4,058,318 thousand and \$3,783,240 thousand, respectively, under the repurchase agreement and recorded under “securities sold under agreements to repurchase” account. Abovementioned overseas financial instruments will be settled at the price amounted to \$3,665,148 thousand, \$4,060,181 thousand and \$3,784,731 thousand, respectively, no later than 31 May 2015, 31 January 2015, and 30 April 2014, under the repurchase agreement accordingly.

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(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 March 2015, 31 December 2014, and 31 March 2014.

14. Investment property

	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	-	-	1,575,114	4,691	1,579,805
Additions from subsequent expenditure	-	-	140,965	-	140,965
Transfers from property and equipment	-	(775,942)	-	-	(775,942)
Transfers from (to) investment property under construction and prepayments for buildings and land	-	11,458	(11,458)	-	-
Gains(losses) generated from fair value adjustments	-	(11,458)	-	-	(11,458)
Disposals	(129,670)	(23,780)	-	-	(153,450)
Exchange differences	(311,197)	(672,710)	-	-	(983,907)
31 March 2015	<u>\$249,270,472</u>	<u>\$72,920,649</u>	<u>\$14,141,904</u>	<u>\$1,799,967</u>	<u>\$338,132,992</u>

	Land	Buildings	Construction	Prepayments for buildings	Total
1 January 2014	\$219,714,093	\$51,857,230	\$15,570,122	\$5,173,152	\$292,314,597
Additions from acquisitions	-	-	909,541	6,311,584	7,221,125
Additions from subsequent expenditure	-	-	319,910	-	319,910
Transfers from property and equipment	9,454,894	862,616	-	-	10,317,510
Transfers from (to) investment property under construction and prepayments for buildings and land	5,731,836	286,182	(24,352)	(5,992,486)	1,180
Gains(losses) generated from fair value adjustments	-	(17,912)	-	-	(17,912)
Impairment	(7,123)	-	-	-	(7,123)
Disposal	(170,862)	-	-	-	(170,862)
Exchange differences	-	(23,198)	-	(33,491)	(56,689)
31 March 2014	<u>\$234,722,838</u>	<u>\$52,964,918</u>	<u>\$16,775,221</u>	<u>\$5,458,759</u>	<u>\$309,921,736</u>

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	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Rental income from investment properties	\$2,201,890	\$1,885,293
Less: Direct operating expense from investment properties generating rental income	(48,435)	(59,002)
Direct operating expense from investment properties not generating rental income	(8,077)	(18,923)
Total	\$2,145,378	\$1,807,368

- (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 date is 31 December 2014. Please refer to original financial report for detail information of the appraisers and agencies.

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

The inputs used are as follows:

	2015.3.31	2014.12.31	2014.3.31
	Mainly	Mainly	Mainly
Direct capitalization rate (Net)	1.5%~4.8%	1.5%~4.8%	1.5%~4.8%
Discount rate	3.3%~4.2%	3.3%~4.2%	3.3%~5.0%

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.

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

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

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

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

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

According to the ROC Real Estate Appraisers Association Gazette No.5, the house tax has been determined based on the reference tables of current house values assessed for each city/county to estimate the total current house value assessed. House tax is calculated based on the tax rates provided by the House Tax Act.

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

The replacement allowance is based on 0.5% to 1.5% of construction or building cost, 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.

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The main parameters are as follows:

	<u>2014.12.31</u>	<u>2014.1.1</u>
Discounted rates	4.625%	4.625%

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

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

	<u>2014.12.31</u>	<u>2014.1.1</u>
Rate of return	25%	18%~20%
Overall capital interest rate	23.05%	1.29%~4.16%

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

(3) Cathay Futures appointed appraisers from Elite Appraisers Firm (Guo-Shi Wu) to evaluate the fair value of investment property based on the “Regulations on Real Estate Appraisal” on 31 December 2014, and 31 December 2013.

Fair value has been supported by observable evidences in the market. The appraisal approaches used are mainly the comparison approach and direct capitalization method of income approach. Commercial office buildings are valued using comparison approach and income approach mostly because of the market liquidity and comparable sales and rental cases in neighboring areas.

The parameters used are as followed:

	<u>2014.12.31</u>	<u>2013.12.31</u>
Direct Capitalization rate (net)	2.50%	2.50%
Discount Rate	2.225%	2.225%

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

- (4) The real estate investments are held mainly for leasing purposes.
- (5) All the lease agreements of the Group's lease business are operating leases. The primary terms of lease agreements are the same with general lease agreement.
- (6) Rents from real estate investment are received annually, semiannually, quarterly, monthly or in a lump sum.
- (7) As of 31 March 2015, 31 December 2014, and 31 March 2014, no investments in real estate were pledged as collateral.

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 2015	\$63,572,836	\$43,815,443	\$7,269,959	\$127,182	\$10,955,177	\$453,547	\$423,217	\$752,966	\$127,370,327
Additions	-	993	74,550	-	64,739	15,582	-	76,717	232,581
Transfers	-	323,556	26,912	-	540,392	-	-	(127,852)	763,008
Disposal	-	-	(156,692)	(669)	(34,798)	-	-	-	(192,159)
Exchange difference	(1,374)	(19,050)	(7,856)	(1,030)	(3,920)	(2,607)	-	(1,534)	(37,371)
31 March 2015	<u>\$63,571,462</u>	<u>\$44,120,942</u>	<u>\$7,206,873</u>	<u>\$125,483</u>	<u>\$11,521,590</u>	<u>\$466,522</u>	<u>\$423,217</u>	<u>\$700,297</u>	<u>\$128,136,386</u>
1 January 2014	\$72,197,071	\$44,887,942	\$7,335,567	\$114,673	\$10,375,536	\$398,867	\$423,217	\$768,297	\$136,501,170
Additions	-	378	92,036	20,761	77,339	6,916	-	107,182	304,612
Transfers	(8,296,664)	(1,237,660)	18,606	-	71,122	-	-	(123,577)	(9,568,173)
Disposal	(16,717)	(5,847)	(103,994)	(2,402)	(33,688)	-	-	-	(162,648)
Exchange difference	2,428	312	4,692	1,383	921	(1,480)	-	2,147	10,403
31 March 2014	<u>\$63,886,118</u>	<u>\$43,645,125</u>	<u>\$7,346,907</u>	<u>\$134,415</u>	<u>\$10,491,230</u>	<u>\$404,303</u>	<u>\$423,217</u>	<u>\$754,049</u>	<u>\$127,085,364</u>

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	Land	Building and construction	Computer equipment	Transport equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate	Total
Depreciation and impairment:									
1 January 2015	\$105,610	\$18,533,321	\$6,197,185	\$86,252	\$9,053,275	\$307,258	\$209,797	\$-	\$34,492,698
Depreciation	-	249,974	105,183	2,707	133,056	11,249	26,325	-	528,494
Transfers	-	-	18	-	(18)	-	-	-	-
Disposal	-	-	(156,655)	(669)	(32,237)	-	-	-	(189,561)
Exchange difference	-	(1,368)	(5,141)	(663)	(2,378)	(1,998)	1	-	(11,547)
31 March 2015	\$105,610	\$18,781,927	\$6,140,590	\$87,627	\$9,151,698	\$316,509	\$236,123	\$-	\$34,820,084
1 January 2014	\$105,610	\$17,621,796	\$6,214,639	\$85,461	\$8,721,079	\$254,227	\$103,995	\$-	\$33,106,807
Depreciation	-	288,694	104,976	2,522	120,504	11,548	26,324	-	554,568
Transfers	-	(156,058)	-	-	-	-	-	-	(156,058)
Disposal	-	(4,164)	(101,249)	(2,403)	(33,082)	-	-	-	(140,898)
Reclassification	-	-	-	-	-	39	-	-	39
Exchange difference	-	964	3,235	957	463	(1,176)	-	-	4,443
31 March 2014	\$105,610	\$17,751,232	\$6,221,601	\$86,537	\$8,808,964	\$264,638	\$130,319	\$-	\$33,368,901
31 March 2015	\$63,465,852	\$25,339,015	\$1,066,283	\$37,856	\$2,369,892	\$150,013	\$187,094	\$700,297	\$93,316,302
31 December 2014	\$63,467,226	\$25,282,122	\$1,072,774	\$40,930	\$1,901,902	\$146,289	\$213,420	\$752,966	\$92,877,629
31 March 2014	\$63,780,508	\$25,893,893	\$1,125,306	\$47,878	\$1,682,266	\$139,665	\$292,898	\$754,049	\$93,716,463

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

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

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16. Intangible assets

	Goodwill	Computer software	Total
Cost:			
1 January 2015	\$8,598,542	\$3,774,398	\$12,372,940
Addition-individual acquisition		36,764	36,764
Reduction		(38,135)	(38,135)
Transfer		108,340	108,340
Exchange difference	(3,351)	(4,021)	(7,372)
31 March 2015	<u>\$8,595,191</u>	<u>\$3,877,346</u>	<u>\$12,472,537</u>
1 January 2014	\$8,579,854	\$3,504,443	\$12,084,297
Addition-individual acquisition	-	33,866	33,866
Reduction	-	(18,182)	(18,182)
Transfer	-	31,524	31,524
Exchange difference	5,919	528	6,447
31 March 2014	<u>\$8,585,773</u>	<u>\$3,552,179</u>	<u>\$12,137,952</u>
Amortization and impairment:			
1 January 2015	\$-	\$3,089,915	\$3,089,915
Amortization	-	83,513	83,513
Reduction	-	(38,135)	(38,135)
Exchange difference	-	(3,214)	(3,214)
31 March 2015	<u>\$-</u>	<u>\$3,132,079</u>	<u>\$3,132,079</u>
Amortization and impairment:			
1 January 2014	\$-	\$2,860,865	\$2,860,865
Amortization	-	70,328	70,328
Reduction	-	(18,182)	(18,182)
Transfer	-	(14,884)	(14,884)
Exchange difference	-	(522)	(522)
31 March 2014	<u>\$-</u>	<u>\$2,897,605</u>	<u>\$2,897,605</u>
Net Book value:			
31 March 2015	<u>\$8,595,191</u>	<u>\$745,267</u>	<u>\$9,340,458</u>
31 December 2014	<u>\$8,598,542</u>	<u>\$684,483</u>	<u>\$9,283,025</u>
31 March 2014	<u>\$8,585,773</u>	<u>\$654,574</u>	<u>\$9,240,347</u>

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Cathay United Bank's impairment testing of goodwill:

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

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

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

① 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).

② Projected growth rates, used to extrapolate cash flows beyond the budget period:

Assumptions are based on published industry research.

(3) Sensitivity to changes in assumptions:

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

17. Financial liabilities at fair value through profit or loss

	2015.3.31	2014.12.31	2014.3.31
Designated financial assets at fair value through profit or loss at initial recognition:			
Bond Investment	\$39,611,031	\$32,746,635	\$-
Held for trading:			
Derivative financial instruments	47,036,227	74,723,447	23,012,374
Bond Investment	-	-	1,195,748
Security lending payables hedging	40,971	216,578	180,953
Security lending payables non-hedging	431,434	599,494	940,118
Subtotal	47,508,632	75,539,519	25,329,193
Total	\$87,119,663	\$108,286,154	\$25,329,193

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18. Commercial paper payables

	2015.3.31	2014.12.31	2014.3.31
Commercial paper payable	\$26,430,000	\$26,790,000	\$10,990,000
Less: Discount on commercial paper payable	(1,771)	-	-
Total	<u>\$26,428,229</u>	<u>\$26,790,000</u>	<u>\$10,990,000</u>
Average interest rates	<u>0.65%~0.90%</u>	<u>0.65%~1.25%</u>	<u>0.58%~0.92%</u>

19. Deposits

	2015.3.31	2014.12.31	2014.3.31
Check deposits	\$14,151,106	\$16,489,217	\$13,348,915
Demand deposits	320,040,930	314,453,948	286,274,150
Demand savings deposits	688,665,761	681,050,222	643,647,665
Time deposits	358,849,081	350,463,441	349,597,542
Negotiable Certificates of Deposit	5,176,000	5,290,200	5,852,000
fixed savings deposits	344,067,920	332,579,141	308,520,460
Remittances	2,725,747	1,975,974	1,378,177
Total	<u>\$1,733,676,545</u>	<u>\$1,702,302,143</u>	<u>\$1,608,618,909</u>

20. Bonds payable

	2015.3.31	2014.12.31	2014.3.31
Subordinated bonds payable-net	\$40,000,000	\$40,000,000	\$40,000,000
Subordinated financial debentures	67,180,059	67,283,839	51,888,364
Discount on financial debentures	(6,049)	(8,417)	(14,573)
Valuation adjustment	225,868	338,527	639,584
Total	<u>\$107,399,878</u>	<u>\$107,613,949</u>	<u>\$92,513,375</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 bond after 10 years by exercising the call option. Cathay United Bank has adopted hedge accounting to account for its subordinated financial debentures. Cathay United Bank had bought back the bonds amounting to US\$172,620 thousand in May 2009.

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- (2) Cathay United Bank issued a seven-year subordinated financial debentures totaling \$1,200,000 thousand with a stated interest rate of 2.95% in September 2008, and the interest is payable quarterly.
- (3) Cathay United Bank issued a seven-year subordinated financial debentures totaling \$1,000,000 thousand with floating interest rate in September 2008, and the interest is payable quarterly.
- (4) Cathay United Bank issued a seven-year subordinated financial debentures totaling \$2,800,000 thousand with a stated interest rate of 2.95% in October 2008, and the interest is payable quarterly.
- (5) On December 8, 2008, the Company issued a seven-year subordinated bond totaling \$20,000,000 thousand with a stated interest rate of 3.10%. The subordinated bonds and repayable at maturity and the interest is payable annually.
- (6) Cathay United Bank issued an eight-year subordinated financial debentures totaling \$3,650,000 thousand with a stated interest rate of 2.42% in June 2009, and the interest is payable quarterly.
- (7) Cathay United Bank issued a ten-year subordinated financial debentures totaling \$1,500,000 thousand with a stated interest rate of 2.60% in July 2009, and the interest is payable quarterly.
- (8) On September 16, 2009, the Company issued a seven-year subordinated bond totaling \$20,000,000 thousand with a stated interest rate of 2.65%. The subordinated bonds and repayable at maturity and the interest is payable annually.
- (9) Cathay United Bank issued a seven-year subordinated financial debentures totaling \$3,850,000 thousand with a stated interest rate of 1.65% in March 2011, and the interest is payable quarterly.
- (10) Cathay United Bank issued a ten-year subordinated financial debentures totaling \$1,500,000 thousand with a stated interest rate of 1.72% in March 2011, and the interest is payable quarterly.
- (11) Cathay United Bank issued a seven-year subordinated financial debentures totaling \$3,900,000 thousand with a stated interest rate of 1.65% in June 2011, and the interest is payable quarterly.

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- (12) Cathay United Bank issued a ten-year subordinated financial debentures totaling \$2,500,000 thousand with a stated interest rate of 1.72% in June 2011, and the interest is payable quarterly.
- (13) Cathay United Bank issued a seven-year subordinated financial debentures totaling \$200,000 thousand with a stated interest rate of 1.48% in June 2012, and the interest is payable annually.
- (14) Cathay United Bank issued a ten-year subordinated financial debentures totaling \$4,200,000 thousand with a stated interest rate of 1.65% in June 2012, and the interest is payable annually.
- (15) Cathay United Bank issued a ten-year subordinated financial debentures totaling \$5,600,000 thousand with a stated interest rate of 1.65% in August 2012, and the interest is payable annually.
- (16) Cathay United Bank issued a seven-year subordinated financial debentures totaling \$100,000 thousand with a stated interest rate of 1.55% in April 2013, and the interest is payable annually.
- (17) Cathay United Bank issued a ten-year subordinated financial debentures totaling \$9,900,000 thousand with a stated interest rate of 1.70% in April 2013, and the interest is payable annually.
- (18) Cathay United Bank issued a seven-year subordinated financial debentures totaling \$3,000,000 thousand with a stated interest rate of 1.70% in May 2014, and the interest is payable annually.
- (19) Cathay United Bank issued a ten-year subordinated financial debentures totaling \$12,000,000 thousand with a stated interest rate of 1.85% in May 2014, and the interest is payable annually.
- (20) 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.

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21. Other financial liabilities

	<u>2015.3.31</u>	<u>2014.12.31</u>	<u>2014.3.31</u>
Separate account insurance products-liabilities	\$465,222,411	\$462,266,776	\$413,942,267
Principle received from the sale of structured products	78,299,099	79,842,351	44,674,808
Other financial liabilities	1,253,914	1,170,866	1,097,245
Total	<u>\$544,775,424</u>	<u>\$543,279,993</u>	<u>\$459,714,320</u>

22. Provisions

	<u>2015.3.31</u>	<u>2014.12.31</u>	<u>2014.3.31</u>
Unearned premium reserve	\$24,178,814	\$25,153,080	\$23,263,329
Reserve for life insurance liabilities	3,692,663,227	3,628,127,330	3,368,026,544
Special reserve	36,810,329	39,061,396	46,306,590
Reserve for claims	13,099,737	12,845,393	12,817,164
Premium deficiency reserve	17,383,481	17,494,328	20,139,590
Reserve for insurance contracts with feature of financial instruments	54,883,469	55,094,699	56,675,317
Foreign exchange volatility reserve	12,434,988	16,846,406	11,281,256
Reserve for Guarantees	122,575	121,414	114,837
Reserve for employee benefits liabilities	5,004,165	4,981,864	3,607,861
Contingent liabilities reserve	814,154	814,154	834,604
Other operating reserve	22,680	22,680	22,680
Total	<u>\$3,857,417,619</u>	<u>\$3,800,562,744</u>	<u>\$3,543,089,772</u>

(1) Life insurance subsidiaries

As of 31 March 2015, 31 December 2014, and 31 March 2014, the details and changes of insurance contracts and financial instruments with discretionary participation feature are summarized below:

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A. Reserve for life insurance liabilities:

	2015.3.31			2014.12.31		
	Financial			Financial		
	instruments with			instruments with		
	discretionary			discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$3,238,984,074	\$5,905,290	\$3,244,889,364	\$3,180,066,364	\$6,423,897	\$3,186,490,261
Injury insurance	7,845,844	-	7,845,844	7,962,275	-	7,962,275
Health insurance	378,679,956	-	378,679,956	367,711,484	-	367,711,484
Annuity insurance	1,345,197	58,829,592	60,174,789	1,329,511	63,532,669	64,862,180
Investment-linked insurance	1,009,982	-	1,009,982	1,037,838	-	1,037,838
Recover from major incident						
reserve	63,292	-	63,292	63,292	-	63,292
Total	3,627,928,345	64,734,882	3,692,663,227	3,558,170,764	69,956,566	3,628,127,330
Less ceded reserve for life insurance liabilities :						
Life insurance	74,201	-	74,201	74,461	-	74,461
Net	\$3,627,854,144	\$64,734,882	\$3,692,589,026	\$3,558,096,303	\$69,956,566	\$3,628,052,869

	2014.3.31		
	Financial		
	instruments with		
	discretionary		
	Insurance contract	participation feature	Total
Life insurance	\$2,900,417,964	\$40,635,213	\$2,941,053,177
Injury insurance	7,921,625	-	7,921,625
Health insurance	326,441,597	-	326,441,597
Annuity insurance	1,238,298	90,245,436	91,483,734
Investment-linked insurance	1,063,119	-	1,063,119
Recover from major incident			
reserve	63,292	-	63,292
Total	\$3,237,145,895	\$130,880,649	\$3,368,026,544

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Reserve for life insurance liabilities is summarized below:

	2015.1.1~2015.3.31			2014.1.1~2014.3.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$3,558,170,764	\$69,956,566	\$3,628,127,330	\$3,158,535,287	\$139,787,775	\$3,298,323,062
Reserve	124,849,156	148,210	124,997,366	99,409,907	1,280,687	100,690,594
Recover	(47,757,051)	(4,861,561)	(52,618,612)	(28,019,305)	(10,551,949)	(38,571,254)
Losses(gains) on foreign exchange	(7,334,524)	(508,333)	(7,842,857)	7,220,006	364,136	7,584,142
Ending balance	3,627,928,345	64,734,882	3,692,663,227	3,237,145,895	130,880,649	3,368,026,544
Less ceded reserve for life insurance liabilities :						
Beginning balance (net)	74,461	-	74,461	-	-	-
Increase	364	-	364	-	-	-
Losses(gains) on foreign exchange	(624)	-	(624)	-	-	-
Ending balance (net)	74,201	-	74,201	-	-	-
Total	\$3,627,854,144	\$64,734,882	\$3,692,589,026	\$3,237,145,895	\$130,880,649	\$3,368,026,544

B. Unearned premium reserve:

	2015.3.31			2014.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$429,220	\$-	\$429,220	\$425,156	\$-	\$425,156
Individual injury insurance	4,745,375	-	4,745,375	4,869,670	-	4,869,670
Individual health insurance	6,466,005	-	6,466,005	6,799,997	-	6,799,997
Group insurance	1,062,161	-	1,062,161	996,645	-	996,645
Investment-linked insurance	107,586	-	107,586	111,399	-	111,399
Total	12,810,347	-	12,810,347	13,202,867	-	13,202,867
Less ceded unearned premium reserve:						
Individual life insurance	136,569	-	136,569	126,985	-	126,985
Individual injury insurance	5,454	-	5,454	3,395	-	3,395
Individual health insurance	3,906	-	3,906	3,066	-	3,066
Group insurance	6,436	-	6,436	4,468	-	4,468
Total	152,365	-	152,365	137,914	-	137,914
Net	\$12,657,982	\$-	\$12,657,982	\$13,064,953	\$-	\$13,064,953

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	2014.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$357,033	\$-	\$357,033
Individual injury insurance	4,585,454	-	4,585,454
Individual health insurance	6,137,937	-	6,137,937
Group insurance	1,018,977	-	1,018,977
Investment-linked insurance	109,966	-	109,966
Total	12,209,367	-	12,209,367
Less ceded unearned premium reserve:			
Individual life insurance	97,677	-	97,677
Individual injury insurance	149,916	-	149,916
Individual health insurance	60	-	60
Group insurance	389	-	389
Total	248,042	-	248,042
Net	\$11,961,325	\$-	\$11,961,325

Unearned premium reserve is summarized below:

	2015.1.1~2015.3.31			2014.1.1~2014.3.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$13,202,867	\$-	\$13,202,867	\$12,566,207	\$-	\$12,566,207
Reserve	12,630,726	-	12,630,726	12,024,663	-	12,024,663
Recover	(13,020,530)	-	(13,020,530)	(12,379,485)	-	(12,379,485)
Losses(gains) on foreign exchange	(2,716)	-	(2,716)	(2,018)	-	(2,018)
Ending balance	12,810,347	-	12,810,347	12,209,367	-	12,209,367
Less ceded unearned premium reserve:						
Beginning balance-Net	137,914	-	137,914	321,982	-	321,982
Increase	14,547	-	14,547	212	-	212
Decrease	-	-	-	(74,198)	-	(74,198)
Losses(gains) on foreign exchange	(96)	-	(96)	46	-	46
Total	152,365	-	152,365	248,042	-	248,042
Ending balance-Net	\$12,657,982	\$-	\$12,657,982	\$11,961,325	\$-	\$11,961,325

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Reserve for claims is summarized below:

	2015.1.1~2015.3.31			2014.1.1~2014.3.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$4,689,841	\$797	\$4,690,638	\$4,639,993	\$1,091	\$4,641,084
Reserve	4,518,239	797	4,519,036	4,469,004	797	4,469,801
Recover	(4,397,494)	(797)	(4,398,291)	(4,285,870)	(1,091)	(4,286,961)
Losses(gains) on foreign exchange	(3,625)	-	(3,625)	(3,697)	-	(3,697)
Ending balance	4,806,961	797	4,807,758	4,819,430	797	4,820,227
Less ceded reserve for claims:						
Beginning balance-Net	17,456	-	17,456	16,875	-	16,875
Increase	-	-	-	17	-	17
Decrease	(16,787)	-	(16,787)	-	-	-
Losses(gains) on foreign exchange	27	-	27	(139)	-	(139)
Total	696	-	696	16,753	-	16,753
Net	\$4,806,265	\$797	\$4,807,062	\$4,802,677	\$797	\$4,803,474

D. Special reserve:

	2015.3.31				2014.12.31			
	Financial instruments with discretionary				Financial instruments with discretionary			
	Insurance contract	participation feature	Other	Total	Insurance contract	participation feature	Other	Total
Participating policies dividends reserve	\$1,892	\$-	\$-	\$1,892	\$1,631	\$-	\$-	\$1,631
Special reserve for revaluation increments of property	-	-	32,926,619	32,926,619	-	-	35,416,619	35,416,619
Others	-	-	-	-	4,008	-	-	4,008
Total	\$1,892	\$-	\$32,926,619	\$32,928,511	\$5,639	\$-	\$35,416,619	\$35,422,258

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	2014.3.31			
	Financial			
	instruments with			
	discretionary			
	Insurance participation		Other	Total
	contract	feature		
Participating policies dividends reserve	\$2,205	\$-	\$-	\$2,205
Special reserve for revaluation increments of property	-	-	42,926,619	42,926,619
Others	1,783	-	-	1,783
Total	\$3,988	\$-	\$42,926,619	\$42,930,607

Special reserve is summarized below:

	2015.1.1~2015.3.31				2014.1.1~2014.3.31			
	Financial				Financial			
	instruments with				instruments with			
	discretionary				discretionary			
	Insurance participation		Other	Total	Insurance participation		Other	Total
	contract	feature			contract	feature		
Beginning balance	\$5,639	\$-	\$35,416,619	\$35,422,258	\$3,682	\$-	\$45,416,619	\$45,420,301
Reserves for participating policies dividends reserve	261	-	-	261	274	-	-	274
Special reserve for revaluation increments of property (Note)	-	-	(2,490,000)	(2,490,000)	-	-	(2,490,000)	(2,490,000)
Decrease	(3,999)	-	-	(3,999)	-	-	-	-
Exchange difference	(9)	-	-	(9)	32	-	-	32
Ending balance	\$1,892	\$-	\$32,926,619	\$32,928,511	\$3,988	\$-	\$42,926,619	\$42,930,607

Note: According to the regulations authorized by the FSC on 30 January 2015 and 29 January 2014, Cathay Life can recover special reserve for revaluation increments of property by month, and the total recovered amount during the year ended 31 December 2015 and 2014 is NT \$10 billion.

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E. Premium deficiency reserve:

	2015.3.31			2014.12.31		
	Financial			Financial		
	instruments with			instruments with		
	Insurance	discretionary	Total	Insurance	discretionary	Total
contract	participation feature	contract		participation feature		
Individual life insurance	\$16,427,298	\$-	\$16,427,298	\$16,583,715	\$-	\$16,583,715
Individual health insurance	708,807	-	708,807	710,087	-	710,087
Group insurance	690	-	690	762	-	762
Total	<u>\$17,136,795</u>	<u>\$-</u>	<u>\$17,136,795</u>	<u>\$17,294,564</u>	<u>\$-</u>	<u>\$17,294,564</u>

	2014.3.31		
	Financial		
	instruments with		
	Insurance	discretionary	Total
contract	participation feature		
Individual life insurance	\$19,308,839	\$-	\$19,308,839
Individual health insurance	611,418	-	611,418
Group insurance	1,068	-	1,068
Total	<u>\$19,921,325</u>	<u>\$-</u>	<u>\$19,921,325</u>

Premium deficiency reserve is summarized below:

	2015.1.1~2015.3.31			2014.1.1~2014.3.31		
	Financial			Financial		
	instruments with			instruments with		
	Insurance	discretionary	Total	Insurance	discretionary	Total
contract	participation feature	contract		participation feature		
Beginning balance	\$17,294,564	\$-	\$17,294,564	\$19,629,253	\$-	\$19,629,253
Reserve	175,055	-	175,055	97,324	-	97,324
Recover	(231,208)	-	(231,208)	(48,099)	-	(48,099)
Losses(gains) on foreign exchange	(101,616)	-	(101,616)	242,847	-	242,847
Ending balance	<u>\$17,136,795</u>	<u>\$-</u>	<u>\$17,136,795</u>	<u>\$19,921,325</u>	<u>\$-</u>	<u>\$19,921,325</u>

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F. Liability adequacy reserve

	Insurance contract and financial instruments with discretionary participation feature		
	2015.3.31	2014.12.31	2014.3.31
Reserve for life insurance liabilities	\$3,692,663,227	\$3,628,127,330	\$3,368,026,544
Unearned premium reserve	12,810,347	13,202,867	12,209,367
Premium deficiency reserve	17,136,795	17,294,564	19,921,325
Total	\$3,722,610,369	\$3,658,624,761	\$3,400,157,236
Book value of insurance liabilities	<u>\$3,722,610,369</u>	<u>\$3,658,624,761</u>	<u>\$3,400,157,236</u>
Estimated present value of cash flows	<u>\$2,952,121,428</u>	<u>\$2,940,198,715</u>	<u>\$2,700,409,222</u>
Balance of liability adequacy reserve	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>

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

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

Note 3: There are no instances of merger or transfer of insurance contract for the subsidiaries of life insurance. As such, the book value of related intangible assets shall not be deducted from book value of insurance liability for liability adequacy reserve test.

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

	2015.3.31	2014.12.31	2014.3.31
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing	Integrated testing
Assumptions	<p>(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 March 2015.</p> <p>(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.</p>	<p>(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 December 2014.</p> <p>(2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2013, with neutral assumption for discount rates after 30 years.</p>	<p>(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 March 2014.</p> <p>(2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2013, with neutral assumption for discount rates after 30 years.</p>

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

	2015.3.31	2014.12.31	2014.3.31
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing	Integrated testing
Assumptions	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 March 2015. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2014, with neutral assumption for discount rates after 30 years.	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 December 2014. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2013, with neutral assumption for discount rates after 30 years.	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 March 2014. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2013, with neutral assumption for discount rates after 30 years.

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

Life insurance subsidiaries issues non-investment-linked insurance contract without discretionary participation feature of financial instruments. As of 31 March 2015, 31 December 2014 and 31 March 2014, reserve for insurance contract with feature of financial instruments is summarized below:

	2015.3.31	2014.12.31	2014.3.31
Life insurance	\$54,876,679	\$55,090,662	\$56,674,643
Investment-linked insurance	6,790	4,037	674
Total	\$54,883,469	\$55,094,699	\$56,675,317

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	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Beginning balance	\$55,094,699	\$57,596,449
Premiums (returned) received	426,964	273,640
Insurance claim payments	(611,020)	(1,166,474)
Net provision of statutory reserve	20,593	10,445
Losses(gains) on foreign exchange	(47,767)	(38,743)
Ending balance	<u>\$54,883,469</u>	<u>\$56,675,317</u>

H. Foreign exchange volatility reserve

(A) The hedge strategy and risk exposure:

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

(B) Adjustment in foreign exchange volatility reserve:

	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Beginning balance	\$16,846,406	\$10,482,181
Reserve:		
Compulsory reserve	913,664	674,417
Extra reserve	-	2,013,223
Subtotal	913,664	2,687,640
Recover	(5,325,082)	(1,888,565)
Total	<u>\$12,434,988</u>	<u>\$11,281,256</u>

(C) Effects due to foreign exchange volatility reserve:

2015.1.1~2015.3.31			
Item	Inapplicable amount (1)	Applicable amount (2)	Effects (3)= (2) - (1)
Consolidated income	\$14,447,195	\$18,108,672	\$3,661,477
Earnings per share	1.14	1.43	0.29
Foreign exchange volatility reserve	-	12,434,988	12,434,988
Equity	465,893,668	459,317,095	(6,576,573)

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2014.1.1~2014.3.31			
Item	Inapplicable amount (1)	Applicable amount (2)	Effects (3)= (2) - (1)
Consolidated income	\$12,990,158	\$12,326,926	\$(663,232)
Earnings per share	1.03	0.98	(0.05)
Foreign exchange volatility reserve	-	11,281,256	11,281,256
Equity	402,329,914	396,710,939	(5,618,975)

(2) Century Insurance subsidiaries

A. Unearned premiums reserve

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

Item	2015.3.31			
	Unearned premium reserve		Ceded unearned premium reserve	
	Assumed		Ceded reinsurance	
	Direct business	reinsurance business	business	Retained business
Fire insurance	\$1,849,082	\$67,881	\$907,925	\$1,009,038
Marine insurance	144,818	13,989	106,729	52,078
Land and air insurance	3,924,152	9,191	262,336	3,671,007
Liability insurance	536,352	579	166,803	370,128
Bonding insurance	69,951	749	43,920	26,780
Other property insurance	1,347,425	24,332	431,083	940,674
Accident insurance	1,516,735	2,346	84,459	1,434,622
Health insurance	44,443	-	-	44,443
Compulsory automobile liability insurance	1,588,722	227,720	556,938	1,259,504
Total	\$11,021,680	\$346,787	\$2,560,193	\$8,808,274

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2014.12.31				
Item	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance	
			business	Retained business
Fire insurance	\$2,025,128	\$71,770	\$996,886	\$1,100,012
Marine insurance	118,522	10,068	86,749	41,841
Land and air insurance	4,239,833	5,254	321,346	3,923,741
Liability insurance	517,552	993	154,925	363,620
Bonding insurance	44,930	897	24,523	21,304
Other property insurance	1,386,263	25,124	553,326	858,061
Accident insurance	1,615,214	2,378	74,098	1,543,494
Health insurance	44,108	-	-	44,108
Compulsory automobile liability insurance	1,641,103	201,076	538,566	1,303,613
Total	\$11,632,653	\$317,560	\$2,750,419	\$9,199,794

2014.3.31				
Item	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance	
			business	Retained business
Fire insurance	\$1,760,155	\$49,946	\$794,412	\$1,015,689
Marine insurance	126,907	13,099	105,840	34,166
Land and air insurance	3,694,220	5,221	173,426	3,526,015
Liability insurance	543,175	461	159,170	384,466
Bonding insurance	50,799	645	30,771	20,673
Other property insurance	1,454,811	27,408	580,034	902,185
Accident insurance	1,548,570	2,639	86,679	1,464,530
Health insurance	42,359	-	134	42,225
Compulsory automobile liability insurance	1,543,028	190,519	516,754	1,216,793
Total	\$10,764,024	\$289,938	\$2,447,220	\$8,606,742

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

Item	2015.1.1~2015.3.31		2014.1.1~2014.3.31	
	Unearned premium reserve	Ceded unearned premium reserve	Unearned premium reserve	Ceded unearned premium reserve
Beginning balance	\$11,950,213	\$2,750,419	\$11,213,469	\$2,495,090
Reserve	11,382,210	2,563,175	11,063,711	2,448,590
Recover	(11,952,334)	(2,750,933)	(11,215,616)	(2,495,631)
Effects of exchange rate changes	(11,622)	(2,468)	(7,602)	(829)
Ending balance	\$11,368,467	\$2,560,193	\$11,053,962	\$2,447,220

B. Claims reserve

a. Claims reserve and ceded claims reserve

Item	2015.3.31			
	Claims reserve		Ceded claims reserve	Retained business (4)=(1)+(2)-(3)
	Direct business	Assumed reinsurance business	Ceded reinsurance business	
	(1)	(2)	(3)	
Claims reported but not paid off	\$4,177,363	\$256,529	\$1,277,551	\$3,156,341
Unreported claims	3,671,319	186,768	1,086,484	2,771,603
Total	\$7,848,682	\$443,297	\$2,364,035	\$5,927,944

Item	2014.12.31			
	Claims reserve		Ceded claims reserve	Retained business (4)=(1)+(2)-(3)
	Direct business	Assumed reinsurance business	Ceded reinsurance business	
	(1)	(2)	(3)	
Claims reported but not paid off	\$4,073,887	\$223,378	\$1,329,214	\$2,968,051
Unreported claims	3,646,437	211,053	920,459	2,937,031
Total	\$7,720,324	\$434,431	\$2,249,673	\$5,905,082

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Item	2014.3.31			
	Ceded claims			Retained business
	Claims reserve		reserve	
	Assumed	Ceded reinsurance		
	Direct business	reinsurance business	business	(4)=(1)+(2)-(3)
(1)	(2)	(3)		
Claims reported but not paid off	\$3,767,041	\$308,448	\$1,218,879	\$2,856,610
Unreported claims	3,702,259	219,189	1,050,685	2,870,763
Total	\$7,469,300	\$527,637	\$2,269,564	\$5,727,373

b. Net changes for claims reserve and ceded claims reserve

Item	2015.1.1~2015.3.31							
	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	\$4,192,148	\$4,074,369	\$256,530	\$223,378	\$150,931	\$1,284,568	\$1,328,572
Unreported claims	3,677,690	3,647,520	186,785	211,057	5,898	1,087,819	920,669	167,150
Total	\$7,869,838	\$7,721,889	\$443,315	\$434,435	\$156,829	\$2,372,387	\$2,249,241	\$123,146

Item	2014.1.1~2014.3.31							
	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	\$3,772,149	\$3,888,670	\$308,448	\$307,234	\$(115,307)	\$1,218,755	\$1,352,266
Unreported claims	3,707,376	1,789,669	219,214	59,139	2,077,782	1,052,032	313,333	738,699
Total	\$7,479,525	\$5,678,339	\$527,662	\$366,373	\$1,962,475	\$2,270,787	\$1,665,599	\$605,188

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

Item	2015.3.31		
	Claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$1,152,846	\$74,195	\$1,227,041
Marine insurance	373,395	60,826	434,221
Land and air insurance	1,011,993	881,778	1,893,771
Liability insurance	279,919	542,879	822,798
Bonding insurance	20,919	18,374	39,293
Other property insurance	727,776	260,730	988,506
Accident insurance	101,880	484,440	586,320
Health insurance	11,553	47,810	59,363
Compulsory automobile liability insurance	753,611	1,487,055	2,240,666
Total	\$4,433,892	\$3,858,087	\$8,291,979

Item	2014.12.31		
	Claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$1,146,481	\$89,187	\$1,235,668
Marine insurance	394,186	114,198	508,384
Land and air insurance	932,619	796,653	1,729,272
Liability insurance	274,039	509,388	783,427
Bonding insurance	21,842	45,469	67,311
Other property insurance	762,712	278,066	1,040,778
Accident insurance	87,839	468,766	556,605
Health insurance	4,820	46,612	51,432
Compulsory automobile liability insurance	672,727	1,509,151	2,181,878
Total	\$4,297,265	\$3,857,490	\$8,154,755

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Item	2014.3.31		
	Claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$816,750	\$165,934	\$982,684
Marine insurance	612,965	197,854	810,819
Land and air insurance	944,866	696,229	1,641,095
Liability insurance	283,646	348,547	632,193
Bonding insurance	20,615	3,481	24,096
Other property insurance	653,664	238,493	892,157
Accident insurance	99,791	380,430	480,221
Health insurance	4,841	39,969	44,810
Compulsory automobile liability insurance	638,351	1,850,511	2,488,862
Total	\$4,075,489	\$3,921,448	\$7,996,937

d. Reinsurance asset- ceded claims reserve for policyholder

Item	2015.3.31		
	Ceded claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$465,984	\$22,420	\$488,404
Marine insurance	229,884	31,994	261,878
Land and air insurance	62,696	24,422	87,118
Liability insurance	78,348	145,478	223,826
Bonding insurance	18,148	14,337	32,485
Other property insurance	253,108	46,907	300,015
Accident insurance	8,733	60,210	68,943
Health insurance	-	(834)	(834)
Compulsory automobile liability insurance	160,650	741,550	902,200
Total	\$1,277,551	\$1,086,484	\$2,364,035

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Item	2014.12.31		
	Ceded claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$481,509	\$24,965	\$506,474
Marine insurance	223,098	81,827	304,925
Land and air insurance	50,179	23,399	73,578
Liability insurance	71,772	146,934	218,706
Bonding insurance	18,239	32,972	51,211
Other property insurance	327,003	50,747	377,750
Accident insurance	8,024	51,615	59,639
Health insurance	-	(315)	(315)
Compulsory automobile liability insurance	149,390	508,315	657,705
Total	\$1,329,214	\$920,459	\$2,249,673

Item	2014.3.31		
	Ceded claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$276,448	\$73,807	\$350,255
Marine insurance	420,599	145,043	565,642
Land and air insurance	55,495	17,005	72,500
Liability insurance	74,785	96,612	171,397
Bonding insurance	18,392	1,747	20,139
Other property insurance	194,253	23,951	218,204
Accident insurance	7,399	32,010	39,409
Health insurance	-	596	596
Compulsory automobile liability insurance	171,508	659,914	831,422
Total	\$1,218,879	\$1,050,685	\$2,269,564

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e. Reconciliation statement of claims reserve and ceded claims reserve

Item	2015.1.1~2015.3.31		2014.1.1~2014.3.31	
	Claims reserve	Ceded claims reserve	Claims reserve	Ceded claims reserve
Beginning balance	\$8,154,755	\$2,249,673	\$6,041,523	\$1,663,767
Reserve	8,313,153	2,372,387	8,007,187	2,270,787
Recover	(8,156,324)	(2,249,241)	(6,044,712)	(1,665,599)
Effects of exchange rate changes	(19,605)	(8,784)	(7,061)	609
Ending balance	\$8,291,979	\$2,364,035	\$7,996,937	\$2,269,564

C. Special reserve

a. Special reserve - Compulsory automobile liability insurance

Item	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Beginning balance	\$1,528,545	\$2,225,672
Reserve	242,680	-
Recover	-	(979,009)
Ending balance	\$1,771,225	\$1,246,663

b. Special reserve - Non-compulsory automobile liability insurance

Item	Liability					
	2015.1.1~2015.3.31			2014.1.1~2014.3.31		
	Major incidents	Fluctuation of risks	Total	Major incidents	Fluctuation of risks	Total
Beginning balance	\$524,353	\$1,586,240	\$2,110,593	\$543,080	\$1,586,240	\$2,129,320
Reserve	-	-	-	-	-	-
Recover	-	-	-	-	-	-
Ending balance	\$524,353	\$1,586,240	\$2,110,593	\$543,080	\$1,586,240	\$2,129,320

“Precautions of Strengthening Disaster Insurance of Property Insurance Industry (Commercial Earthquake and Typhoons Flood Insurance)”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”, “Regulations for the Management of the Various Reserves for the nuclear Insurance”, and other reserves do not have material impact on the Cathay Century profit and earnings per share. The special reserve under liabilities increased \$1,245,726 thousand and special earnings capital under equity decreased \$408,853 thousand.

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D. Premiums deficiency reserve

a. Premiums deficiency reserve and ceded premium deficiency reserve

2015.3.31				
Item	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
		business		
Fire insurance	\$-	\$-	\$-	\$-
Marine insurance	-	-	23	(23)
Land and air insurance	-	8,489	(222)	8,711
Liability insurance	13,792	(6)	4,543	9,243
Bonding insurance	299	-	37	262
Other property insurance	175,788	-	22,021	153,767
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	48,324	-	-	48,324
Total	\$238,203	\$8,483	\$26,402	\$220,284

2014.12.31				
Item	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
		business		
Fire insurance	\$-	\$-	\$-	\$-
Marine insurance	-	7	(1,183)	1,190
Land and air insurance	-	1,095	-	1,095
Liability insurance	14,898	5	2,071	12,832
Bonding insurance	509	-	8	501
Other property insurance	136,975	1	38,582	98,394
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	46,274	-	-	46,274
Total	\$198,656	\$1,108	\$39,478	\$160,286

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Item	2014.3.31			
	Direct business	Premiums deficiency reserve		Retained business
		Assumed reinsurance business	Ceded reinsurance business	
Fire insurance	\$1,593	\$33	\$-	\$1,626
Marine insurance	57	-	(3,960)	4,017
Land and air insurance	-	1,288	-	1,288
Liability insurance	21,830	17	3,458	18,389
Bonding insurance	89	-	19	70
Other property insurance	149,448	251	15,225	134,474
Accident insurance	-	74	-	74
Health insurance	-	-	-	-
Compulsory automobile liability insurance	43,585	-	-	43,585
Total	\$216,602	\$1,663	\$14,742	\$203,523

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

Item	2015.1.1~2015.3.31								
	Direct underwriting business		Assumed reinsurance business			Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover	Net change for premiums deficiency reserve	Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Marine insurance	-	-	-	7	(7)	23	(1,182)	1,205	(1,212)
Land and air insurance	-	-	8,488	1,096	7,392	(222)	-	(222)	7,614
Liability insurance	13,949	14,928	(5)	5	(989)	4,595	2,075	2,520	(3,509)
Bonding insurance	303	511	-	-	(208)	38	8	30	(238)
Other property insurance	177,794	137,251	-	-	40,543	22,272	38,659	(16,387)	56,930
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	48,875	46,367	-	-	2,508	-	-	-	2,508
Total	\$240,921	\$199,057	\$8,483	\$1,108	\$49,239	\$26,706	\$39,560	\$(12,854)	\$62,093

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Item	2014.1.1~2014.3.31								
	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve	Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss(gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$1,608	\$4,242	\$34	\$92	\$(2,692)	\$-	\$-	\$-	\$(2,692)
Marine insurance	57	160	-	2	(105)	(3,960)	(8,736)	4,776	(4,881)
Land and air insurance	-	-	1,288	377	911	-	(329)	329	582
Liability insurance	22,036	27,551	17	12	(5,510)	3,491	3,489	2	(5,512)
Bonding insurance	90	10,288	-	-	(10,198)	19	9,698	(9,679)	(519)
Other property insurance	150,861	161,282	253	425	(10,593)	15,369	-	15,369	(25,962)
Accident insurance	-	-	75	97	(22)	-	-	-	(22)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	43,998	39,356	-	-	4,642	-	-	-	4,642
Total	\$218,650	\$242,879	\$1,667	\$1,005	\$(23,567)	\$14,919	\$4,122	\$10,797	\$(34,364)

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

Item	2015.1.1~2015.3.31		2014.1.1~2014.3.31	
	Premiums deficiency reserve	Ceded premiums deficiency reserve	Premiums deficiency reserve	Ceded premiums deficiency reserve
Beginning balance	\$199,764	\$39,478	\$243,606	\$4,118
Reserve	249,404	26,706	220,317	14,919
Recover	(200,165)	(39,560)	(243,884)	(4,122)
Effects of exchange rate changes	(2,317)	(222)	(1,774)	(173)
Ending balance	\$246,686	\$26,402	\$218,265	\$14,742

d. Effects for the change of estimation and assumption

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

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23. Post-employment benefits

(1) Defined contribution plans

The Group recognized expenses for defined contribution plan amounted to \$336,227 thousand and \$310,699 thousand for the three-month periods ended 31 March 2015 and 2014, respectively.

(2) Defined benefit plans

The Group recognized expenses for defined benefit plans for the three-month periods ended 31 March 2015 and 2014, amounted to \$142,080 thousand and \$100,512 thousand, respectively, and were recorded as “Employee benefits expenses”.

(3) Employee preferential interest deposit plan

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

Cathay United Bank recognized expenses for preferential interest rate deposits plan amounted to \$78,198 thousand and \$76,688 thousand for the three-month periods ended 31 March 2015 and 2014, respectively, and recorded as “Employee benefits expenses”.

24. Common Stock

(1) As of 31 March 2015, 31 December 2014, and 31 March 2014, the authorized share capital amounted to \$180,000,000 thousand, \$180,000,000 thousand, and \$120,000,000 thousand respectively, and the issued share capital amounted to \$125,632,102 thousand, \$125,632,102 thousand, and \$119,649,621 thousand, with 12,563,210 thousand shares, 12,563,210 thousand shares, and 11,964,962 thousand shares, respectively. These shares are common stock with par value of \$10.

(2) The recapitalization of undistributed earnings of \$5,982,481 thousand by issuing 598,248 thousand shares with par value of \$10 was resolved at the Company’s shareholders’ meeting on 6 June 2014. The recapitalization was approved by the Financial Supervisory Commission on 20 August 2014 and the recapitalization record date was 4 August 2014.

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- (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

	2015.3.31	2014.12.31	2014.3.31
Additional paid-in capital	\$84,858,972	\$84,858,972	\$85,126,187
Treasury share transactions	2,539,377	2,539,377	2,539,377
Differences between share price and book value from acquisition or disposal of subsidiaries	29,142	29,142	29,142
Additional paid-in capital-Employee stock option	203,408	203,408	203,408
Convertible bonds to convert	1,144,486	1,144,486	1,144,486
Others	6,919	6,919	20,584
Total	<u>\$88,782,304</u>	<u>\$88,782,304</u>	<u>\$89,063,184</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 \$88,782,304 thousand, \$88,782,304 thousand, and \$89,063,184 thousand as of 31 March 2015, 31 December 2014, and 31 March 2014, respectively. Retained earnings from certain subsidiaries of the Company before the stock exchange of formation of the financial holding company amounted to \$0 thousand, \$0 thousand, and \$267,215 thousand, and were included in the capital surplus as of 31 March 2015, 31 December 2014, and 31 March 2014, respectively.
- (2) According to the Letter Taiwan-Finance-Securities (VI) No. 0910003413 issued by Ministry of Finance on 11 June 2002, capital surplus of financial holding companies from the share exchange, in compliance with Item 4 of Article 47 of the Financial Holding Company Act, is allowed to be distributed as cash dividends or to be capitalized if the capital surplus was from the financial institution's undistributed earnings before the share exchange. In addition, the capitalization amount is not restricted to the article 72-1 of the "Regulations Governing the Offering and Issuance of Securities by Securities Issuers".

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

26. Retained earnings

(1) Legal reserve

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

On 30 April 2015, the Board of Directors resolved to recognize the legal capital reserves of \$5,035,694 thousand. On 6 June 2014, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of \$2,861,628 thousand.

(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.

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- B. Cathay United Bank, Cathay Securities and Cathay Futures have reclassified appropriated trading losses reserve and default losses reserve as of 31 December 2010 as special reserve according to the relevant regulation. The special reserve can only be used to offset the accumulated deficit or be transferred to capital stock (limited to 50% of the special reserve) once the legal reserve reaches one-half of the paid-in capital. The Company appropriated to the special reserve an amount of \$333,598 thousand during the year ended 31 December 2011.
- C. In accordance with IFRS 4, provisions for possible claims under contracts that are not in existence at the reporting date are prohibited. Based on the “Regulation Governing the Setting Aside of Various Reserves by Insurance Enterprises”, the reserves under liability recorded before 31 December 2012 should be reclassified to special capital reserve considering the reclassification of balance after tax according to IAS 12 to retained earnings on 1 January 2013. In addition, in order to maintain the consistency and sustainability, the amount should be adjusted retrospectively to 1 January 2012. As of 1 January 2012, the “Special Reserve for Major Incidents” and “Special Reserve for Fluctuation of Risks” amounted to \$9,022,812 thousand. Half of this amount was set aside to be reclassified as the opening balance of foreign exchange volatility reserve on 1 March 2012, and the rest of it in the amount of \$4,511,405 thousand after deducting the effect of income tax was diverted to special capital reserve under retained earnings, an increase of \$3,744,467 thousand. The Company has appropriated to the special reserve an amount of \$3,744,467 thousand during the year ended 31 December 2013.
- 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.

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E. In 2014, the Group changed the subsequent measurement of investment properties from cost model to fair value model. According to Order No. Financial-Supervisory-Securities-Corporate-1030006415, on the first-time adoption of fair value model for investment properties subsequent measurement, the group shall set aside an equal amount of special reserve when transfer the fair value increment of investment properties to retained earnings. The Company appropriated to the special reserve an amount of \$75,242,150 thousand on 31 December 2013. The Group also reclassified \$42,962 thousand and \$20,162 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 three-month periods ended 31 March 2015 and 2014. As of 31 December 2014, 31 December 2013, 1 January 2013, the special reserves amounted to \$75,232,984 thousand, \$75,242,150 thousand, \$75,242,150 thousand, respectively.

F. In 2015, the Company's board of directors, acting on behalf of the shareholders, will resolve to recognize special capital reserves of \$27,957,776 thousand, among which special reserves for major incidents and special reserves for fluctuation of risks in the amount of \$1,630,373 thousand had been recognized at the end of 2014 in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises." The rest of them will be recognized in 2015.

G. Cathay Century's special reserves for major incidents and special reserve for fluctuation of risks shall be recorded as special reserve at the end of year. As of 31 March 2015, the reserves amounted to \$1,949,825 thousand.

(3) Undistributed earnings

A. According to Article 30 of the Company's Articles of Incorporation, the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated as legal capital reserve and special capital reserve. The total remaining amount plus beginning undistributed earnings are the distributable earnings. The distributable earnings must be appropriated in accordance with the resolution by the stockholders' meeting, and 0.01%~0.05% of the aforementioned amount shall be distributed as the employee bonus.

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- B. The Company cannot distribute overdue undistributed earnings. Before 2004, the Company has to pay an extra 10% income tax on approved taxable income. From (including) 2005, the calculation of extra 10% income tax should be based on current-year net income (after tax) generated according to Business Entity Accounting Act. Earnings that have been taxed will not be taxed again if the earnings are not distributed in the following years.
- C. According to Article 41 of Securities and Exchange Act, when distributing earnings, listed companies shall appropriate, in addition to legal reserve, special reserve equal to net deductions from shareholders' equity. The special reserve for the current year's net deductions shall be appropriated from current year's net income and prior periods' accumulated undistributed earnings. The special reserve for the prior periods' net deductions shall be appropriated only from prior periods' accumulated undistributed earnings. For any subsequent reversal of net deductions from shareholders' equity, the amount reversed may be distributed.
- D. The employee bonus and remuneration of directors for the years ended 31 December 2014 and 2013, amounting to \$2,100 thousand and \$3,300 thousand, respectively, were accrued based on the average of actual distribution in the past three years and recognized as operating costs or expenses. The difference between the actual distribution and the estimated amount will be adjusted in the following fiscal year.
- E. Details of the year ended 31 December 2014 and 2013 earnings distribution and dividends per share as approved by the Board of Directors on 30 April 2015 and the shareholders' meeting on 6 June 2014, respectively, are as follows:

	Appropriation of earnings		Dividend per share	
	2014	2013	2014	2013
Legal reserve	\$5,035,694	\$2,861,628	\$-	\$-
Common stock -cash dividend	25,126,420	17,947,443	2.0	1.5
Common stock-stock dividend	-	5,982,481	-	0.5
Directors' remuneration	2,100	3,300	-	-
Employee bonus-cash	2,513	2,394	-	-

There is no significant difference between the actual employee bonuses and remuneration to directors and supervisors distributed from the year ended 31 December 2013's earnings and the estimated amount in the financial statements for the year ended 31 December 2013.

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

27. Non-controlling interests

	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Beginning balance	\$5,639,845	\$4,180,340
Net income attributed to non-controlling interests	186,154	68,128
Other comprehensive income attributed to non-controlling interests:		
Exchange differences resulting from translating the financial statements of a foreign operation	(56,058)	57,375
Unrealized gains from available-for-sale financial assets	13,955	12,721
Ending balance	<u>\$5,783,896</u>	<u>\$4,318,564</u>

28. Employee benefits, depreciation and amortization

Summary statement of employee benefits and depreciation expenses breakdown:

	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Employee benefits expense		
Salary and wages	\$7,104,570	\$6,545,658
Labor and health insurance	906,050	820,888
Pension expense	502,167	470,990
Other employee benefits	609,464	558,245
Depreciation	528,494	554,568
Amortization	83,945	70,982

As of 31 March 2015, and 31 March 2014, the total numbers of the employees of the Company and Subsidiaries (the Group) were 44,439, and 43,974, respectively.

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29. The Components of other comprehensive income

For the three-month period ended 31 March 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:					
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	\$(287,160)	\$-	\$(287,160)	\$48,817	\$(238,343)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	(1,531,137)	-	(1,531,137)	55,318	(1,475,819)
Unrealized gains(losses) from available-for-sale financial assets	23,001,713	(18,602,088)	4,399,625	(612,181)	3,787,444
Gains(losses) on cash flow hedges	36,336	(39,543)	(3,207)	556	(2,651)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	17,342	-	17,342	-	17,342
Total	<u>\$21,237,094</u>	<u>\$(18,641,631)</u>	<u>\$2,595,463</u>	<u>\$(507,490)</u>	<u>\$2,087,973</u>

For the three-month period ended 31 March 2014

	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:					
Gains from revaluation	\$902,335	\$-	\$902,335	\$(74,726)	\$827,609
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	286,489	-	286,489	(40,442)	246,047
Unrealized gains(losses) from available-for-sale financial assets	11,249,341	(9,958,979)	1,290,362	589,645	1,880,007
Gains(losses) on cash flow hedges	62,083	(137,933)	(75,850)	12,744	(63,106)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	7,053	-	7,053	-	7,053
Total	<u>\$12,507,301</u>	<u>\$(10,096,912)</u>	<u>\$2,410,389</u>	<u>\$487,221</u>	<u>\$2,897,610</u>

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30. Income taxes

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

Income tax expense recognized in profit or loss	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Current income tax expense(income):		
Current income tax charge	\$1,448,017	\$850,837
Adjustments in respect of current income tax of prior periods	(293,480)	(144,108)
Deferred tax expense(income):		
Deferred tax expense relating to origination and reversal of temporary differences	1,397,678	3,741,451
Deferred tax expense(income) relating to origination and reversal of tax loss and tax credit	(1,630,364)	(4,180,215)
Tax expense recognized in the period for previously unrecognized tax loss, tax credit or temporary difference of prior periods	99,238	-
Other components of deferred tax expense(income)	775,786	32,984
Total income tax expense	<u>\$1,796,875</u>	<u>\$300,949</u>

Income tax relating to components of other comprehensive income

	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
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	\$(48,817)	\$-
Exchange difference resulting from translating the financial statements of a foreign operation	(55,318)	40,442
Unrealized gains (losses) from available-for-sale financial assets	612,181	(589,645)
Losses on cash flow hedges	(556)	(12,744)
Gains from revaluation	-	74,726
Income tax relating to components of other comprehensive income	<u>\$507,490</u>	<u>\$(487,221)</u>

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

		2015.3.31
		Income tax returns examined by tax authorities
		Notes
The Company	through 2009	The Company was in the process of administrative litigation procedure for 2007 and 2008.
Cathay Life	through 2009	Cathay Life was in the process of administrative remedy for 2006 and administrative litigation procedure for 2007 and 2009 tax returns.
Cathay United Bank	through 2009	Cathay United Bank was in the process of administrative litigation procedure for 2007 and 2009.
Cathay Century	through 2009	Cathay Century was in the process of administrative remedy for 2006, and administrative litigation procedure for 2007 and 2008.
Cathay Securities	through 2009	Cathay Securities was in the process of administrative remedy for 2007 and 2009 tax returns.
Cathay Venture	through 2009	Cathay Venture was in the process of administrative remedy for 2008 tax returns.
Cathay Securities Investment Trust	through 2011	-
Cathay Futures	through 2011	-

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

(3) Information related to imputation credit account:

	2015.3.31	2014.12.31	2014.3.31
Balance of imputation credit account	\$15,723	\$15,952	\$634,016

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The Company's cash dividends-imputed and stock dividends-imputed tax credit ratio applied to actual distribution were 2.42% and 1.23% for the year ended 31 December 2013, respectively. And the cash dividends-imputed and stock dividends-imputed tax credit rate applied to actual distribution were 18.68% and 20.66% for the year ended 31 December 2012, respectively.

Undistributed earnings occurred before 1997 in the amount of \$267,215 thousand were originally appropriated as capital reserve which may be distributed as cash dividends and were undistributed earnings of the company's subsidiaries before conversion of shares. On 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.

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

	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
(1) Basic earnings per share (\$)		
Profit attributable to ordinary equity holders of the Company (in thousand)	\$17,922,518	\$12,258,798
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand)	12,563,210	12,563,210
Basic earnings per share (\$)	\$1.43	\$0.98

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.

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share data and unless otherwise stated)**

32. Information of insurance contract

(1) Life insurance subsidiaries

Risk management objectives, policies, procedures and methods:

A. Objectives of risk management

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

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.

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- 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.

(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

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(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.

C. The scope and types of risk assessment and reporting

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

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(A) Market risk

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

(B) Credit risk

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

(C) Sovereign risk

It means that Cathay Life suffers losses from investment in a specific country as a consequence of market price fluctuation or government's default stemming from local political and/or economic situations. Cathay Life measures the sovereign risk and sets the investment ceiling for specific countries. Cathay Life reviews and adjusts the ceiling on a regular basis.

(D) Liquidity risk

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

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(E) Operating risk

This risk occurs when there are errors caused by internal processes, employees, system breakdowns or external issues such as the legislative risk; however, the strategic risk and the reputation risk are excluded. Cathay Life had set the standard operating procedures based on all characteristics of operations and established losses reporting system as well to manage operating risk losses information.

(F) Insurance risk

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

(G) Asset and liability matching risk

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

(H) Risk-based capital (RBC) ratio

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

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

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

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

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- b. Establish methods to evaluate insurance risks.
 - c. Regularly provide the insurance risk management report to be reviewed by the risk management committee and as a reference to developing insurance risk management strategies.
 - d. When an exceptional risk event occurs, the affected departments should propose possible solutions to the risk management committee in Cathay Life and that in the Cathay Financial Holdings.
- (B) The way to determine a proper risk classification, a premium level and underwriting policies:
- a. Underwriters should, at all times, comply with certain relevant rules of financial underwriting which includes checking insurance notification database for exceptional cases and consider the amount insured, type of insurance, age, family status, reason for insurance, employment status, financial situation etc. to determine whether an insurance policy is suitable and affordable for the potential policyholder.
 - b. Cathay Life has an underwriting team dealing with controversial cases with regard to new contracts and changes of the terms and conditions and having the right to interpret relevant underwriting standards.
 - c. Cathay Life has a special panel for major insurance projects to enhance risk management over such projects and avoid adverse selection and moral hazard.
- E. The scope of insurance risk assessment and management from a company-wise perspective
- (A) Insurance risk assessment covers the following topics:
- a. Product design and pricing risk: This risk arises from improper design of products, terms and conditions and pricing attributable to using the unsuitable and/or inconsistent information and/or facing unexpected changes.
 - b. Underwriting risk: Unexpected losses arise from soliciting business, underwriting activities and approval, other expenditure activities, etc.
 - 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.

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- 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.

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.

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(B) Authorized departments will review the measurement of asset/liability management regularly and report to the asset/liability management committee regularly; following that, the results will be sent to the risk management committee of Cathay Life. Furthermore, the annual report should be delivered to the risk management committee of the Cathay Financial Holdings.

(C) When an exceptional situation occurs, the affected departments should propose possible solutions to the asset/liability management committee, the risk management committee in Cathay Life and that in the Cathay Financial Holdings.

H. The procedure to manage, monitor and control a special event which results in extra liability to be taken or extra owner equity to be committed

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

(A) Capital adequacy management

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

(B) Exception management process

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

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I. Risk mitigation and avoidance policies and risk monitoring procedures

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

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

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

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

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

Information of insurance risk

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

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(A) Cathay Life

For the three-month period ended 31 March 2015			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 494,398	Decrease (increase) 410,350
Expense	×1.05 (×0.95)	Decrease (increase) 62,542	Decrease (increase) 51,910
Surrender rates	×1.05 (×0.95)	Increase (decrease) 588,512	Increase (decrease) 488,465
Rate of return	+0.1%	Increase 1,018,486	Increase 845,343
Rate of return	-0.1%	Decrease 1,018,739	Decrease 845,553

For the three-month period ended 31 March 2014			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 491,712	Decrease (increase) 408,121
Expense	×1.05 (×0.95)	Decrease (increase) 585,120	Decrease (increase) 485,650
Surrender rates	×1.05 (×0.95)	Increase (decrease) 100,313	Increase (decrease) 83,259
Rate of return	+0.1%	Increase 927,242	Increase 769,611
Rate of return	-0.1%	Decrease 927,473	Decrease 769,803

B. Cathay Lujiazui Life

For the three-month period ended 31 March 2015			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.10 (×0.90)	Decrease (increase) 30,135	Decrease (increase) 22,601
Expense	×1.05 (×0.95)	Decrease (increase) 21,292	Decrease (increase) 15,969
Surrender rates	×1.10 (×0.90)	Increase (decrease) 9,602	Increase (decrease) 7,202
Rate of return	+0.25%	Increase 81,032	Increase 60,774
Rate of return	-0.25%	Decrease 115,496	Decrease 86,622

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For the three-month period ended 31 March 2014			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.10 (×0.90)	Decrease (increase) 24,498	Decrease (increase) 18,374
Expense	×1.05 (×0.95)	Decrease (increase) 19,538	Decrease (increase) 14,654
Surrender rates	×1.10 (×0.90)	Increase (decrease) 7,795	Increase (decrease) 5,846
Rate of return	+0.25%	Increase 78,791	Increase 59,093
Rate of return	-0.25%	Decrease 89,489	Decrease 67,117

C. Cathay Life (Vietnam)

For the three-month period ended 31 March 2015			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 29	Decrease (increase) 23
Expense	×1.05 (×0.95)	Decrease (increase) 2,619	Decrease (increase) 2,043
Surrender rates	×1.05 (×0.95)	Increase (decrease) 97	Increase (decrease) 75
Rate of return	+0.1%	Increase 1,023	Increase 798
Rate of return	-0.1%	Decrease 1,023	Decrease 798

For the three-month period ended 31 March 2014			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 41	Decrease (increase) 32
Expense	×1.05 (×0.95)	Decrease (increase) 2,227	Decrease (increase) 1,737
Surrender rates	×1.05 (×0.95)	Increase (decrease) 176	Increase (decrease) 137
Rate of return	+0.1%	Increase 860	Increase 671
Rate of return	-0.1%	Decrease 861	Decrease 671

- a. Changes in income before tax listed above refer to the effects of income before tax arising from the assumption for the three-month periods ended 31 March 2015 and 2014. 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 22% individually.

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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.

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

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

(3) Claim development trend

A. Cathay Life

a. Direct business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2008Q2~2009Q1	13,384,763	15,820,692	16,011,049	16,085,163	16,136,693	16,166,732	16,182,024	-
2009Q2~2010Q1	14,445,550	17,287,961	17,551,424	17,635,968	17,710,595	17,737,034	17,753,606	16,572
2010Q2~2011Q1	14,307,274	17,419,064	17,706,462	17,820,859	17,887,566	17,917,630	17,933,709	46,143
2011Q2~2012Q1	14,912,513	18,349,974	18,679,803	18,772,255	18,842,087	18,873,315	18,890,135	117,880
2012Q2~2013Q1	14,027,513	17,185,214	17,494,290	17,573,564	17,627,219	17,652,357	17,667,561	173,271
2013Q2~2014Q1	13,950,502	17,097,835	17,361,775	17,437,810	17,485,635	17,508,713	17,523,614	425,779
2014Q2~2015Q1	13,980,048	16,867,765	17,121,296	17,194,239	17,238,420	17,260,001	17,274,899	3,294,851
	Expected future payment							\$4,074,496
	Less: Expected reported but not paid claim							124,770
	Add: Assumed reserve for incurred but not reported claim							53,858
	Reserve for unreported claim							4,003,584
	Add: Reported but not paid claim							422,746
	Claims reserve balance							<u>\$4,426,330</u>

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b. Retained business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2008Q2~2009Q1	13,477,425	15,895,237	16,087,707	16,157,369	16,221,837	16,255,465	16,277,568	-
2009Q2~2010Q1	13,117,562	15,414,895	15,600,738	15,677,913	15,741,837	15,773,083	15,790,007	16,924
2010Q2~2011Q1	12,500,153	14,957,135	15,170,665	15,269,307	15,340,638	15,371,077	15,387,466	46,828
2011Q2~2012Q1	13,029,781	15,814,129	16,070,648	16,168,202	16,238,765	16,270,393	16,287,545	119,343
2012Q2~2013Q1	12,343,435	14,961,037	15,278,490	15,358,817	15,413,188	15,438,716	15,454,246	175,756
2013Q2~2014Q1	13,472,304	16,650,013	16,918,305	16,995,432	17,043,999	17,067,482	17,082,720	432,707
2014Q2~2015Q1	14,080,851	17,003,474	17,261,428	17,335,479	17,380,414	17,402,406	17,417,647	3,336,796

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

Expected future payment	\$4,128,354
Less: Expected reported but not paid claim	124,770
Add: Reported but not paid claim	422,746
Retained claims reserve balance	<u>\$4,426,330</u>

B. Cathay Lujiazui Life

a. Direct business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2008Q2~2009Q1	28	55	57	57	57	57	57	-
2009Q2~2010Q1	849	3,412	3,424	3,424	3,424	3,424	3,424	-
2010Q2~2011Q1	9,745	18,769	19,600	19,600	19,600	19,600	19,600	-
2011Q2~2012Q1	53,730	121,411	127,784	127,784	127,784	127,784	127,784	-
2012Q2~2013Q1	101,003	202,136	215,074	215,074	215,074	215,074	215,074	-
2013Q2~2014Q1	135,950	374,214	394,068	394,068	394,068	394,068	394,068	19,854
2014Q2~2015Q1	154,548	475,941	478,610	478,610	478,610	478,610	478,610	324,062

Expected future payment	\$343,916
Less: Expected reported but not paid claim	(33,537)
Add: Assumed reserve for incurred but not reported claim	-
Reserve for unreported claim	310,379
Add: Reported but not paid claim	70,407
Claims reserve balance	<u>\$380,786</u>

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b. Retained business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2008Q2~2009Q1	28	55	57	57	57	57	57	-
2009Q2~2010Q1	849	3,412	3,424	3,424	3,424	3,424	3,424	-
2010Q2~2011Q1	9,745	18,769	19,600	19,600	19,600	19,600	19,600	-
2011Q2~2012Q1	53,730	121,411	127,784	127,784	127,784	127,784	127,784	-
2012Q2~2013Q1	101,003	201,994	214,929	214,929	214,929	214,929	214,929	-
2013Q2~2014Q1	125,400	380,376	392,033	392,033	392,033	392,033	392,033	11,657
2014Q2~2015Q1	144,876	465,064	476,439	476,439	476,439	476,439	476,439	331,563

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

Expected future payment	\$343,220
Less: Expected reported but not paid claim	(33,537)
Add: Reported but not paid claim	70,407
Retained claims reserve balance	<u>\$380,090</u>

Cathay Life and 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.

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C. Cathay life (Vietnam)

Direct business development trend (and retained business development trend)

Accident year	Development year				
	1	2	3	4	5
2010Q2~2011Q1	159	180	180	180	180
2011Q2~2012Q1	660	881	881	881	881
2012Q2~2013Q1	1,166	1,271	1,271	1,271	1,271
2013Q2~2014Q1	604	674	674	674	674
2014Q2~2015Q1	640	739	739	739	739

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

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

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

A. Credit risk

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

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

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

B. Liquidity risk

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

	Unit: 100 million		
31 March 2015	Within 1 year	1 to 5 years	Over 5 years
Insurance contracts and financial instruments with discretionary participation features	\$(721)	\$765	\$137,735

Note: Separate account products are not included.

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C. Market risk

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

(2) Century insurance subsidiaries

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

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

Responsibility:

(A) Board of directors

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

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(B) Risk Management Committee

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

(C) Chief Risk Officer

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

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

(D) Risk management department

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

Responsibility of risk management division:

- a. To assist in drafting risk management policies and the execution when ratified by the board of directors.
- b. To assist in setting up risk limits according to the risk appetite.
- c. To compile risk information from various departments, coordinate and communicate with them to execute policies and limits.

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- d. To propose risk management related reports on a regular basis.
- e. To supervise risk limit and its use in each business unit on a regular basis.
- f. To assist in stress tests and conduct back-testing when necessary.
- g. To conduct other risk management related tasks.

(E) Business unit

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

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

- 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.

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- 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.

(B) Scope and nature of risk evaluation system

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

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

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

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

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

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

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

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

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

Item	2015	2014
Fire insurance	\$827,000	\$729,000
Marine insurance	\$827,000	\$729,000
Engineering insurance	\$827,000	\$729,000
Other property insurance	\$827,000	\$729,000
Automobile insurance	\$827,000	\$729,000
Health and injury insurance	\$827,000	\$729,000

F. Methods of asset/liability management

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

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

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

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

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

Receivables and payables of insurance contracts

A. Receivables of insurance contracts

Item	Premiums receivable (Note)		
	2015.3.31	2014.12.31	2014.3.31
Fire insurance	\$409,691	\$694,299	\$385,440
Marine insurance	266,969	253,767	244,293
Land and air insurance	268,230	986,485	767,570
Liability insurance	136,878	153,702	156,059
Bonding insurance	63,575	39,522	44,861
Other property insurance	332,913	352,528	429,286
Accident insurance	176,702	272,721	298,454
Health insurance	14,576	15,934	18,529
Compulsory automobile liability insurance	63,100	338,731	287,113
Total	1,732,634	3,107,689	2,631,605
Less: Allowance for bad debts	(86,437)	(80,050)	(68,313)
Net	\$1,646,197	\$3,027,639	\$2,563,292

Note: As of 31 March 2015, 31 December 2014 and 31 March 2014, the receivables included overdue receivables amounted to \$291,845 thousand, \$227,092 thousand, and \$505,372 thousand, respectively, and the allowance for bad debts amounted to \$39,946 thousand, \$24,293 thousand, and \$25,766 thousand, respectively.

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

Item	Claims reported and paid off		
	2015.3.31	2014.12.31	2014.3.31
Fire insurance	\$7,964	\$34,417	\$5,110
Marine insurance	4,075	23,522	88,337
Land and air insurance	29,926	38,387	29,467
Liability insurance	20,830	27,060	10,167
Bonding insurance	82	(6)	143
Other property insurance	8,114	10,043	8,893
Accident insurance	11,447	16,075	15,501
Health insurance	-	-	-
Compulsory automobile liability insurance	97,845	172,311	149,496
Total	180,283	321,809	307,114
Less: Allowance for bad debts	-	-	-
Net	\$180,283	\$321,809	\$307,114

C. Payables of insurance contract

Item	2015.3.31		
	Commission payables	Other payables	Total
Fire insurance	\$27,157	\$14,809	\$41,966
Marine insurance	8,529	8,662	17,191
Land and air insurance	20,644	166,213	186,857
Liability insurance	13,576	10,186	23,762
Bonding insurance	6,488	772	7,260
Other property insurance	33,142	10,165	43,307
Accident insurance	5,966	66,582	72,548
Health insurance	3,285	2,760	6,045
Compulsory automobile liability insurance	80,793	-	80,793
Total	\$199,580	\$280,149	\$479,729

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Item	2014.12.31		
	Commission		Total
	payables	Other payables	
Fire insurance	\$23,836	\$15,511	\$39,347
Marine insurance	8,315	9,017	17,332
Land and air insurance	29,709	192,108	221,817
Liability insurance	11,806	11,930	23,736
Bonding insurance	6,233	711	6,944
Other property insurance	42,441	13,067	55,508
Accident insurance	7,460	63,959	71,419
Health insurance	3,927	1,418	5,345
Compulsory automobile liability insurance	91,346	-	91,346
Total	\$225,073	\$307,721	\$532,794

Item	2014.3.31		
	Commission		Total
	payables	Other payables	
Fire insurance	\$8,812	\$9,200	\$18,012
Marine insurance	2,586	3,850	6,436
Land and air insurance	5,237	96,482	101,719
Liability insurance	5,005	6,314	11,319
Bonding insurance	45	174	219
Other property insurance	39,919	5,766	45,685
Accident insurance	28	32,419	32,447
Health insurance	974	8,324	9,298
Compulsory automobile liability insurance	97,687	-	97,687
Total	\$160,293	\$162,529	\$322,822

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

Item	2015.3.31	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	\$65,381	\$295,165
Sompo Japan Nipponkoa Insurance (China)	89,605	53,996
Kann An	42,686	7,507
Best Re	42,503	8,875
FP Marine	34,306	31,139
Guy Carpenter	59,310	44,009
Marsh	44,666	55,476
Swiss Re	3,941	93,598
Others	280,379	662,016
Total	662,777	1,251,781
Less: Allowance for bad debts	(44,144)	-
Net	\$618,633	\$1,251,781

Item	2014.12.31	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	\$34,273	\$166,447
Sompo Japan Nipponkoa Insurance (China)	89,734	32,502
Kann An	43,086	7,143
Best Re	41,234	8,350
FP Marine	78,021	30,811
Guy Carpenter	59,866	31,599
Marsh	125,258	259,300
Swiss Re	1,380	79,963
Willis	1,116	99,913
Others	294,043	676,604
Total	768,011	1,392,632
Less: Allowance for bad debts	(40,018)	-
Net	\$727,993	\$1,392,632

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Item	2014.3.31	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	\$55,882	\$209,956
Central Re	51,954	113,878
Guy Carpenter	33,023	118,218
Korean Re	48,018	52,125
Swiss Re	30,786	118,063
Willis	15,271	62,607
Others	321,522	576,081
Total	556,456	1,250,928
Less: Allowance for bad debts	(14,074)	-
Net	\$542,382	\$1,250,928

Notes: As of 31 March 2015, 31 December 2014, and 31 March 2014, the due from reinsurers and ceding companies included overdue receivables amounted to \$46,272 thousand, \$47,827 thousand, and \$40,748 thousand, respectively, and the allowance for bad debts amounted to \$23,882 thousand, \$19,566 thousand, and \$14,074 thousand, respectively.

Information of management achievements

A. Acquisition cost for insurance contracts

Item	2015.1.1~2015.3.31				
	Commission expense	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	\$10,002	\$9,418	\$3,588	\$21,561	\$44,569
Marine insurance	3,008	951	500	8,013	12,472
Land and air insurance	18,330	-	78	209,137	227,545
Liability insurance	7,209	4,945	167	16,016	28,337
Bonding insurance	3,136	265	3	732	4,136
Other property insurance	2,875	90,404	898	12,178	106,355
Accident insurance	6,911	-	-	94,014	100,925
Health insurance	4,002	-	-	5,490	9,492
Compulsory automobile liability insurance	-	100,442	-	-	100,442
Total	\$55,473	\$206,425	\$5,234	\$367,141	\$634,273

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Item	2014.1.1~2014.3.31				
	Commission expense	Surcharge	Reinsurance		Total
			commission expense	Other cost	
Fire insurance	\$10,394	\$7,487	\$1,147	\$22,752	\$41,780
Marine insurance	3,540	988	366	9,865	14,759
Land and air insurance	20,214	-	118	220,244	240,576
Liability insurance	7,085	4,582	25	16,339	28,031
Bonding insurance	988	115	1	407	1,511
Other property insurance	4,483	64,334	990	16,555	86,362
Accident insurance	5,152	-	-	84,750	89,902
Health insurance	5,072	-	-	5,279	10,351
Compulsory automobile liability insurance	-	119,895	-	1,796	121,691
Total	\$56,928	\$197,401	\$2,647	\$377,987	\$634,963

B. Disclosure for insurance cost benefit analysis

(A) Cost benefit analysis for direct underwriting

Item	2015.1.1~2015.3.31					
	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	\$596,801	\$174,493	\$(40,981)	\$(121,799)	\$2,933	\$611,447
Marine insurance	176,260	(26,317)	(11,972)	(56,899)	51,428	132,500
Land and air insurance	1,400,624	315,460	(227,467)	(1,185,139)	(176,010)	127,468
Liability insurance	274,868	(19,469)	(28,170)	(111,286)	(42,029)	73,914
Bonding insurance	54,686	(25,050)	(4,133)	(2,002)	27,920	51,421
Other property insurance	560,013	32,702	(105,457)	(277,746)	40,879	250,391
Accident insurance	577,062	98,426	(100,925)	(212,206)	(29,742)	332,615
Health insurance	47,765	(335)	(9,492)	(23,758)	(7,931)	6,249
Compulsory automobile liability insurance	744,288	49,444	(100,442)	(480,516)	(15,397)	197,377
Total	\$4,432,367	\$599,354	\$(629,039)	\$(2,471,351)	\$(147,949)	\$1,783,382

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2014.1.1~2014.3.31

Item	Net change for		Acquisition	Insurance claims paid	Net change for claims reserve	Net gain(loss)
	Direct premium income	unearned premiums reserve	cost for insurance contract			
Fire insurance	\$481,924	\$265,339	\$(40,633)	\$(82,697)	\$17,930	\$641,863
Marine insurance	151,722	12,857	(14,393)	(120,346)	(511)	29,329
Land and air insurance	1,615,767	(103,445)	(240,458)	(857,061)	(208,150)	206,653
Liability insurance	255,691	(5,242)	(28,006)	(95,720)	(94,289)	32,434
Bonding insurance	35,213	(15,077)	(1,510)	(1,448)	(2,477)	14,701
Other property insurance	534,554	18,822	(85,372)	(274,920)	(54,206)	138,878
Accident insurance	637,143	(37,655)	(89,902)	(208,353)	(63,307)	237,926
Health insurance	35,546	6,519	(10,351)	(24,387)	5,857	13,184
Compulsory automobile liability insurance	870,639	(293)	(121,691)	(581,662)	(1,402,033)	(1,235,040)
Total	\$4,618,199	\$141,825	\$(632,316)	\$(2,246,594)	\$(1,801,186)	\$79,928

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

2015.1.1~2015.3.31

Item	Net change for				Net change for claims reserve	Net (loss) gain for assumed reinsurance business
	Reinsurance premium income	unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid		
Fire insurance	\$30,861	\$3,885	\$(3,588)	\$(17,563)	\$(1,055)	\$12,540
Marine insurance	3,798	(3,921)	(500)	(1,198)	22,414	20,593
Land and air insurance	7,588	(3,937)	(78)	(78,708)	11,402	(63,733)
Liability insurance	547	415	(167)	(68)	(56)	671
Bonding insurance	330	149	(3)	(65)	79	490
Other property insurance	6,300	792	(898)	(1,814)	4,732	9,112
Accident insurance	1,461	32	-	-	15	1,508
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	121,540	(26,645)	-	(68,532)	(46,411)	(20,048)
Total	\$172,425	\$(29,230)	\$(5,234)	\$(167,948)	\$(8,880)	\$(38,867)

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2014.1.1~2014.3.31

Item	Net change for					Net (loss) gain for assumed reinsurance business
	Reinsurance premium income	unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	
Fire insurance	\$22,912	\$4,117	\$(1,147)	\$(260)	\$(3,003)	\$22,619
Marine insurance	3,949	1,856	(366)	(102,808)	(12,935)	(110,304)
Land and air insurance	341	3,404	(118)	(3,305)	5,753	6,075
Liability insurance	88	137	(25)	(5)	(41)	154
Bonding insurance	525	78	(1)	(107)	-	495
Other property insurance	6,263	2,795	(990)	(4,461)	1,631	5,238
Accident insurance	1,597	(50)	-	(42)	(89)	1,416
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	73,171	(2,257)	-	(79,987)	(152,605)	(161,678)
Total	\$108,846	\$10,080	\$(2,647)	\$(190,975)	\$(161,289)	\$(235,985)

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

2015.1.1~2015.3.31

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	\$407,606	\$87,951	\$(30,517)	\$(68,748)	\$12,617	\$408,909
Marine insurance	118,005	(19,990)	(16,441)	(46,760)	42,948	77,762
Land and air insurance	48,150	59,010	(14,277)	(299,921)	(13,540)	(220,578)
Liability insurance	97,603	(12,173)	(12,046)	(39,934)	(5,989)	27,461
Bonding insurance	37,153	(19,403)	(7,339)	(1,214)	18,721	27,918
Other property insurance	58,588	121,096	(13,081)	(42,017)	75,377	199,963
Accident insurance	97,575	(10,361)	(20,783)	(41,328)	(9,305)	15,798
Health insurance	-	-	-	-	519	519
Compulsory automobile liability insurance	237,827	(18,372)	-	(149,623)	(244,494)	(174,662)
Total	\$1,102,507	\$187,758	\$(114,484)	\$(689,545)	\$(123,146)	\$363,090

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Item	2014.1.1~2014.3.31					
	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	\$330,678	\$169,618	\$(34,004)	\$(31,403)	\$(28,044)	\$406,845
Marine insurance	125,272	(1,866)	(15,150)	(155,983)	(4,042)	(51,769)
Land and air insurance	68,275	5,568	(22,253)	(40,308)	5,848	17,130
Liability insurance	57,130	6,214	(14,716)	(44,544)	(11,383)	(7,299)
Bonding insurance	24,714	(11,816)	(4,247)	(145)	(1,263)	7,243
Other property insurance	231,060	(103,728)	(61,445)	(26,524)	(24,313)	15,050
Accident insurance	61,083	(15,342)	(11,342)	(15,109)	(5,880)	13,410
Health insurance	295	23	(106)	-	97	309
Compulsory automobile liability insurance	205,858	(1,630)	-	(209,596)	(536,208)	(541,576)
Total	\$1,104,365	\$47,041	\$(163,263)	\$(523,612)	\$(605,188)	\$(140,657)

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	\$492,180	72.64	\$24,609	\$17,728
Marine insurance	166,873	64.89	8,344	2,360
Land and air insurance	1,392,493	65.03	69,624	42,863
Liability insurance	228,936	67.30	11,447	5,743
Bonding insurance	52,833	67.38	2,642	270
Other property insurance	126,099	60.76	6,305	2,705
Accident insurance	574,308	69.93	28,715	18,113
Health insurance	47,765	69.50	2,388	1,655
Compulsory automobile liability insurance	568,615	N/A	N/A	N/A

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

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

B. Cathay Century (China)

Insurance type	Premium income	The impact to profit and loss when the expected loss ratio increases 5%	
		Before reinsurance	After reinsurance
Fire insurance	\$82,029	\$4,101	\$1,279
Marine insurance	8,311	416	226
Liability insurance	45,790	2,289	967
Bonding insurance	1,853	93	47
Other property insurance	439,581	21,979	21,649
Compulsory automobile liability insurance	175,673	8,784	8,784

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

Concentration Risk

A. Cathay Century

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

- a. Single insurance contract or few related contracts

For the years ended 31 March 2015, 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.

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b. Exposure to unanticipated change in trend

For the years ended 31 March 2015, 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 years ended 31 March 2015, 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 years ended 31 March 2015, there is no catastrophe has taken place.

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

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

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

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

f. Concentration risks in geographic regions and operating segments

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

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

Insurance type	2015.1.1 ~ 2015.3.31			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$2,157,628	\$121,768	\$282,426	\$1,996,970
Fire insurance	499,652	29,483	333,520	195,615
Marine insurance	166,192	10,265	114,967	61,490
Engineering insurance	116,372	2,100	49,293	69,179
Health and injury insurance	356,251	1,388	30,174	327,465
Other insurance	353,265	4,565	178,351	179,479
Total	\$3,649,360	\$169,569	\$988,731	\$2,830,198

(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.

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B. Cathay Century (China)

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

a. The exposure of unanticipated change in trend

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

b. The correlation and cross effect between different risks

When significant incidents happened, Cathay Century (China) may face huge claim loss for the insured cases or the impairment loss of intangible or tangible assets. It may also create risks such as market risk, credit risk, and liquidity risk and so on. To ensure the management level and related departments can rapidly handle the significant incidents; Cathay Century (China) established “Notice for Significant Incidents Handling Process”. If necessary, the general manager or assigned personnel will hold the emergency response team to ensure rights and operation of Cathay Century (China) and protect the safety of policyholders’ property. No significant incident occurred for the years ended 31 March 2015.

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

Insurance type	2015.1.1 ~ 2015.3.31			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$597,811	\$-	\$(922)	\$598,733
Fire insurance	88,523	775	58,740	30,558
Marine insurance	8,311	877	4,659	4,529
Engineering insurance	7,789	38	6,040	1,787
Health and injury insurance	-	2	-	2
Other insurance	50,803	545	27,920	23,428
Total	\$753,237	\$2,237	\$96,437	\$659,037

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Claim development table

A. Cathay Century

Underwriting Year	2009.4.1-	2010.4.1-	2011.4.1-	2012.4.1-	2013.4.1-	2014.4.1-	Total
	-2009.3.31	2010.3.31	2011.3.31	2012.3.31	2013.3.31	2014.3.31	
Estimate of cumulative claims incurred:							
At end of underwriting year	\$6,166,932	\$3,451,224	\$5,047,820	\$4,157,056	\$5,956,442	\$6,035,485	\$7,121,019
One year later	7,989,809	4,362,499	6,226,914	4,979,753	6,008,210	6,560,065	
Two year later	7,894,152	4,509,300	5,907,031	5,156,606	5,852,365		
Three year later	7,956,476	4,548,580	5,949,328	5,148,452			
Four year later	8,037,121	4,526,435	5,975,244				
Five year later	8,059,424	4,507,486					
Six year later	7,892,966						
Estimate of cumulative claims incurred	7,892,966	4,507,486	5,975,244	5,148,452	5,852,365	6,560,065	7,121,019
Cumulative payment to date	7,947,243	4,456,264	5,836,301	5,038,579	5,586,499	5,689,176	4,213,848
Subtotal	(54,277)	51,222	138,943	109,873	265,866	870,889	2,907,171
Reconciliation	-	-	-	-	-	-	98,700
Recorded in balance sheet	\$(54,277)	\$51,222	\$138,943	\$109,873	\$265,866	\$870,889	\$3,005,871

Note: The upper part of this chart is to explain the amount of claim for property insurance of each underwriting year estimated through time. It's excluded claim reserve of compulsory automobile liability insurance \$1,923,909 thousand and assumed reinsurance from the upper table (except compulsory automobile liability insurance) \$152,900 thousand.

B. Cathay Century (China)

	Accident year						Total
	-2010.3.31	2010.4.1-2011.3.31	2011.4.1-2012.3.31	2012.4.1-2013.3.31	2013.4.1-2014.3.31	2014.4.1-2015.3.31	
Estimated accumulation amount of claim							
As to 2010/12/31	\$343,970						
As to 2011/12/31	340,728	\$370,202					
As to 2012/12/31	305,994	331,551	\$344,000				
As to 2013/12/31	306,019	348,958	340,728	\$370,202			
As to 2014/12/31	305,166	359,953	305,994	331,551	\$1,029,765		
As to 2015/3/31	305,863	358,041	822,192	1,354,017	1,911,957	557,763	
Estimated accumulation of claim	305,863	358,041	822,192	1,354,017	1,911,957	557,763	\$5,309,833
Accumulated claim paid	305,629	340,968	791,324	1,208,725	1,257,808	110,391	4,014,845
Subtotal	234	17,073	30,868	145,292	654,149	447,372	1,294,988
Indirect claim expense, discount and risk margin							56,731
Recognized amount on balance sheet							\$1,351,719

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C. Cathay Century (Vietnam)

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

33. Related party transactions

(1) Related parties

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay United Bank	//
Cathay Century	//
Cathay Securities	//
Cathay Venture	//
Cathay Securities Investment Trust	//
Cathay Lujiazui Life	//
Cathay Life (Vietnam)	//
Cathay Insurance (Bermuda)	//
Cathay Woolgate Exchange Holding 1 Limited	//
Cathay Woolgate Exchange Holding 2 Limited	//
Cathay Securities Investment Consulting	//
Lin Yuan	//
Cathay Century (China)	//
Cathay Century (Vietnam)	//
Indovina Bank	//
Seaward Card	//
CUBC Bank	//
Cathay Futures	//
Cathay Securities (Shanghai) Investment Advisory Corp.	//
Taiwan Real-estate Management Corp.	Associate
Symphox Information	//
Tien-Tai Energy Corp.	//
Cathay Conning Asset Management Ltd.	//

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Name	Relationship
Vietinbank	Other related parties
Cathay Dragon Fund etc.	"
Lin Yuan Property Management Co., Ltd.	"
Cathay General Hospital	"
Cathay Real Estate Development Co., Ltd.	"
San Ching Engineering Co., Ltd.	"
Cathay Healthcare Management Co., Ltd.	"
Cathay Hospitality Management Co., Ltd.	"
Culture and Charity Foundation of the CUB	"
Liang-Ting Co., Ltd.	"
Others	"

(2) Significant transactions with related parties:

A. Cash and cash equivalent

(A) Call loans to banks

Name	Ending balance		
	2015.3.31	2014.12.31	2014.3.31
Other related parties			
Vietinbank	\$-	\$-	\$6,982,027

Name	Interest income	
	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Other related parties		
Vietinbank	\$-	\$28,198

(B) Due from commercial banks

Name	Ending balance		
	2015.3.31	2014.12.31	2014.3.31
Other related parties			
Vietinbank	\$4,261,818	\$5,035,169	\$9,462

Name	Interest income	
	2015.1.1~2015. 3.31	2014.1.1~2014. 3.31
Other related parties		
Vietinbank	\$15,778	\$20,540

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(C) Call loans from banks

Name	Ending balance		
	2015.3.31	2014.12.31	2014.3.31
Other related parties			
Vietinbank	\$-	\$-	\$4,061,038

Name	Interest expense	
	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Other related parties		
Vietinbank	\$-	\$39,748

(D) Due to commercial banks

Name	Ending balance		
	2015.3.31	2014.12.31	2014.3.31
Other related parties			
Vietinbank	\$743,690	\$301,321	\$5,741

Name	Interest expense	
	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Other related parties		
Vietinbank	\$1,404	\$-

B. Financial assets at fair value through profit or loss

Name	2015.3.31	2014.12.31	2014.3.31
Other related parties			
Cathay Dragon Fund etc.	\$3,854,392	\$3,650,026	\$3,543,487

C. Receivables

Name	2015.3.31	%	2014.12.31	%	2014.3.31	%
Other related parties						
Cathay Dragon Fund etc.	\$90,542	0.06	\$88,613	0.07	\$84,924	0.05

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D. Reinsurance assets

Name	2015.3.31	2014.12.31	2014.3.31
Subsidiary			
Cathay Insurance (Bermuda)	\$10,105	\$25,206	\$13,218

E. Loans

Name	Ending balance		
	2015.3.31	2014.12.31	2014.3.31
Associates			
Taiwan Real-estate Management Corp.	\$57,000	\$55,000	\$60,000
Tien-Tai Energy Corp.	110,774	112,866	119,141
Other related parties			
Cathay Real Estate Development Co., Ltd.	10,000	280,000	630,000
Cathay General Hospital	2,659,520	2,733,550	2,953,248
Liang-Ting Co., Ltd.	81,863	82,716	-
Others	2,153,859	2,211,877	1,928,863
Total	\$5,073,016	\$5,476,009	\$5,691,252

Name	Interest income	
	2015.1.1~	2014.1.1~
	2015.3.31	2014.3.31
Associates		
Taiwan Real-estate Management Corp.	\$278	\$284
Tien-Tai Energy Corp.	966	1,038
Other related parties		
Cathay Real Estate Development Co., Ltd.	150	522
Cathay General Hospital	15,122	16,708
Liang-Ting Co., Ltd.	406	-
Others	10,736	8,956
Total	\$27,658	\$27,508

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F. Available-for-sale financial assets

Name	2015.3.31	2014.12.31	2014.3.31
Other related parties			
Cathay Dragon Fund etc.	\$485,969	\$469,486	\$245,422
Cathay Healthcare Management Co., Ltd.	63,315	63,383	65,003
Total	<u>\$549,284</u>	<u>\$532,869</u>	<u>\$310,425</u>

G. Deposit

Name	Ending balance		
	2015.3.31	2014.12.31	2014.3.31
Associate			
Symphox Information	\$150,926	\$153,609	\$89,752
Other related parties			
Cathay Real Estate Development Co., Ltd.	229,554	375,029	179,731
Cathay Dragon Fund etc.	130,919	28,854	1,867,386
Others	10,138,138	9,742,777	9,313,997
Total	<u>\$10,649,537</u>	<u>\$10,300,269</u>	<u>\$11,450,866</u>

Name	Interest expense	
	2015.1.1~	2014.1.1~
	2015.3.31	2014.3.31
Associate		
Symphox Information	\$331	\$324
Other related parties		
Cathay Real Estate Development Co., Ltd.	36	22
Cathay Dragon Fund etc.	1	4,121
Others	27,605	25,246
Total	<u>\$27,973</u>	<u>\$29,713</u>

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H. Property transactions

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

Name	2015.1.1~2015.3.31	
	Item	Amount
Other related parties		
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	\$12,624
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	492,797
Total		<u>\$505,421</u>

Name	2014.1.1~2014.3.31	
	Item	Amount
Other related parties		
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	\$21,940
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	224,848
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	7,848
Total		<u>\$254,636</u>

The total amounts of contracted projects for real estate as of 31 March 2015, 31 December 2014, and 31 March 2014, between Cathay Life and Lin Yuan Property Management Co., Ltd. were \$33,154 thousand, \$42,443 thousand and 51,285 thousand, respectively.

The total amounts of contracted projects for real estate as of 31 March 2015, 31 December 2014, and 31 March 2014, between Cathay Life and San Ching Engineering Co., Ltd. were \$5,571,288 thousand, \$5,575,823 thousand, and \$5,531,912 thousand, respectively.

The total amounts of contracted projects for real estate as of 31 March 2015, 31 December 2014, and 31 March 2014, between Cathay Life and Cathay Real Estate Development Co., Ltd. were \$49,306 thousand, \$49,306 thousand, and \$49,306 thousand, respectively.

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(B) Real estate rental income from Cathay Life:

Name	Rental income	
	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Associate		
Symphox Information	\$8,619	\$6,068
Other related parties		
Cathay Real Estate Development Co., Ltd.	4,325	4,343
Cathay General Hospital	10,597	10,789
Cathay Healthcare Management Co., Ltd.	13,146	11,416
Cathay Hospitality Management Co., Ltd.	43,641	3,454
Total	\$80,328	\$36,070

Name	Guarantee deposits received		
	2015.3.31	2014.12.31	2014.3.31
Associate			
Symphox Information	\$8,343	\$8,343	\$5,922
Other related party			
Cathay Real Estate Development Co., Ltd.	4,028	4,028	4,028
Cathay General Hospital	10,166	10,166	10,166
Cathay Healthcare Management Co., Ltd.	3,599	12,192	11,611
Total	\$26,136	\$34,729	\$31,727

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

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

Name	Rental expense	
	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Other related party		
Cathay Real Estate Development Co., Ltd.	\$4,252	\$13,102

Name	Guarantee deposits		
	2015.3.31	2014.12.31	2014.3.31
Other related party			
Cathay Real Estate Development Co., Ltd.	\$4,040	\$7,399	\$13,932

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E. Guarantee deposits received

Name	2015.3.31	2014.12.31	2014.3.31
Other related parties			
Lin Yuan Property Management Co., Ltd.	\$5,000	\$5,000	\$5,000

J. Futures traders' equity

Name	2015.3.31	2014.12.31	2014.3.31
Other related party			
Cathay Dragon Fund etc.	\$187,398	\$160,074	\$159,238

K. Securities sold under agreements to repurchase

Name	Ending balance		
	2015.3.31	2014.12.31	2014.3.31
Other related party			
Liang-Ting Co., Ltd.	\$6,117	\$16,105	\$-

Name	Interest expense	
	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Other related party		
Liang-Ting Co., Ltd.	\$11	\$-

L. Payables

Name	2015.3.31	%	2014.12.31	%	2014.3.31	%
Subsidiaries						
Seaward Card	\$22,944	0.04	\$22,894	0.05	\$24,641	0.05
Associate						
Symphox Information	53,760	0.10	19,266	0.04	58,234	0.11
Cathay Conning Asset Management Ltd.	2,055	-	3,925	0.01	-	-
Other related parties						
Lin Yuan Property Management Co., Ltd.	41,433	0.08	1,984	-	41,425	0.08
Vietinbank	298,310	0.57	301,321	0.60	122,040	0.24
San Ching Engineering Co., Ltd	-	-	7,479	0.01	-	-
Total	\$418,502		\$356,869		\$246,340	

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M. Net commission and handling fee

(A) Handling fee income

Name	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Subsidiary		
Cathay Securities Investment Consulting	\$5,051	\$5,331

N. Net premiums from insurance business

(A) Insurance income

Name	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Other related parties		
Cathay General Hospital	\$10,514	\$7,376
Others	37,533	36,140
Total	<u>\$48,047</u>	<u>\$43,516</u>

(B) Reinsurance income

Name	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Subsidiary		
Cathay Insurance (Bermuda)	<u>\$34,987</u>	<u>\$39,821</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 three-month ended 31 March 2015 and 2014, Cathay Life assumed 90% of the reinsurance business from Cathay Insurance (Bermuda).

(C) Reinsurance claims payment

Name	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Subsidiary		
Cathay Insurance (Bermuda)	<u>\$35,332</u>	<u>\$51,681</u>

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O. Net other non-interest income

(A) Management fee income

Name	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Other related party Cathay Dragon Fund etc.	\$267,072	\$252,712

P. Operating expenses

Name	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Subsidiaries		
Seaward Card	\$76,742	\$84,632
Associate		
Symphox Information	204,480	189,392
Other related parties		
Cathay Real Estate Development Co., Ltd.	4,256	6,009
Lin Yuan Property Management Co., Ltd.	171,695	185,604
Cathay Healthcare Management Co., Ltd.	1,622	5,602
Total	\$458,795	\$471,239

Q. Key management personnel compensation

Name	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Short-term employee benefits	\$214,450	\$179,121
Post-employment pension	2,575	2,607
Total	\$217,025	\$181,728

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

(3) The Company

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

A. Cash in bank

Name	Item	Ending balance		
		2015.3.31	2014.12.31	2014.3.31
Subsidiary				
Cathay United Bank	Cash in bank	\$3,678	\$12,271	\$4,111

Interest income from Cathay United Bank for three-month periods ended 31 March 2015 and 2014 were \$3 thousand and \$3 thousand, respectively.

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B. Receivables

Name	Item	2015.3.31	2014.12.31	2014.3.31
Subsidiaries				
Cathay Life	Interest	\$4,590,885	\$4,366,995	\$3,682,885
Cathay Century	Receivables due to consolidated income tax and interest	257,151	171,856	253,806
Cathay Securities	Receivables due to consolidated income tax	20,161	-	-
Cathay Securities Investment Trust	Receivables due to consolidated income tax	93,668	70,778	80,198
Cathay United Bank	Receivables due to consolidated income tax	36,081	229,509	97,983
Total		<u>\$4,997,946</u>	<u>\$4,839,138</u>	<u>\$4,114,872</u>

C. Guarantee deposits paid

Name	2015.3.31	2014.12.31	2014.3.31
Subsidiary			
Cathay Life	<u>\$8,046</u>	<u>\$8,046</u>	<u>\$8,046</u>

D. Held-to-maturity financial asset

Name	2015.3.31	2014.12.31	2014.3.31
Subsidiaries			
Cathay Life	\$30,000,000	\$30,000,000	\$30,000,000
Cathay Century	1,000,000	1,000,000	1,000,000
Total	<u>\$31,000,000</u>	<u>\$31,000,000</u>	<u>\$31,000,000</u>

E. Payables

Name	Item	2015.3.31	2014.12.31	2014.3.31
Subsidiaries				
Cathay Life	Payable due to consolidated income tax	\$9,229,257	\$8,926,622	\$8,346,959
Cathay Securities	Payable due to consolidated income tax	-	315	5,661
Cathay Venture	Payable due to consolidated income tax	-	4,053	-
Total		<u>\$9,229,257</u>	<u>\$8,930,990</u>	<u>\$8,352,620</u>

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F. Interest income

Name	2015.1.1~	2014.1.1~
	2015.3.31	2014.3.31
Subsidiaries		
Cathay Life	\$223,890	\$223,890
Cathay Century	4,586	4,586
Total	<u>\$228,476</u>	<u>\$228,476</u>

G. Operating expenses

Name	2015.1.1~	2014.1.1~
	2015.3.31	2014.3.31
Subsidiary		
Cathay Life	<u>\$9,172</u>	<u>\$8,929</u>

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

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

A. Cathay Life and its subsidiaries

a. Cash in banks

Name	Item	2015.3.31	2014.12.31	2014.3.31
Subsidiaries				
Cathay United Bank	Time deposit	\$7,482	\$4,482	\$7,482
	Cash in bank	25,229,991	29,399,162	15,231,867
	Check deposit	492,997	540,490	494,626
	Security deposit	6	6	2,354
Indovina Bank	Cash in bank	7,508	9,086	3,534
Total		<u>\$25,737,984</u>	<u>\$29,953,226</u>	<u>\$15,739,863</u>

Interest income from Cathay United Bank for three-month periods ended 31 March 2015 and 2014, were \$5,664 thousand, and \$4,611 thousand, respectively.

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Interest income from Indovina Bank for the three-month periods ended 31 March 2015 and 2014 were \$44 thousand, and \$60 thousand, respectively.

As of 31 March 2015, 31 December 2014, and 31 March 2014, time deposit pledged were \$4,482 thousand, \$4,482 thousand, and \$7,482 thousand, respectively.

b. Investments in debt securities with no active market

Name	2015.3.31	2014.12.31	2014.3.31
Subsidiary			
Cathay United Bank	\$-	\$3,000	\$3,000

c. Other receivables

Name	2015.3.31	2014.12.31	2014.3.31
The Company			
Cathay Financial Holding (Note)	\$9,229,257	\$8,926,622	\$8,346,959
Subsidiary			
Cathay Century	268,688	264,638	184,748
Total	<u>\$9,497,945</u>	<u>\$9,191,260</u>	<u>\$8,531,707</u>

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

d. Secured loans

Name	2015.1.1~2015.3.31			
	Maximum amount	Interest Income	Rate	Ending balance
Other related parties				
Cathay General Hospital	\$2,634,550	\$14,402	2.01%~2.55%	\$2,560,520
Others	851,253	3,972	1.34%~3.78%	845,218
Total		<u>\$18,374</u>		<u>\$3,405,738</u>

Name	2014.1.1~2014.3.31			
	Maximum amount	Interest Income	Rate	Ending balance
Other related parties				
Cathay General Hospital	\$2,926,691	\$15,988	2.01%~2.55%	\$2,854,248
Others	794,456	3,295	1.34%~3.78%	777,682
Total		<u>\$19,283</u>		<u>\$3,631,930</u>

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

Name	2015.3.31	2014.12.31	2014.3.31
Other related party			
Cathay Dragon Fund etc.	\$3,753,619	\$3,031,486	\$3,487,875

f. Guarantee deposits paid

Name	2015.3.31	2014.12.31	2014.3.31
Subsidiary			
Cathay Futures	\$461,009	\$515,748	\$743,846

The guarantee deposits are futures margins of Cathay Futures. The imputed interest income of guarantee deposit paid from Cathay Futures for the three-month periods ended 31 March 2015 and 2014 were \$159 thousand, and \$303 thousand, respectively.

g. Other payables

Name	2015.3.31	2014.12.31	2014.3.31
The Company			
Cathay Financial Holding (Note)	\$4,590,885	\$4,366,995	\$3,682,885
Subsidiary			
Cathay United Bank	386,953	455,244	210,331
Total	\$4,977,838	\$4,822,239	\$3,893,216

Note: Interest payable accrued from preferred stock liability.

h. Preferred stock liability

Name	2015.3.31	2014.12.31	2014.3.31
The Company			
Cathay Financial Holding	\$30,000,000	\$30,000,000	\$30,000,000

i. Property transactions

Property transactions between Cathay Life and related parties are in the nature of undertaking contracted pre-fects, trade, and lease transactions. The terms of such transactions are based on market surveys, the contracted terms of both parties and public bidding.

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Real estate contracted projects of Cathay Life:

Name	2015.1.1~2015.3.31	
	Item	Amount
Other related party		
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	<u>\$492,797</u>

Name	2014.1.1~2014.3.31	
	Item	Amount
Other related party		
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	<u>\$224,848</u>

The total amounts of contracted projects for real estate as of 31 March 2015, 31 December 2014, and 31 March 2014, between Cathay Life and San Ching Engineering Co., Ltd. were \$5,571,288 thousand, \$5,575,823 thousand and \$5,531,912 thousand, respectively.

j. Rental income

Name	Item	2015.1.1~	2014.1.1~
		2015.3.31	2014.3.31
Subsidiary			
Cathay United Bank	Real-estate rental income	<u>\$105,639</u>	<u>\$99,163</u>

According to contracts, leasing periods are generally 2-5 years, and rentals are usually paid on a monthly basis.

k. Miscellaneous income

Name	2015.1.1~	2014.1.1~
	2015.3.31	2014.3.31
Subsidiary		
Cathay Century	<u>\$334,299</u>	<u>\$339,072</u>

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

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l. Operating expenses

Name	2015.1.1~	2014.1.1~
	2015.3.31	2014.3.31
Subsidiary		
Cathay United Bank	\$1,239,319	\$871,848
Other related party		
Lin Yuan Property Management Co., Ltd.	169,897	184,158
Total	<u>\$1,409,216</u>	<u>\$1,056,006</u>

m. Non-operating income and expenses

Name	2015.1.1~	2014.1.1~
	2015.3.31	2014.3.31
The Company		
Cathay Financial Holding	<u>\$223,890</u>	<u>\$223,890</u>

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

n. Other disclosures

As of 31 March 2015, 31 December 2014, and 31 March 2014, the nominal amounts (in thousand) of the financial instruments transactions between Cathay Life and Cathay United Bank are summarized as below:

Item	2015.3.31	2014.12.31	2014.3.31
CS contracts	USD 300,000	USD 250,000	USD 1,085,000

B. Cathay United Bank and its subsidiaries

a. Loans and deposits

Account/Name	Ending balance		
	2015.3.31	2014.12.31	2014.3.31
Loans			
Associate			
Tien-Tai Energy Corp.	\$110,774	\$112,866	\$119,141
Other related parties			
Cathay Real Estate Development Co., Ltd.	10,000	280,000	630,000
Others	1,273,610	1,257,566	1,113,598
Total	<u>\$1,394,384</u>	<u>\$1,650,432</u>	<u>\$1,862,739</u>

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Account/Name	Ending balance		
	2015.3.31	2014.12.31	2014.3.31
Deposits			
Subsidiaries			
Cathay Life	\$25,730,476	\$29,947,140	\$15,739,329
Cathay Century	1,180,741	1,380,309	1,295,849
Cathay Securities	1,820,439	2,932,284	1,153,106
Cathay Futures	2,059,815	2,006,007	1,946,342
Cathay Securities Investment Trust	191,987	297,623	434,629
Cathay Life (Vietnam)	7,508	9,086	3,534
Cathay Century (Vietnam)	95,088	118,655	234,754
Associate			
Symphox Information	150,926	153,609	89,752
Other related parties			
Cathay Real Estate Development Co., Ltd.	229,554	375,029	179,731
Cathay Dragon Fund etc.	130,919	28,854	1,867,386
Others	10,138,138	9,742,777	9,313,997
Total	<u>\$41,735,591</u>	<u>\$46,991,373</u>	<u>\$32,258,409</u>

Name	Interest income	
	2015.1.1~	2014.1.1~
	2015.3.31	2014.3.31
Loans		
Associate		
Tien-Tai Energy Corp.	\$966	\$1,038
Other related parties		
Cathay Real Estate Development Co., Ltd.	150	522
Others	6,598	5,485
Total	<u>\$7,714</u>	<u>\$7,045</u>

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Name	Interest expense	
	2015.1.1~	2014.1.1~
	2015.3.31	2014.3.31
Deposits		
Subsidiaries		
Cathay Life	\$5,664	\$4,611
Cathay Century	2,169	2,754
Cathay Securities	1,385	1,295
Cathay Futures	5,845	6,016
Cathay Securities Investment Trust	888	582
Cathay Life (Vietnam)	44	60
Cathay Century (Vietnam)	479	3,009
Associate		
Symphox Information	331	324
Other related parties		
Cathay Real Estate Development Co., Ltd.	36	22
Cathay Dragon Fund etc.	1	4,121
Others	27,605	25,246
Total	<u>\$44,447</u>	<u>\$48,040</u>

Account/Name	Ending balance		
	2015.3.31	2014.12.31	2014.3.31
Call loans to banks			
Other related party			
Vietinbank	\$-	\$-	\$6,982,027
Due from commercial banks			
Other related party			
Vietinbank	4,261,818	5,035,169	9,462
Call loans from banks			
Other related party			
Vietinbank	-	-	4,061,038
Due to commercial banks			
Other related party			
Vietinbank	743,690	301,321	5,741

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Account/Name	Interest income	
	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Call loans to banks		
Other related party		
Vietinbank	\$-	\$28,198
Call loans from banks		
Other related party		
Vietinbank	15,778	20,540

Account/Name	Interest expense	
	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Call loans from banks		
Other related party		
Vietinbank	\$-	\$39,748
Due to commercial banks		
Other related party		
Vietinbank	1,404	-

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	2015.3.31	2014.12.31	2014.3.31
Subsidiary			
Cathay Life	\$386,953	\$455,244	\$210,331

c. Dividends payable

Name	2015.3.31	2014.12.31	2014.3.31
Other related party			
Vietinbank	\$298,310	\$301,321	\$122,040

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d. Combined tax payable

Name	2015.3.31	2014.12.31	2014.3.31
The Company			
Cathay Financial Holding	\$36,081	\$229,509	\$97,983

e. Rental expense

Name	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Subsidiary		
Cathay Life	\$105,639	\$99,163

f. Handling fees income

Name	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Subsidiary		
Cathay Life	\$1,239,319	\$871,848

g. Operating expenses

Name	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Associate		
Symphox Information	\$124,717	\$119,522

C. Cathay Century and its subsidiaries

a. Cash in banks

Name	Item	2015.3.31	2014.12.31	2014.3.31
Subsidiaries				
Cathay United Bank	Time deposit	\$628,200	\$623,200	\$693,384
	Cash in bank	440,921	655,281	482,709
	Check deposit	111,620	101,828	119,756
Indovina Bank	Time deposit	87,278	104,195	229,092
	Cash in bank	7,810	14,460	5,662
Total		\$1,275,829	\$1,498,964	\$1,530,603

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Interest income from Cathay United Bank for three-month periods ended 31 March 2015 and 2014 were \$2,169 thousand and \$2,754 thousand, respectively.

Interest income from Indovina Bank for three-month periods ended 31 March 2015 and 2014 were \$479 thousand and \$3,009 thousand, respectively.

As of 31 March 2015, 31 December 2014 and 31 March 2014, time deposit pledged were \$28,598 thousand, \$23,720 thousand, and \$33,537 thousand, respectively.

b. Financial assets at fair value through profit or loss

Name	Item	2015.3.31	2014.12.31	2014.3.31
Other related party				
Cathay Dragon Fund etc.	Beneficiary certificates	\$100,269	\$100,136	\$-

c. Available-for-sale financial assets

Name	Item	2015.3.31	2014.12.31	2014.3.31
Other related party				
Cathay Dragon Fund etc.	Beneficiary certificates	\$316,225	\$292,579	\$111,003

d. Other payables

Name	2015.3.31	2014.12.31	2014.3.31
The Company			
Cathay Financial Holding	\$257,151	\$171,856	\$253,806
Subsidiary			
Cathay Life	268,688	264,638	184,748
Total	\$525,839	\$436,494	\$438,554

e. Preferred stock liability

Name	2015.3.31	2014.12.31	2014.3.31
The Company			
Cathay Financial Holding	\$1,000,000	\$1,000,000	\$1,000,000

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f. Operating expenses

Name	2015.1.1~	2014.1.1~
	2015.3.31	2014.3.31
Subsidiary		
Cathay Life	\$334,299	\$339,072

g. Other disclosure

As of 31 March 2015, 31 December 2014 and 31 March 2014, the nominal amount (in thousand) of the derivative financial instruments transactions with Cathay United Bank are summarized as below:

Item	2015.3.31		2014.12.31		2014.3.31	
CS contracts	USD	69,200	USD	58,200	USD	43,950
	EUR	1,850	EUR	1,350	EUR	-
IRS	NTD	200,000	NTD	200,000	NTD	400,000

D. Cathay Securities and its subsidiaries

a. Cash in bank

Name	Item	2015.3.31	2014.12.31	2014.3.31
Subsidiary				
Cathay United Bank	Time deposits	\$1,745,473	\$2,321,900	\$990,000
	Cash in bank	454,912	988,272	499,785
	Check deposits	16	1	-
	Total	\$2,200,401	\$3,310,173	\$1,489,785

Interest income from Cathay United Bank for three-month periods ended 31 March 2015 and 2014 were \$7,230 thousand and \$7,311 thousand, respectively.

As of 31 March 2015, 31 December 2014 and 31 March 2014, time deposit pledged were \$900,000 thousand, \$2,000,000 thousand and \$900,000 thousand, respectively.

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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 March 2015, 31 December 2014 and 31 March 2014, the operating bonds were \$90,000 thousand, \$90,000 thousand and \$90,000 thousand, respectively.

b. Customer’s margin accounts

Name	Ending balance		
	2015.3.31	2014.12.31	2014.3.31
Subsidiary			
Cathay United Bank	\$1,679,853	\$1,628,118	\$1,609,663

c. Financial assets at fair value through profit or loss

Name	Ending balance		
	2015.3.31	2014.12.31	2014.3.31
Other related party			
Cathay Dragon Fund etc.	\$-	\$518,404	\$55,612

d. Futures trader’s equity

Name	2015.3.31	2014.12.31	2014.3.31
Subsidiary			
Cathay Life	\$461,009	\$515,748	\$743,846
Other related party			
Cathay Dragon Fund etc.	187,398	160,074	159,238
Total	\$648,407	\$675,822	\$903,084

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E. Cathay Securities Investment Trust

a. Cash in bank, Operating deposit and Guarantee deposit

Name	Item	2015.3.31	2014.12.31	2014.3.31
Subsidiary				
Cathay United Bank	Time deposit (Note)	\$10,349	\$185,744	\$400,901
	Cash in bank	2,500	6,131	189
	Check deposits	179,138	105,748	33,539
	Total	<u>\$191,987</u>	<u>\$297,623</u>	<u>\$434,629</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 March 2015, 31 December 2014 and 31 March 2014, the operating bonds were \$50,000 thousand, \$50,000 thousand and \$50,000 thousand, respectively.

And in accordance with “Discretionary Investment Services Contract”, as of 31 March 2015, 31 December 2014 and 31 March 2014, Cathay Securities Investment Trust reserved the performance bonds amounted to \$111,100 thousand, \$126,100 thousand and \$146,600 thousand, respectively.

Interest income from Cathay United Bank for the years ended 31 March 2015 and 2014 were \$888 thousand and \$582 thousand, respectively.

b. Available-for-sale financial assets

Name	2015.3.31	2014.12.31	2014.3.31
Subsidiary			
Cathay Dragon Fund etc.	<u>\$119,497</u>	<u>\$126,726</u>	<u>\$134,419</u>

c. Management fee income

Name	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Other related party		
Cathay Dragon Fund etc.	<u>\$267,072</u>	<u>\$252,712</u>

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34. Pledged assets

As of 31 March 2015, 31 December 2014, and 31 March 2014, the Group's pledged assets are summarized below:

Item	Guarantee purpose	Carrying amount		
		2015.3.31	2014.12.31	2014.3.31
Time deposits	Correspondent deposit, collateral for the over-loaning of settlement accounts, loans, business reserves and guarantees	\$3,359,798	\$4,477,720	\$2,714,987
Guarantee deposits paid	Government bonds and court guarantees	10,564,725	10,328,057	10,516,068
Available-for-sale financial assets	Business reserves and guarantees	1,196,626	1,192,331	1,500,846
Held-to-maturity financial assets	Business reserves and guarantees	1,551,935	1,556,065	952,845
Investments in debt securities with no active market	Business reserves and guarantees	63,800,000	62,000,000	62,000,000
Total		\$80,473,084	\$79,554,173	\$77,684,746

35. Commitment and contingent liabilities

(1) Cathay United Bank

Lee and Li Attorneys-at-Law and SanDisk Corporation filed lawsuits in the Taiwan Taipei District Court and alleged that Cathay United Bank breached its contractual and fiduciary duties in connection with the embezzlement conducted by Eddie Liu, a former employee of Lee and Li Attorneys-at-Law on October 2003. Both plaintiffs claimed indemnities amounted to \$991,002 thousand and \$3,090,000 thousand. The lawsuit was in litigation procedures in July 2007. Cathay United Bank won the lawsuit on 13 August, 2014. However, Lee and Li, Attorneys-at-Law lodged an appeal. Thus, the case is still pending. Cathay United Bank is in mediation procedure with SanDisk Corporation. Cathay United Bank has been advised by its legal advisor that it is possible, but not probable, that the action will be resolved in Cathay United Bank's favor and accordingly no provision for such claims has been made in these financial statements.

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(2) Cathay Securities and its subsidiaries

As of 31 March 2015, Cathay Securities and its subsidiaries requested financial institutions issue letters of guarantees for security borrowing of \$220,000 thousand.

(3) As of 31 March 2015, 31 December 2014, and 31 March 2014, Cathay United Bank and its subsidiaries had the following commitments and contingent liabilities, which were not reflected in the financial statements:

Item	2015.3.31	2014.12.31	2014.3.31
Trust and security held for safekeeping	\$565,970,589	\$541,504,312	\$456,356,306
Travelers checks for sale	523,347	479,398	557,662
Bills for collection	47,162,275	44,743,087	47,847,742
Book-entry for government bonds and depository for short-term marketable securities under management	487,486,400	473,027,900	548,071,500
Entrusted financial management business	6,290,688	6,697,886	3,302,301
Guarantees on duties and contracts	12,222,509	12,105,996	11,483,686
Unused commercial letters of credit	5,939,837	5,868,097	6,344,985
Irrevocable loan commitments	133,135,123	162,408,907	205,056,937
Credit card lines commitments	431,016,320	418,869,162	397,778,791
Stamp tax, securities and memorial currency consignments	700,000	-	-
Financial guarantee contracts	1,564,551	1,743,626	710,018

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

	2015.3.31	2014.12.31	2014.3.31
Within 1 year	\$1,417,663	\$1,342,587	\$1,022,126
1 to 5 years	2,542,428	2,462,110	1,675,501
Over 5 year	223,151	162,395	105,887
	<u>\$4,183,242</u>	<u>\$3,967,092</u>	<u>\$2,803,514</u>

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36. Significant disaster losses:

None.

37. Subsequent events:

Resolved by the Company's board of directors on 6 February 2015, Cathay Securities and its subsidiaries decided to acquire 100% shares of Horizon Securities (Hongkong) Limited, in order to expand the operating area overseas with the approval of Order Jin-Guan-Zheng-Quan-Zi. No.1040009705 dated 17 April 2015

38. Other significant matters

(1) Categories of financial instruments

The Group

	2015.3.31	2014.12.31	2014.3.31
Financial assets			
Financial assets at fair value through profit or loss	\$232,297,737	\$223,007,168	\$242,154,421
Available-for-sale financial assets -net	1,408,038,943	1,405,300,159	1,346,438,280
Derivative financial assets for hedging	665,161	665,390	1,241,132
Held-to-maturity financial assets -net	89,008,359	81,658,512	59,421,462
Other financial assets - investments with no active market	1,729,754,434	1,629,251,574	1,334,140,960
Loans and receivables:			
Cash and cash equivalents (petty cash and cash on hand excluded)	357,104,585	418,760,599	404,815,277
Due from the Central Bank and call loans to banks	167,303,594	151,289,044	136,763,894
Securities purchased under agreements to resell	43,093,107	56,515,170	19,654,926
Receivables -net	161,075,851	134,368,376	157,195,423
Loans -net	1,830,447,499	1,812,773,579	1,729,891,326
Other financial assets	498,780,655	502,563,723	452,789,361
Guarantee deposits paid	31,007,833	28,468,971	20,490,801
Subtotal	3,088,813,124	3,104,739,462	2,921,601,008
Total	<u>\$6,548,577,758</u>	<u>\$6,444,622,265</u>	<u>\$5,904,997,263</u>

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	2015.3.31	2014.12.31	2014.3.31
Financial liabilities			
Financial liabilities at fair value through profit or loss	\$87,119,663	\$108,286,154	\$25,329,193
Financial liabilities at amortized cost:			
Due to the Central Bank and call loans from banks	67,031,921	58,816,432	68,976,603
Bankers acceptances and funds borrowed	628,020	1,585,900	1,525,500
Securities sold under agreements to repurchase	61,616,178	62,021,921	64,936,638
Commercial paper payable -net	26,428,229	26,790,000	10,990,000
Payables	52,282,701	50,417,151	51,241,386
Deposits	1,733,676,545	1,702,302,143	1,608,618,909
Bonds payable	107,399,878	107,613,949	92,513,375
Other financial liabilities	544,775,424	543,279,993	459,714,320
Guarantee deposits received	5,753,847	4,082,301	3,573,979
Subtotal	<u>2,599,592,743</u>	<u>2,556,909,790</u>	<u>2,362,090,710</u>
Total	<u>\$2,686,712,406</u>	<u>\$2,665,195,944</u>	<u>\$2,387,419,903</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 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.

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- 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).
- 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).

B. Fair value of financial instruments at amortized cost:

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

	Book value		
	2015.3.31	2014.12.31	2014.3.31
Financial assets			
Held-to-maturity financial assets -net	\$89,008,359	\$81,658,512	\$59,421,462
Investments with no active market	1,729,754,434	1,629,251,574	1,334,140,960
Other financial assets - Structured time deposits	32,900,000	39,200,000	37,400,000
Total	<u>\$1,851,662,793</u>	<u>\$1,750,110,086</u>	<u>\$1,430,962,422</u>
	Fair value		
	2015.3.31	2014.12.31	2014.3.31
Financial assets			
Held-to-maturity financial assets -net	\$91,723,408	\$83,688,619	\$60,769,201
Investments with no active market	1,767,437,060	1,654,586,314	1,331,090,339
Other financial assets - Structured time deposits	32,193,410	39,200,000	37,400,000
Total	<u>\$1,891,353,878</u>	<u>\$1,777,474,933</u>	<u>\$1,429,259,540</u>

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(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 March 2015, 31 December 2014 and 31 March 2014:

2015.3.31				
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	\$206,925	23 April 2015 ~ 26 May 2024	23 April 2015 ~ 26 May 2024

2014.12.31				
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	\$212,898	23 January 2015 ~ 26 May 2024	23 January 2015 ~ 26 May 2024

2014.3.31				
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	\$375,333	23 April 2014 ~ 25 December 2023	23 April 2014 ~ 25 December 2023

The terms of interest rate swap agreements are established based on the terms of the bonds hedged.

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Cathay Life and its subsidiaries' 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:

	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Amount recognized in other comprehensive income	\$(3,268)	\$(74,964)
Amount reclassified from equity to profit or loss	(2,705)	1,732

B. Fair value hedges (Note)

The following table summarizes the terms of Cathay Life and its subsidiaries' futures for bonds used as hedging instruments as of 31 March 2014:

2014.3.31		
Par value (USD)	Hedged item	Maturity date
\$885,650	Debt instrument investments for which no active market exists	14 February 2034 ~ 11 September 2042

Note: As of 31 March 2015 and 31 December 2014, Cathay Life and its subsidiaries did not engaged in fair value hedge.

(4) Offsetting of financial assets and financial liabilities

The Group owns 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:

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2015.3.31

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	\$10,050,848	\$-	\$10,050,848	\$(10,050,848)	\$-	\$-

2015.3.31

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	\$17,276,785	\$-	\$17,276,785	\$(10,050,848)	\$-	\$7,225,937

2014.12.31

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	\$17,951,736	\$-	\$17,951,736	\$(17,951,736)	\$-	\$-

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2014.12.31

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	\$49,783,588	\$-	\$49,783,588	\$(17,951,736)	\$-	\$31,831,852

2014.3.31

Financial assets ruled by offsetting, 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	\$3,769,371	\$-	\$3,769,371	\$(3,769,371)	\$-	\$-

2014.3.31

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	\$9,754,948	\$-	\$9,754,948	\$(3,769,371)	\$-	\$5,985,577

Note: Master netting arrangement and non-cash collateral are included.

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Information relating to offsetting financial assets and financial liabilities of Cathay United Bank and its subsidiaries is disclosed as follows:

2015.3.31

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	\$30,094,844	\$-	\$30,094,844	\$(28,964,596)	\$(1,130,248)	\$-

2015.3.31

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	\$28,964,596	\$-	\$28,964,596	\$(28,964,596)	\$-	\$-

2014.12.31

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	\$29,687,914	\$-	\$29,687,914	\$(24,965,787)	\$(631,236)	\$4,090,891

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2014.12.31

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	\$24,965,787	\$-	\$24,965,787	\$(24,965,787)	\$-	\$-

2014.3.31

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	\$14,866,777	\$-	\$14,866,777	\$(12,400,353)	\$-	\$-

2014.3.31

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	\$12,400,353	\$-	\$12,400,353	\$(12,400,353)	\$-	\$-

Note: Master netting arrangement and non-cash collateral are included.

(5) Financial instruments related information

A. The definition of the hierarchy of the financial instruments is measured at fair value:

- 1st Level: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- 2nd Level: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- 3rd Level: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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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 Company and Subsidiaries' assets and liabilities

The Company and Subsidiaries do not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Company and Subsidiaries' assets and liabilities measured at fair value on a recurring basis is as follows:

Financial instruments measured at fair value item	2015.3.31				2014.12.31			
	Total	1 st Level	2 nd Level	3 rd Level	Total	1 st Level	2 nd Level	3 rd Level
Non-derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss								
Designated financial assets at fair value through								
profit or loss at initial recognition	\$2,917,510	\$2,917,510	\$-	\$-	\$-	\$-	\$-	\$-
Held for trading								
Stocks	12,178,697	12,178,697	-	-	12,169,886	12,169,886	-	-
Bonds	20,399,156	6,913,408	13,485,748	-	18,429,803	6,336,177	12,093,626	-
Others	156,519,650	37,902,134	118,617,516	-	145,521,932	33,268,624	112,253,308	-
Available-for-sale financial assets								
Stocks	510,276,128	492,631,163	4,058,674	13,586,291	501,930,637	484,850,189	3,589,474	13,490,974
Bonds	678,791,251	50,784,578	628,006,673	-	691,525,641	45,007,434	646,518,207	-
Others	218,971,564	177,363,807	18,307,165	23,300,592	211,843,881	167,888,562	21,360,838	22,594,481
Investment properties	338,132,992	-	-	338,132,992	338,336,979	-	-	338,336,979
Liabilities								
Financial liabilities at fair value through profit or loss								
Designated financial liabilities at fair value								
through profit or loss at initial recognition	40,083,436	472,405	39,611,031	-	33,572,019	825,384	32,746,635	-
Derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss	40,282,724	398,783	28,775,519	11,108,422	46,885,547	226,944	38,746,743	7,911,860
Derivatives financial assets for hedging	655,161	-	655,161	-	665,390	-	665,390	-
Liabilities								
Financial liabilities at fair value through profit or loss	47,036,227	770,824	35,172,877	11,092,526	74,714,135	564,455	66,295,098	7,854,582

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Financial instruments measured at fair value item	2014.3.31			
	Total	1 st Level	2 nd Level	3 rd Level
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Designated financial assets at fair value through profit or loss at initial recognition				
	\$-	\$-	\$-	\$-
Held for trading				
Stocks	12,375,571	12,375,571	-	-
Bonds	25,602,465	9,838,357	15,764,108	-
Others	186,084,101	51,155,648	134,928,453	-
Available-for-sale financial assets:				
Stocks	436,044,159	421,042,867	3,268,041	11,733,251
Bonds	774,749,195	34,707,335	740,041,860	-
Others	135,644,926	98,802,813	21,720,573	15,121,540
Investment properties	309,921,736	-	-	309,921,736
Liabilities				
Financial liabilities at fair value through profit or loss				
Designated financial liabilities at fair value through profit or loss at initial recognition:				
	\$2,316,819	\$2,316,819	\$-	\$-
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	18,092,284	520,633	15,725,314	1,846,337
Derivatives financial assets for hedging	1,241,132	-	1,241,132	-
Liabilities				
Financial liabilities at fair value through profit or loss	23,012,374	801,249	20,369,070	1,842,055

Transfers between Level 1 and Level 2 during the period

Certain central government bonds held by Cathay United Bank were determined to be debt instruments with no active market according to the Company's internal risk control policy evaluation. Therefore, \$1,561,496 of it was transferred from 1st level to 2nd level fair value measurements during the three-month period ended 31 March 2015.

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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
2015.1.1	\$7,911,860	\$36,085,455	\$338,336,979	\$7,854,582
Total gains (losses) recognized				
Amount recognized in profit or loss				
Valuation gains from financial assets and liabilities at fair value through profit or loss	2,581,953	-	-	2,623,335
Realized gains from available-for-sale financial assets	-	190,629	-	-
Losses from investment property	-	-	(11,458)	-
Amount recognized in other comprehensive income				
Unrealized valuation losses from available-for-sale financial assets	-	(357,970)	-	-
Exchange differences resulting from translating the financial statements of foreign operations	-	-	(983,907)	-
Acquisition or issues	1,010,433	1,859,934	1,720,770	1,010,433
Transfers to property and equipment	-	-	(775,942)	-
Transfers from investment property under construction and prepayment for properties	-	-	-	-
Disposal or settlements	(395,824)	(751,006)	(153,450)	(395,824)
Transfers to 3 rd level	-	(140,159)	-	-
2015.3.31	\$11,108,422	\$36,886,883	\$338,132,992	\$11,092,526

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	Assets			Liabilities
	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Investment property	Financial liabilities at fair value through profit or loss
2014.1.1	\$2,204,161	\$22,096,756	\$292,314,597	\$2,204,161
Total gains (losses) recognized				
Amount recognized in profit or loss				
Valuation gains from financial assets and liabilities at fair value through profit or loss	(905,823)	-	-	(910,105)
Realized gains from available-for-sale financial assets	-	200,693	-	-
Losses from investment property	-	-	(25,035)	-
Amount recognized in other comprehensive income				
Unrealized valuation losses from available-for-sale financial assets	-	617,751	-	-
Exchange differences resulting from translating the financial statements of foreign operations	-	-	(56,689)	-
Acquisition or issues	549,056	9,111,935	7,541,035	549,056
Transfers to property and equipment	-	-	10,317,510	-
Transfers from investment property under construction and prepayment for properties	-	-	1,180	-
Disposal or settlements	(1,057)	(4,932,753)	(170,862)	(1,057)
Transfers to 3 rd level	-	(239,591)	-	-
2014.3.31	\$1,846,337	\$26,854,791	\$309,921,736	\$1,842,055

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 March 2015 and 2014 in the amount of \$2,570,495 thousand and \$(930,858) 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 March 2015 and 2014 in the amount of \$2,623,335 thousand and \$(910,105) thousand, respectively.

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:

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Cathay Life and its subsidiaries

2015.3.31				
	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	16%~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	-61%~85%	The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks
		dividend payout ratio	0%~90%	The higher the dividend payout ratio, the higher the fair value of the stocks
Investment property	Refer to Note 14			

Cathay United Bank and its subsidiaries

2015.3.31				
	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	12%~15%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Residual income approach	Cost of equity rate	6%~7%	The higher the cost of equity rate, the lower the fair value of the stocks
	Value of net assets approach	Value of net assets	Not applicable	The higher the value of net assets, the higher the fair value of the stocks
Investment property	Discounted income approach			
	Discounted Cash Flow Analysis	Discount rate	4.625%	The higher the discount rate, the lower the fair value

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Cathay Century and its subsidiaries

2015.3.31				
	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and 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

Cathay Securities and its subsidiaries

2015.3.31					
	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 Chungghwa Post Co. two-year small time deposits floating rate 1.375% plus 0.75% , taking the risk and risk premium into considerations.	The higher the discount rate, the lower the fair value. The lower the discount rate, the higher the fair value.	Discount rate 1.725%~2.725% ↓ Floating rate of fair value 5.36%~-3.89%

Valuation process used for fair value measurements categorized within 3rd level of the fair value hierarchy

The Group's Risk Management Department is responsible for validating the fair value measurements 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.

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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

	2015.3.31			
	Total	1 st level	2 nd level	3 rd level
Financial assets not measured at fair value for which only the fair value is disclosed				
Debt instrument investments for which no active market exists	\$1,767,437,060	\$9,604,784	\$1,755,594,396	\$2,237,880
Held-to-maturity financial assets	91,723,408	52,468,604	39,254,804	-
Other financial assets	32,193,410	-	32,193,410	-

(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	2015.3.31				
	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	\$13,674,098	\$15,768,141	\$13,553,542	\$15,768,141	\$(2,214,599)
Held to maturity financial assets repurchase agreements	40,065,052	39,994,212	40,065,052	39,994,212	70,840
Debt instruments with no active market repurchase agreements	4,359,042	3,663,384	4,359,042	3,663,384	695,658

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The following table analyses Cathay Securities' financial assets and financial liabilities that have not been fully removed:

Categories of financial assets	2015.3.31				
	Transferred Financial Assets Carrying Value	Related Financial Liabilities Carrying value	Transferred Financial Assets Fair Value	Related Financial Liabilities Fair value	Net fair value
Financial assets at fair value through profit or loss					
Repurchase bonds	\$1,905,929	\$1,900,000	\$1,905,929	\$1,900,000	\$5,929
lending of stocks	496	-	496	1,312	(816)
Available for sale financial assets					
Repurchase bonds	100,949	100,000	100,949	100,000	949

(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.
- (B) Counterparty credit risk refers to the risk that the counterparty will not meet its obligations to perform or pay as and when due and, as a result, Cathay Life will bear financial losses.
- (C) Underlying asset credit risk means the risk that Cathay Life may suffer losses arising from deterioration of the credit quality and/or credit rating, increase of credit risk premium or breach of any contract terms of any underlying assets to certain financial instruments.

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b. Concentration risk

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

31 March 2015

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$140,458,461	\$35,362	\$10,178,563	\$67,278,050	\$66,275,082	\$284,225,518
Financial assets at fair value through profit or loss	6,257,297	1,970,850	5,893,354	3,853,269	-	17,974,770
Available-for-sale financial assets	314,602,678	24,698,092	69,163,242	138,152,336	49,834,263	596,450,611
Derivative financial assets for hedging	61,522	-	56,918	88,485	-	206,925
Debt instrument investments for which no active market exists	84,118,393	101,291,847	240,563,304	570,171,531	355,083,502	1,351,228,577
Held-to-maturity financial assets	32,393,461	-	-	-	-	32,393,461
Other financial assets	29,400,000	-	3,500,000	-	-	32,900,000
Total	\$607,291,812	\$127,996,151	\$329,355,381	\$779,543,671	\$471,192,847	\$2,315,379,862
Proportion	26.2%	5.5%	14.2%	33.7%	20.4%	100.0%

31 December 2014

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$155,570,924	\$65,064	\$15,377,951	\$81,151,066	\$78,106,409	\$330,271,414
Financial assets at fair value through profit or loss	6,057,829	148,380	12,036,445	5,534,312	-	23,776,966
Available-for-sale financial assets	327,471,560	25,955,362	72,891,378	141,313,916	47,748,463	615,380,679
Derivative financial assets for hedging	67,020	-	60,579	85,299	-	212,898
Debt instrument investments for which no active market exists	74,913,829	85,686,191	252,923,226	508,886,440	330,452,150	1,252,861,836
Held-to-maturity financial assets	24,092,675	-	-	-	-	24,092,675
Other financial assets	35,700,000	-	3,500,000	-	-	39,200,000
Total	\$623,873,837	\$111,854,997	\$356,789,579	\$736,971,033	\$456,307,022	\$2,285,796,468
Proportion	27.3%	4.9%	15.6%	32.2%	20.0%	100.0%

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31 March 2014

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$120,626,770	\$1,037,340	\$1,221,810	\$54,215,042	\$144,796,152	\$321,897,114
Financial assets at fair value through profit or loss	17,669,508	1,525,657	1,522,868	1,639,295	456,308	22,813,636
Available-for-sale financial assets	418,531,834	22,323,661	87,233,630	162,750,503	29,059,389	719,899,017
Derivative financial assets for hedging	124,079	-	177,335	73,919	-	375,333
Debt instrument investments for which no active market exists	39,340,100	72,002,161	249,849,970	417,077,901	271,454,537	1,049,724,669
Held-to-maturity financial assets	4,355,496	-	-	-	-	4,355,496
Other financial assets	33,900,000	-	3,500,000	-	-	37,400,000
Total	\$634,547,787	\$96,888,819	\$343,505,613	\$635,756,660	\$445,766,386	\$2,156,465,265
Proportion	29.4%	4.5%	15.9%	29.5%	20.7%	100.0%

c. Credit Quality

Classification of credit quality for financial assets of Cathay Life:

31 March 2015

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$284,225,518	\$-	\$-	\$-	\$-	\$284,225,518
Financial assets at fair value through profit or loss	16,047,102	1,927,668	-	-	-	17,974,770
Available-for-sale financial assets	593,515,393	2,935,218	-	-	-	596,450,611
Derivative financial assets for hedging	206,925	-	-	-	-	206,925
Debt instrument investments for which no active market exists	1,327,448,767	23,779,810	-	408,213	(408,213)	1,351,228,577
Held-to-maturity financial assets	32,393,461	-	-	-	-	32,393,461
Other financial assets	32,900,000	-	-	-	-	32,900,000
Total	\$2,286,737,166	\$28,642,696	\$-	\$408,213	\$(408,213)	\$2,315,379,862
Proportion	98.8%	1.2%	-	-	-	100.0%

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31 December 2014

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$330,271,414	\$-	\$-	\$-	\$-	\$330,271,414
Financial assets at fair value through profit or loss	21,699,393	2,077,573	-	-	-	23,776,966
Available-for-sale financial assets	613,929,204	1,451,475	-	735,000	(735,000)	615,380,679
Derivative financial assets for hedging	212,898	-	-	-	-	212,898
Debt instrument investments for which no active market exists	1,244,093,897	8,767,939	-	412,334	(412,334)	1,252,861,836
Held-to-maturity financial assets	24,092,675	-	-	-	-	24,092,675
Other financial assets	39,200,000	-	-	-	-	39,200,000
Total	\$2,273,499,481	\$12,296,987	\$-	\$1,147,334	\$(1,147,334)	\$2,285,796,468
Proportion	99.5%	0.5%	-	0.1%	(0.1)%	100.0%

31 March 2014

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$321,897,114	\$-	\$-	\$-	\$-	\$321,897,114
Financial assets at fair value through profit or loss	20,969,042	1,844,594	-	-	-	22,813,636
Available-for-sale financial assets	713,996,222	5,871,737	-	766,058	(735,000)	719,899,017
Derivative financial assets for hedging	375,333	-	-	-	-	375,333
Debt instrument investments for which no active market exists	1,046,357,946	3,366,723	-	396,630	(396,630)	1,049,724,669
Held-to-maturity financial assets	4,355,496	-	-	-	-	4,355,496
Other financial assets	37,400,000	-	-	-	-	37,400,000
Total	\$2,145,351,153	\$11,083,054	\$-	\$1,162,688	\$(1,131,630)	\$2,156,465,265
Proportion	99.5%	0.5%	-	0.1%	(0.1)%	100.0%

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

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d. Regional distribution of credit risk exposure for secured loans and overdue receivables:

31 March 2015

Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$377,930,685	\$58,607,280	\$90,256,119	\$526,794,084
Overdue receivables	143,159	101,666	38,637	283,462
Total	\$378,073,844	\$58,708,946	\$90,294,756	\$527,077,546
Proportion	72%	11%	17%	100%

31 December 2014

Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$377,723,395	\$58,012,016	\$93,625,433	\$529,360,844
Overdue receivables	146,055	102,032	39,935	288,022
Total	\$377,869,450	\$58,114,048	\$93,665,368	\$529,648,866
Proportion	71%	11%	18%	100%

31 March 2014

Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$328,853,341	\$55,088,917	\$89,616,997	\$473,559,255
Overdue receivables	34,908	121,678	32,777	189,363
Total	\$328,888,249	\$55,210,595	\$89,649,774	\$473,748,618
Proportion	69%	12%	19%	100%

e. Secured loans and overdue receivables

31 March 2015

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	\$249,360,819	\$173,468,396	\$48,552,295	\$116,931	\$5,207,860	\$476,706,301	\$3,164,442	\$473,541,859
Corporate finance	44,252,872	3,958,279	1,147,013	-	1,013,081	50,371,245	1,065,544	49,305,701
Total	\$293,613,691	\$177,426,675	\$49,699,308	\$116,931	\$6,220,941	\$527,077,546	\$4,229,986	\$522,847,560

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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	\$248,751,904	\$173,044,802	\$48,433,735	\$110,559	\$4,146,863	\$474,487,863	\$2,937,298	\$471,550,565
Corporate finance	45,860,895	4,087,364	1,296,959	-	3,915,785	55,161,003	1,305,923	53,855,080
Total	\$294,612,799	\$177,132,166	\$49,730,694	\$110,559	\$8,062,648	\$529,648,866	\$4,243,221	\$525,405,645

31 March 2014

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$219,973,282	\$153,024,892	\$42,830,337	\$94,710	\$4,496,107	\$420,419,328	\$2,236,257	\$418,183,071
Corporate finance	42,659,492	4,128,070	1,376,576	-	5,165,152	53,329,290	1,476,736	51,852,554
Total	\$262,632,774	\$157,152,962	\$44,206,913	\$94,710	\$9,661,259	\$473,748,618	\$3,712,993	\$470,035,625

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 March 2015	\$88,102	\$28,829	\$116,931
31 December 2014	67,555	43,004	110,559
31 March 2014	86,057	8,653	94,710

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.

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b. Liquidity risk management

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

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

c. Maturity analysis of non-derivative financial liabilities:

The analysis of cash outflows to Cathay Life is listed below and based on the residual term to maturity on balance sheet date. The disclosed amounts are in conformity of contract cash flows and the results of the differences from the disclosed amounts on balance sheet.

31 March 2015	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	\$190,441	\$-	\$-	\$-	\$-	\$190,441
Payables	31,064,386	129,452	94,577	-	-	31,288,415
Preferred stock liability	-	15,385,479	10,658,884	5,173,005	-	31,217,368

31 December 2014	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Short-term debts	\$232,616	\$-	\$-	\$-	\$-	\$232,616
Payables	19,631,268	4,366,995	140	-	-	23,998,403
Preferred stock liability	-	15,514,932	10,660,322	5,266,005	-	31,441,259

31 March 2014	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Short-term debts	\$14,720	\$-	\$-	\$-	\$-	\$14,720
Payables	23,395,831	-	3,683,022	-	-	27,078,853
Preferred stock liability	-	-	684,110	31,441,259	-	32,125,369

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d. Maturity analysis of derivative financial liability:

31 March 2015	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$21,638	\$16,058	\$21,333	\$(32,922)	\$-	\$26,107
Forward	1,425,601	391,675	-	-	-	1,817,276
CS	8,414,921	7,317,366	129,760	-	-	15,862,047

31 December 2014	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$19,020	\$11,683	\$17,492	\$(28,827)	\$-	\$19,368
Forward	6,212,446	668,956	-	-	-	6,881,402
CS	35,156,563	9,210,915	69,380	-	-	44,436,858

31 March 2014	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$23,656	\$7,322	\$4,520	\$189	\$-	\$35,687
Forward	1,792,788	-	-	-	-	1,792,788
CS	6,193,943	2,901,131	-	-	-	9,095,074

C. Market risk analysis

a. Sources of market risk

Market risk is the risk of losses or decrease in value of portfolio in positions arising from movements in exchange rate, product price, interest rate, credit spread, and stock price.

b. Cathay Life assesses, monitors, and manages market risks completely and effectively by applying Value at Risk (“VaR”) and stress testing consistently.

(A) Value at Risk

Value-at-Risk (“VaR”) is the maximum loss on the portfolio with a given probability defined as the confidence level, over a given period of time. Cathay Life uses one-week 95% and 99% VaR to measure market risk.

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(B) Stress testing

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

Cathay Life performs position stress testing regularly by using “Simple Sensitivity” and “Scenario Analysis” methods. The test is capable of representing the position loss resulted from the movement of a specific risk factor under different kinds of historical scenarios:

i. Simple Sensitivity

Simple Sensitivity is to measure the dollar amount change for the portfolio value from the movement of specific risk factors.

ii. Scenario Analysis

Scenario Analysis is to measure the dollar amount changes for the total value of investment positions if possible future events occur. The types of scenario include:

① 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.

② 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.

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Table of Stress Testing
2015.1.1~2015.3.31

Risk Factors	Changes (+/-)	Gain(loss)
Equity risk (Stock index)	-10%	\$(48,544,039)
Interest rate risk (Yield curve)	+20bps	(7,620,019)
Exchange risk (Foreign exchange rate)	USD weakens against NTD by \$1	(21,374,573)
Commodity risk (Price)	-10%	-

Table of Stress Testing
2014.1.1~2014.3.31

Risk Factors	Changes (+/-)	Gain(loss)
Equity risk (Stock index)	-10%	\$(47,052,481)
Interest rate risk (Yield curve)	+20bps	(9,124,586)
Exchange risk (Foreign exchange rate)	USD weakens against NTD by \$1	(17,556,534)
Commodity risk (Price)	-10%	-

Note1: Impacts of credit spread changes are not included

Note2: effects of hedging are included

(C) Sensitivity Analysis

Summarization of Sensitivity Analysis
2015.1.1~2015.3.31

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$3,314,163	\$3,397,667
	CNY/CNH appreciates 1%	2,137,292	208,552
	HKD appreciates 1%	38,986	534,761
	EUR appreciates 1%	230,977	77,518
	GBP appreciates 1%	136,789	31,012
Interest rate risk	Yield curve (USD) parallelly shifts up 1 bp	-	(158,183)
	Yield curve (AUD) parallelly shifts up 1 bp	(607)	(205)
	Yield curve (EUR) parallelly shifts up 1 bp	(2,407)	(12,180)
	Yield curve (NTD) parallelly shifts up 1 bp	4,798	(242,385)
Equity price risk	Equity price increases 1%	23,230	4,831,174

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Summarization of Sensitivity Analysis

2014.1.1~2014.3.31

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$2,992,556	\$2,363,943
	CNY/CNH appreciates 1%	2,167,093	138,631
	HKD appreciates 1%	14,044	425,414
	EUR appreciates 1%	401,590	150,131
	GBP appreciates 1%	214,100	38,158
Interest rate risk	Yield curve (USD) parallel shift+1bp	43,323	(150,422)
	Yield curve (AUD) parallel shift+1bp	-	(4,821)
	Yield curve (EUR) parallel shift+1bp	-	(14,746)
	Yield curve (NTD) parallel shift+1bp	3,801	(287,272)
Equity price risk	Equity price increases 1%	12,255	4,341,213

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.

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.

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Cathay United Bank organized the risk management committee and its responsibilities are as illustrated below:

- a. To amend the risk management policies, risk appetite or risk tolerance and report the above issues to board of directors for approval.
- b. To manage and decide the strategy about Cathay United Bank's credit risk, market risk and operating risk management.
- c. To report the significant risk management issues, such as credit ratings, market assessment and risk indicators.
- d. To analyze the issues that Cathay United Bank's business unit brought up for discussion.
- e. Other issues.

Cathay United Bank organized a risk management group to monitor, lead, develop, and establish the integral risk management framework.

B. Market risk

Market risk is the potential loss arising from adverse movements of market price, such as interest rates, foreign exchange rates and equity securities.

Cathay United Bank organized market risk management department and the committee of assets and liabilities management is responsible for monitoring the market risk management. The department and committee periodically examine Cathay United Bank's structure of assets and liabilities; plan the pricing principle of deposit and loan and financing and using scheme of medium and long term funding while executing the market risk management, the market risk management department periodically provides the related information of management and reports to the authorized managers of Cathay United Bank for the management system, such as valuating position, risk limit management, calculating of profit and loss, pricing model and risk analysis, in order to control the overall market risk.

Market risk management process

a. Identification and measurement

The operating department and risk management department of Cathay United Bank identified the market risk factors of risk exposure position, and measured the market risk further. Market risk factors are the components that could have an impact on value of financial instrument, such as interest rates, foreign exchange rates, equity securities...etc., including position, gain and loss, the loss of stress test, sensitivity (DVO1, Delta, Vega, Gamma) and Value at Risk (VaR)...etc., to measure the extent of investment portfolio that is influenced by interest risk, foreign exchange risk and equity securities.

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b. Monitoring and reporting

The risk management department periodically reports the execution of market risk management target, position and gain/loss control, sensitivity analysis, stress test, and VaR of equity securities to the board of directors, and helps the board of directors to fully understand the status of market risk management. Cathay United Bank also establishes a clear reporting process. Each transaction has the requirements about limitation and stop-loss points. If the transaction reaches its stop-loss limitation, stop-loss process will be implemented immediately. If the stop-loss process is not implemented, the transaction department should document the reason of non-implementing stop loss process and responding plan. Furthermore, the department shall be report to the executive management for approval by executive management and report to the board of directors regularly.

Risk management policy of the trading book

The trading book is the portfolio of financial instruments and physical investment for the purpose of trading or the hedge on the trading book. Portfolio held for trading is which intended to earn the profit from bid-ask spread. Except positions from the above trading book, they will be called banking book.

a. Strategy

In order to control market risk effectively and ensure the operating departments operate the transaction strategy with flexibility, Cathay United Bank evaluates various assessment and control. The portfolio of trading book has the risk limitation of each investment portfolio which is set according to the transaction strategy, category of investment and the annual profit target.

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.

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c. Valuation policy

If the financial instruments of trading book have market values, they should be evaluated at least once each day by the information that is from an independent source and easily accessible. If it's evaluated by a model, a mathematical model should be used prudently, and the assumptions and parameters of the valuation model should be regularly reviewed and examined.

d. Method of measurement

(A) The assumption and calculation of VaR: see VaR section.

(B) Cathay United Bank executes the stress test monthly with the following scenarios: the fluctuation of interest rate at 100bp, equity securities at 15% and foreign exchange rate at 3%, and reports to the risk management committee regularly.

Interest risk management of trading book

a. Definition of interest risk

Interest risk is the risk that the trading portfolios suffer losses or the change of its fair value which is caused by the fluctuation of interest rate. The main instruments include the securities and derivatives that relate to interest rates.

b. Interest risk management procedure of trading book

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

c. Method of measurement

(A) The assumption and calculation of VaR: see VaR section.

(B) Cathay United Bank measures the investment portfolio's interest risk exposure monthly.

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Interest risk management of banking book

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

a. Strategy

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

b. Management procedure

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

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

c. Method of measurement

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

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Foreign exchange risk management

a. Definition of foreign exchange risk

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

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

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

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

Risk management of equity price

a. Definition of risk of equity price

The market risk of equity securities held by Cathay United Bank includes the individual risk from the fluctuation of individual equity securities' market price and general market risk from the fluctuation of the overall price trend.

b. Purpose of risk management in equity prices

To avoid the massive fluctuation of equity price to worsen Cathay United Bank's financial situation or earnings. Also, to raise the operating efficiency of capital and strengthen the business operation.

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c. Procedure of risk management of equity prices

Cathay United Bank sets investment limit on industries, using the β value to measure the investment portfolio affected by the systemic risk monthly. The stop-loss point must be authorized by the board of directors, and the equity investment should be authorized by the executives if the stop-loss point is reached but the investment is not going to be disposed of.

d. Measured methodology

The risk of equity prices in trading book is mainly controlled by VaR.

Cathay United Bank's risk of equity prices from its non-trading portfolio should be control by each bank according to its own business scale to develop a stress test under appropriate scenarios and report to the risk management committee.

Cathay United Bank adopts many methodologies to manage its market risk. Value-at-risk (VaR) is one of the methodologies. VaR is a statistical measure that assesses potential losses that might be caused by changes in risk factors over a specified period of time and at a specific level of statistical confidence.

2015.3.31			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	\$583,925	\$682,554	\$459,837
Foreign exchange	249,037	576,443	112,986
Equity Securities price	267,823	353,880	151,414

2014.12.31			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	\$524,614	\$677,094	\$311,553
Foreign exchange	223,383	576,443	112,986
Equity Securities price	249,507	353,880	150,959

2014.3.31			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	\$539,735	\$772,357	\$311,553
Foreign exchange	142,908	150,465	119,725
Equity Securities price	246,894	352,855	150,959

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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	2015.3.31	2014.12.31	2014.3.31
Stock Market	Major Stock Exchanges +15%	\$2,194,630	\$1,765,050	\$1,149,509
	Major Stock Exchanges -15%	(2,194,630)	(1,765,050)	(1,149,509)
Interest Rate/ Bond Market	Major Interest Rate + 100bp	(6,382,920)	(5,908,080)	(4,412,839)
	Major Interest Rate - 100bp	6,499,380	5,970,250	4,642,152
Foreign Exchange Market	Major Currencies + 3%	3,308,542	3,056,861	1,817,784
	Major Currencies - 3%	(3,308,542)	(3,056,861)	(1,817,468)
Composite	Major Stock Exchanges -15%	(5,269,008)	(4,616,269)	(3,744,564)
	Major Interest Rate + 100bp			
	Major Currencies +3%			
	Major Commodities -15%			

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.

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b. Foreign exchange risk

Foreign exchange rate factor sensitivities (“FX delta”) represent the change of the foreign exchange portfolios caused by the underlying currency exchange rate fluctuation.

c. Equity price risk

Equity securities price factor sensitivities (“Equity delta”) represent the change of the equity securities price portfolio caused by a parallel unit shift of 1% (100 basis points) in the underlying stocks prices fluctuation. Cathay United Bank’s equity portfolios include stocks and equity index options.

Market risk factor sensitivity of Cathay United Bank

		2015.3.31	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	\$613,774	\$208
	HKD+1%	3,217	758
	JPY+1%	1,175	-
	AUD+1%	23,032	-
	CNY+1%	309,932	45,333
	NTD+1%	(951,130)	(46,300)
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	564	(21,582)
	Yield curves (HKD) parallel shift+1bp	30	(79)
	Yield curves (JPY) parallel shift+1bp	(6)	-
	Yield curves (AUD) parallel shift+1bp	-	(1,150)
	Yield curves (CNY) parallel shift+1bp	481	(16,557)
	Yield curves (NTD) parallel shift+1bp	(8,621)	(17,277)
Equity securities price factor sensitivity (Equity Delta)	Equity securities price parallel shift+1bp	-	146,309

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		2014.12.31	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity		\$630,713	\$1,529
(FX Delta)	USD+1%		
	HKD+1%	3,242	2,891
	JPY+1%	505	1,376
	AUD+1%	23,342	-
	CNY+1%	285,215	47,906
	NTD+1%	(943,017)	(53,701)
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	702	(21,956)
	Yield curves (HKD) parallel shift+1bp	-	(88)
	Yield curves (JPY) parallel shift+1bp	(3)	-
	Yield curves (AUD) parallel shift+1bp	-	(845)
	Yield curves (CNY) parallel shift+1bp	268	(14,108)
	Yield curves (NTD) parallel shift+1bp	(151)	(792)
Equity securities price factor sensitivity (Equity Delta)	Equity securities price parallel shift+1bp	-	117,670
		2014.3.31	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity			
(FX Delta)	USD+1%	\$566,031	\$-
	HKD+1%	4,779	-
	JPY+1%	-	2,229
	AUD+1%	22,918	-
	CNY+1%	28,974	-
	NTD+1%	(629,198)	(3,058)
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	(185)	(26,786)
	Yield curves (HKD) parallel shift+1bp	-	(22)
	Yield curves (AUD) parallel shift+1bp	-	(1,812)
	Yield curves (CNY) parallel shift+1bp	-	(568)
	Yield curves (NTD) parallel shift+1bp	(2,628)	(13,893)
Equity securities price factor sensitivity (Equity Delta)	Equity securities price parallel shift+1bp	-	76,634

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C. Credit risk

Credit risk represents the risk of loss that Cathay United Bank and its subsidiaries would incur if counterparty fails to perform its contractual obligations.

To centralize risk management functions currently handled by different departments, Cathay United Bank's board of directors resolved that a risk management department would be established to manage the credit risk. The objectives of a credit risk management are to improve asset quality and to generate stable profits while reducing risk through a diversified and balanced loan portfolio. Cathay United Bank's board of directors sets the counterparty credit limits, which are then implemented by the credit committee. The credit committee also monitors current and potential credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates. Cathay United Bank performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess the overall collectability of those portfolios.

Cathay United Bank and its subsidiaries maintain a strict policy to evaluate customers' credit ratings when providing loan commitments and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loans, and Cathay United Bank and its subsidiaries retain the legal right to foreclose on or liquidate the collateral. The disclosure of the maximum credit exposure shall not take account of any collateral held or other enhancements.

The management procedure and measurement methodology of credit risk in Cathay United Bank's main business are as follows:

Credit business (including the loan commitments and guarantees)

The category of credit asset and the grade of credit quality were narrated as follow:

a. Category of credit risk

The credit risk of Cathay United Bank was classified into five categories. Normal credit assets shall be classified as "Category One." The remaining unsound credit assets shall be evaluated based on the status of the loan collaterals and the length of time overdue. Assets that require special mention shall be classified as "Category Two," assets that are substandard shall be classified as "Category Three," assets that are doubtful shall be classified as "Category Four," and assets for which there is loss shall be classified as "Category Five". For managing the default credits, Cathay United Bank established the regulations governing the procedure to deal with non-performing loans, non-accrual loans and bad debts.

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b. Grade of credit quality

Cathay United Bank sets the level of credit quality based on the characteristics and scale of business (such as establishing the internal rating model of credit risk, setting the credit rating table or relevant rules to classify) to proceed the risk management.

In order to measure the credit risk of the clients, Cathay United Bank employs the statistic methods and the professional judgement from the experts. Cathay United Bank develops the rating model of business credit after considering the clients' relevant information. The model shall be reviewed periodically to verify if the calculated results conformed to the reality and revised every parameter to optimize the results.

With respect to consumer credit assets such as mortgages, credit cards, and small-amount credit loans, Cathay United Bank also evaluates default risk of clients by using the credit rating scores developed by Cathay United Bank and the external due diligence services.

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.

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c. Hedge of credit risk and easing policy

(A) Collateral

Cathay United Bank adopts a series of policies to lower the credit risk, and one of the frequently-used methods is requesting borrowers to provide collaterals. For ensure the creditor's rights, Cathay United Bank sets the scope available as collaterals and the procedures of appraising, managing, and disposing the collaterals. In addition, a credit contract is in place to provide the credit claim preservation, collaterals, and offset provisions to stipulate when a credit trigger event occurs, Cathay United Bank may reduce the limit, cut down the payback period, or deem all debts mature. Also, Cathay United Bank will use the deposits that the borrowers saved in Cathay United Bank to offset the liabilities to lower the credit risk.

Other non-credit business collaterals shall depend on the characteristics of the financial instruments. Only the asset-backed securities and other similar financial instruments are secured by an asset pool of financial instruments.

(B) Limit of credit risk and control of credit risk concentration

To avoid the excessive risk concentration, Cathay United Bank limits the credit amounts of single counterparties and groups; Cathay United Bank also sets the investment guide and regulation of risk control of equity investment to restrict the investment limits of single person (company) or related company (group). Furthermore, Cathay United Bank establishes relevant regulations to control the concentration risk of assets, and sets the credit limits by industry, group, country, and stock types to monitor the credit concentration risk.

(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.

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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		
	2015.3.31	2014.12.31	2014.3.31
Irrevocable loan commitments	\$132,771,110	\$162,105,192	\$204,860,838
Credit card commitments	478,940,119	468,810,255	437,129,539
Unused commercial letters of credit	4,925,060	4,903,594	5,322,742
Guarantees on duties and contracts	12,222,509	12,105,996	11,483,686
Total	\$628,858,798	\$647,925,037	\$658,796,805

(B) Indovina Bank

Off balance sheet items	Maximum exposure to credit risk		
	2015.3.31	2014.12.31	2014.3.31
Finance guarantee contracts	\$1,562,510	\$1,727,450	\$672,668
Unused commercial letters of credit	1,014,777	964,503	1,016,357
Total	\$2,577,287	\$2,691,953	\$1,689,025

(C) CUBC Bank

Off balance sheet items	Maximum exposure to credit risk		
	2015.3.31	2014.12.31	2014.3.31
Finance guarantee contracts	\$2,041	\$16,176	\$37,350
Irrevocable loan commitments	364,013	303,715	196,099
Credit card commitments	-	264,908	387,715
Unused commercial letters of credit	-	-	5,886
Total	\$366,054	\$584,799	\$627,050

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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 and collateral are listed below:

Item	2015.3.31		2014.12.31		2014.3.31	
	amount	%	amount	%	amount	%
Industry type						
Manufacturing	\$83,372,121	7.10	\$91,268,082	7.93	\$140,559,243	12.64
Financial institutions and insurance	39,391,415	3.35	40,065,497	3.48	38,273,707	3.44
Leasing and real estate	85,478,535	7.27	89,080,389	7.74	90,754,810	8.16
Individuals	557,890,503	47.47	552,513,647	47.99	493,391,798	44.37
Others	409,008,679	34.81	378,383,937	32.86	349,073,023	31.39
Total	\$1,175,141,253	100.00	\$1,151,311,552	100.00	\$1,112,052,581	100.00

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Item	2015.3.31		2014.12.31		2014.3.31	
	amount	%	amount	%	amount	%
Geographic Region						
Domestic	\$980,555,512	84.99	\$969,952,473	84.25	\$912,660,368	82.07
Asia	95,496,699	6.44	75,168,904	6.53	95,800,637	8.61
America	27,675,748	2.39	27,630,814	2.40	26,781,886	2.41
Others	71,413,294	6.18	78,559,361	6.82	76,809,690	6.91
Total	\$1,175,141,253	100.00	\$1,151,311,552	100.00	\$1,112,052,581	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	
2015.3.31										
Receivables										
Credit card business	\$35,439,319	\$7,311,240	\$2,914,656	\$45,665,215	\$249,518	\$134,415	\$46,049,148	\$109,703	\$1,377,299	\$44,562,146
Others	14,447,722	40,828,663	227,587	55,503,972	3,880	41,966	55,549,818	15,300	445,689	55,088,829
Discounts and loans	765,442,682	317,039,102	38,049,346	1,120,531,130	503,518	16,338,077	1,137,372,725	4,481,533	12,626,575	1,120,264,617

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2014.12.31	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	\$36,215,384	\$8,098,669	\$3,211,612	\$47,525,665	\$127,437	\$151,434	\$47,804,536	\$124,337	\$1,460,069	\$46,220,130
Others	30,659,596	2,078,710	65,478	32,803,784	4,085	41,314	32,849,183	13,245	239,149	32,596,789
Discounts and loans	699,208,322	350,838,296	40,974,472	1,091,021,090	719,295	21,477,857	1,113,218,242	5,130,139	12,544,674	1,095,543,429

2014.3.31	Neither past due nor impaired				Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment allowances (D)		Net balance (A)+(B)+(C)-(D)
	Excellent	Good	Average	Subtotal (A)				With objective evidence of impairment individual	Without objective evidence of impairment individual	
Receivables										
Credit card business	\$30,815,270	\$7,211,023	\$3,254,915	\$41,281,208	\$129,217	\$137,591	\$41,548,016	\$113,505	\$1,527,273	\$39,907,238
Others	66,031,413	2,041,218	45,512	68,118,143	3,230	47,964	68,169,337	16,389	627,890	67,525,058
Discounts and loans	648,844,928	365,183,563	41,005,577	1,055,034,068	457,011	24,863,993	1,080,355,072	4,854,262	9,768,335	1,065,732,475

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

2015.3.31	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	\$230,162,387	\$40,606,457	\$7,052,173	\$277,821,017
Unsecured personal loans	17,701,570	9,091,489	2,520,630	29,313,689
Other	245,416,343	35,307,593	5,143,828	285,867,764
Corporate banking				
Secured	37,306,337	128,872,566	15,384,525	181,563,428
Unsecured	234,856,045	103,160,997	7,948,190	345,965,232
Total	\$765,442,682	\$317,039,102	\$38,049,346	\$1,120,531,130

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2014.12.31	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	\$217,655,648	\$53,233,632	\$9,499,880	\$280,389,160
Unsecured personal loans	14,417,868	9,725,173	2,858,644	27,001,685
Other	211,436,330	42,382,203	6,339,793	260,158,326
Corporate banking				
Secured	45,361,610	138,283,374	14,157,140	197,802,124
Unsecured	210,336,866	107,213,914	8,119,015	325,669,795
Total	\$699,208,322	\$350,838,296	\$40,974,472	\$1,091,021,090

2014.3.31	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	\$198,819,149	\$54,465,324	\$11,932,807	\$265,217,280
Unsecured personal loans	9,824,398	5,571,242	1,902,467	17,298,107
Other	169,120,164	40,865,630	7,162,954	217,148,748
Corporate banking				
Secured	71,579,172	116,030,730	18,332,748	205,942,650
Unsecured	199,502,045	148,250,637	1,674,601	349,427,283
Total	\$648,844,928	\$365,183,563	\$41,005,577	\$1,055,034,068

(C) Credit quality analysis on securities investment

2015.3.31	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment (D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade and non-credit rating	Subtotal (A)					
Available-for-sale financial assets								
Bonds	\$71,502,803	\$500,000	\$72,002,803	-	-	\$72,002,803	-	\$72,002,803
Stocks	3,646,679	14,420,927	18,067,606	-	163,785	18,231,391	163,785	18,067,606
Others	230,544	115,933	346,477	-	-	346,477	-	346,477
Held-to-maturity financial assets								
Bonds	49,194,985	624,914	49,819,899	-	-	49,819,899	-	49,819,899
Others	39,233	-	39,233	-	-	39,233	-	39,233
Investments in debt securities with no active market								
Bonds	6,652,854	593,612	7,246,466	-	1,440,939	8,687,405	1,440,939	7,246,466
Others	362,420,000	549,730	362,969,730	-	-	362,969,730	-	362,969,730

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2014.12.31	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment (D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade and non-credit rating	Subtotal (A)					
Available-for-sale financial assets								
Bonds	\$67,993,931	\$500,000	\$68,493,931	\$-	\$-	\$68,493,931	\$-	\$68,493,931
Stocks	1,983,472	12,892,436	14,875,908	-	163,785	15,039,693	163,785	14,875,908
Others	256,522	382,107	638,629	-	-	638,629	-	638,629
Held-to-maturity financial assets								
Bonds	50,516,169	630,902	51,147,071	-	-	51,147,071	-	51,147,071
Investments in debt securities with no active market								
Bonds	7,272,881	385,102	7,657,983	-	1,454,521	9,112,504	1,454,521	7,657,983
Others	361,120,000	549,730	361,669,730	-	-	361,669,730	-	361,669,730

2014.3.31	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment (D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade and non-credit rating	Subtotal (A)					
Available-for-sale financial assets								
Bonds	\$48,291,668	\$1,227,429	\$49,519,097	\$-	\$-	\$49,519,097	\$-	\$49,519,097
Stocks	3,191,181	10,347,074	13,538,255	-	163,785	13,702,040	163,785	13,538,255
Others	68,641	445,205	513,846	-	-	513,846	-	513,846
Held-to-maturity financial assets								
Bonds	50,158,051	665,973	50,824,024	-	-	50,824,024	-	50,824,024
Investments in debt securities with no active market								
Bonds	7,206,036	351,489	7,557,525	-	1,317,337	8,874,862	1,317,337	7,557,525
Others	270,800,000	549,730	271,349,730	-	-	271,349,730	-	271,349,730

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(D) Aging analysis on past due but not impaired financial assets of Cathay United Bank

Past due but not impaired loans might result from some temporary administration reasons so the customers is in the early stages of delinquency but no actual impairment has occurred yet. Unless there is other objective evidence shown otherwise, according to internal credit risk assets impairment evaluation guideline, a loan that is past due for no more than 30 days is typically not to be treated as impairment.

2015.3.31	Less than 30 days	31 - 60 days	Total
Receivables			
Credit card business	\$194,901	\$54,617	\$249,518
Others	2,549	1,331	3,880
Discounts and loans			
Consumer banking			
Residential mortgage loans	154,507	38,111	192,618
Unsecured personal loans	32,466	18,773	51,239
Others	168,003	54,468	222,471
Corporate banking			
Secured	1,625	5,020	6,645
Unsecured	29,290	1,255	30,545
2014.12.31	Less than 30 days	31 - 60 days	Total
Receivables			
Credit card business	\$75,034	\$52,403	\$127,437
Others	2,440	1,645	4,085
Discounts and loans			
Consumer banking			
Residential mortgage loans	235,686	90,194	325,880
Unsecured personal loans	27,609	18,503	46,112
Others	126,202	53,410	179,612
Corporate banking			
Secured	3,546	-	3,546
Unsecured	164,145	-	164,145

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2014.3.31	Less than 30 days	31 - 60 days	Total
Receivables			
Credit card business	\$78,471	\$50,746	\$129,217
Others	2,010	1,220	3,230
Discounts and loans			
Consumer banking			
Residential mortgage loans	179,039	61,398	240,437
Unsecured personal loans	16,602	15,288	31,890
Others	129,374	47,060	176,434
Corporate banking			
Secured	-	8,250	8,250

g. Impairment analysis of financial assets

(A) Cathay United Bank has recognized accumulated impairment loss for available-for-sale financial assets in the amount of \$163,785 thousand, \$163,785 thousand and \$163,785 thousand as of 31 March 2015, 31 December 2014 and 31 March 2014, respectively, due to the existence of objective impairment evidence.

(B) Cathay United Bank has recognized accumulated impairment loss for investments in debt securities with no active market in the amount of \$1,345,353 thousand, \$1,358,935 thousand and \$1,221,751 thousand as of 31 March 2015, 31 December 2014 and 31 March 2014, respectively, due to credit deterioration of securitization products and financial debentures.

Cathay United Bank has recognized accumulated impairment loss for investment in debt securities with no active market in the amount of \$95,586 thousand, \$95,586 thousand and \$98,586 thousand as of 31 March 2015, 31 December 2014 and 31 March 2014, respectively, due to the convertible bonds issuer's default.

(C) Cathay United Bank's impairment assessment of discounts and loans and receivables, please refer to Note 9 and Note 10.

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(D) Foreclosed properties management policy

The carrying amounts of foreclosed properties in CUBC Bank were \$56,522 thousand, \$57,092 thousand and \$87,973 thousand as at 31 March 2015, 31 December 2014 and 31 March 2014.

Foreclosed properties will be sold when they are available for sale. 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.

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(B) Maturity analysis of non-derivative financial liabilities

The table below shows the analysis of the cash outflow of non-derivative financial liabilities on time remaining until the contractual maturity date. The amount disclosed is based on the contractual cash flows and may be different from that included in the consolidated balance sheets.

2015.3.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$37,472,753	\$4,926,111	\$23,368,975	\$116,181	\$65,884,020
Funds borrowed from Central Bank and other banks	628,172	-	-	-	628,172
Securities sold under agreements to repurchase	53,327,572	2,130,648	-	3,977,283	59,435,503
Payables	7,255,696	1,466,576	4,009,391	570,475	13,302,138
Deposits and remittances	268,579,151	693,469,870	690,707,285	88,175,965	1,740,932,271
Financial debentures payable	459,207	2,566,509	2,800,000	62,180,059	68,005,775
Other capital outflow at maturity	31,887,584	27,553,420	10,424,089	8,666,417	78,531,510

2014.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$26,915,849	\$15,414,504	\$15,573,738	\$115,199	\$58,019,290
Funds borrowed from Central Bank and other banks	1,586,505	-	-	-	1,586,505
Securities sold under agreements to repurchase	59,719,068	-	-	-	59,719,068
Payables	11,827,816	5,480,307	444,813	582,021	18,334,957
Deposits and remittances	250,795,372	699,520,712	673,027,048	90,309,859	1,713,652,991
Financial debentures payable	22,736	338,653	5,037,213	62,421,857	67,820,459
Other capital outflow at maturity	30,639,975	32,636,025	12,035,871	4,753,158	80,065,029

2014.3.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$32,966,815	\$5,085,226	\$24,963,023	\$18,184	\$63,033,248
Funds borrowed from Central Bank and other banks	1,525,544	-	-	-	1,525,544
Financial liabilities at fair value through profit or loss	-	-	580,726	-	580,726
Securities sold under agreements to repurchase	62,023,563	661,540	-	-	62,685,103
Payables	6,148,121	2,427,300	3,833,280	5,354,954	17,763,655
Deposits and remittances	264,269,176	652,702,566	626,382,590	66,776,842	1,610,131,174
Financial debentures payable	-	-	-	52,469,090	52,469,090
Other capital outflow at maturity	38,609,951	2,918,873	771,667	2,528,767	44,829,258

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b. Maturity analysis of derivative financial liabilities

(A) Net settled derivative financial instruments

Net settled derivatives engaged by Cathay United Bank include:

- i Foreign exchange derivative instruments: foreign exchange options, non-delivery forwards;
- ii Interest rate derivative instruments: swaptions, net settled interest rate swaps and other interest rate agreements.

The table below shows the net settled derivation financial instruments on time remaining until the contractual maturity date. Analysis of contractual maturity date helps to illustrate all derivative financial instruments listed in the consolidated balance sheet. The amount disclosed is based on contractual cash flow and may be different from that included in the consolidated balance sheet. Maturity analysis of net settled derivative financial liabilities was as follows:

2015.3.31	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	\$113,873	\$840	\$(1,551,371)	\$(826,967)	\$(2,263,625)
- Interest rate derivative instruments	7,727	16,989	27,658	13,714,302	13,766,676
Total	\$121,600	\$17,829	\$(1,523,713)	\$12,887,335	\$11,503,051

2014.12.31	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	\$(2,201)	\$(19,657)	\$(178,144)	\$(1,702,407)	\$(1,902,409)
- Interest rate derivative instruments	9,118	39,821	16,939	9,337,121	9,402,999
Total	\$6,917	\$20,164	\$(161,205)	\$7,634,714	\$7,500,590

2014.3.31	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	\$195,408	\$115,648	\$(123,001)	\$(812,548)	\$(624,493)
- Interest rate derivative instruments	5,299	58,054	56,356	4,417,364	4,537,073
Total	\$200,707	\$173,702	\$(66,645)	\$3,604,816	\$3,912,580

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(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:

2015.3.31	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	\$(2,123,062)	\$(2,669,363)	\$(1,195,370)	\$217,113	\$(5,770,682)
-Cash inflow	176,021	1,393,226	161,533	150,291	1,881,071
- Interest rate derivative instruments					
-Cash outflow	(8,143)	(61,742)	(341,672)	(862,696)	(1,274,253)
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(2,131,205)	(2,731,105)	(1,537,042)	(645,583)	(7,044,935)
Cash inflow subtotal	176,021	1,393,226	161,533	150,291	1,881,071
Net cash flow	\$(1,955,184)	\$(1,337,879)	\$(1,375,509)	\$(495,292)	\$(5,163,864)

2014.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
-Cash outflow	\$(1,996,256)	\$(2,904,077)	\$(1,044,124)	\$1,024,086	\$(4,920,371)
-Cash inflow	316,962	734,255	637,003	35,858	1,724,078
- Interest rate derivative instruments					
-Cash outflow	(219,291)	(50,824)	(262,573)	(703,326)	(1,236,014)
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(2,215,547)	(2,954,901)	(1,306,697)	320,760	(6,156,385)
Cash inflow subtotal	316,962	734,255	637,003	35,858	1,724,078
Net cash flow	\$(1,898,585)	\$(2,220,646)	\$(669,694)	\$356,618	\$(4,432,307)

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2014.3.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
-Cash outflow	\$(1,264,459)	\$(1,430,720)	\$(866,041)	\$610,638	\$(2,950,582)
-Cash inflow	186,707	218,730	318,835	39,263	763,535
- Interest rate derivative instruments					
-Cash outflow	(161,819)	(76,410)	(244,226)	(182,423)	(664,878)
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(1,426,278)	(1,507,130)	(1,110,267)	428,215	(3,615,460)
Cash inflow subtotal	186,707	218,730	318,835	39,263	763,535
Net cash flow	\$(1,239,571)	\$(1,288,400)	\$(791,432)	\$467,478	\$(2,851,925)

c. Maturity analysis of off-balance sheet items

(A) Irrevocable commitments: Irrevocable commitments include irrevocable loan commitments and credit card commitments.

(B) Financial guarantee contracts: Cathay United Bank acts as a guarantor or an issuer of credit line in a financing guarantee agreement.

(C) Leasing commitments: Cathay United Bank acts as a lessor/lessee in an irrevocable operating lease agreement and the minimum lease payments are shown as follows:

2015.3.31	Not later than		Later than	Total
	1 year	1~5 year	5 year	
Irrevocable commitments	\$99,664,417	\$238,338,797	\$273,708,015	\$611,711,229
Financial guarantee contracts	14,004,981	3,127,081	15,507	17,147,569
Leasing commitments				
Non-cancellable operating lease payments	1,044,838	1,517,842	153,528	2,716,208
Total	\$114,714,236	\$242,983,720	\$273,877,050	\$631,575,006

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2014.12.31	Not later than		Later than	Total
	1 year	1~5 year	5 year	
Irrevocable commitments	\$170,162,476	\$204,439,128	\$256,313,843	\$630,915,447
Financial guarantee contracts	14,895,131	2,099,987	14,472	17,009,590
Leasing commitments				
Non-cancellable operating lease payments	935,953	1,592,742	84,939	2,613,634
Total	<u>\$185,993,560</u>	<u>\$208,131,857</u>	<u>\$256,413,254</u>	<u>\$650,538,671</u>

2014.3.31	Not later than		Later than	Total
	1 year	1~5 year	5 year	
Irrevocable commitments	\$156,972,651	\$215,923,527	\$269,094,199	\$641,990,377
Financial guarantee contracts	16,015,423	779,891	11,114	16,806,428
Leasing commitments				
Non-cancellable operating lease payments	649,691	802,216	100,506	1,552,413
Total	<u>\$173,637,765</u>	<u>\$217,505,634</u>	<u>\$269,205,819</u>	<u>\$660,349,218</u>

Cathay Century and its subsidiaries

Cathay Century and its subsidiaries' principal financial risk management objective is 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 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 interdependencies between risk variables. However the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

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a. Foreign currency risk

Cathay Century and its subsidiaries are exposed to foreign exchange risk from US and NT dollars exchanges for investing in foreign special purpose money trust. Since the amount of investment is significant, Cathay Century and its subsidiaries engage in forward foreign exchange contracts for hedging purposes.

Cathay Century and its subsidiaries is further exposed to exchange rate risk for engaging in reinsurance business involving transactions denominated in non-functional currency. Because this type of transaction usually has a relatively shorter collection period, the exchange rate fluctuations are not significant. Cathay Century and its subsidiaries do not engage in hedging in relation to this type of transaction.

Cathay Century and its subsidiaries' self-evaluation showed that the terms of the hedging instrument and the hedged items are the same, so as to maximize the effectiveness of the hedge.

b. Interest rate risk

Interest rate risk results from changes in the market interest rates which cause the fair value of financial instruments or the future cash flow to fluctuate. Cathay Century and its subsidiaries' interest rate risk primarily results from floating rate investments classified as available-for-sale financial assets and fixed rate preferred shares liabilities.

c. Equity price risk

Cathay Century and its subsidiaries hold equity securities of local and foreign listed companies. Their prices are affected by uncertainties about the future values of the investment securities. Equity securities of listed companies held by Cathay Century and its subsidiaries are classified under held for trading financial assets or available-for-sale financial assets. Cathay Century and its subsidiaries manage the equity price risk through diversification and placing limits on individual and total equity instruments.

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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.

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.

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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					
	2015.3.31					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$5,115,809	\$374	\$109,121	\$637,025	\$2,199,714	\$8,062,043
Financial assets at fair value through profit or loss	1,385,944	-	-	-	390,806	1,776,750
Available-for-sale financial assets	6,788,239	-	121,905	164,850	1,063,424	8,138,418
Derivative financial assets for hedging	3,809	-	-	-	-	3,809
Debt instruments investments with no active market exists	1,050,000	-	337,253	1,076,863	941,568	3,405,684
Held-to-maturity investments	190,636	-	708,490	1,191,783	1,024,427	3,115,336
Total	\$14,534,437	\$374	\$1,276,769	\$3,070,521	\$5,619,939	\$24,502,040
Each area percentage	59.32%	0.00%	5.21%	12.53%	22.94%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	2014.12.31					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$4,104,523	\$399	\$20,945	\$1,144,039	\$2,743,021	\$8,012,927
Financial assets at fair value through profit or loss	1,303,979	-	-	-	210,165	1,514,144
Available-for-sale financial assets	6,774,531	-	144,333	175,223	1,162,517	8,256,604
Derivative financial assets for hedging	3,747	-	-	-	-	3,747
Debt instruments investments with no active market exists	1,050,000	-	340,597	805,258	1,163,459	3,359,314
Held-to-maturity investments	190,572	-	155,490	1,264,985	1,036,217	2,647,264
Total	\$13,427,352	\$399	\$661,365	\$3,389,505	\$6,315,379	\$23,794,000
Each area percentage	56.43%	0.00%	2.78%	14.25%	26.54%	100.00%

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Financial assets	The amount of credit risk exposure - by area					
	2014.3.31					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$3,625,638	\$11	\$4,456	\$786,747	\$4,532,675	\$8,949,527
Financial assets at fair value through profit or loss	521,931	-	-	-	85,740	607,671
Available-for-sale financial assets	6,782,845	-	-	99,195	1,219,156	8,101,196
Derivative financial assets for hedging	9,136	-	-	-	-	9,136
Debt instruments investments with no active market exists	850,000	-	327,450	305,370	1,058,980	2,541,800
Held-to-maturity investments	-	-	-	1,510,678	292,378	1,803,056
Total	\$11,789,550	\$11	\$331,906	\$2,701,990	\$7,188,929	\$22,012,386
Each area percentage	53.56%	0.00%	1.51%	12.27%	32.66%	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				
	2015.3.31				
	Normal assets		Past due but not impaired	Impaired	Total
Investment level	Non-investment level				
Cash and cash equivalents	\$8,062,043	\$-	\$-	\$-	\$8,062,043
Financial assets at fair value through profit or loss	1,776,750	-	-	-	1,776,750
Available-for-sale financial assets	8,138,418	-	-	-	8,138,418
Derivative financial assets for hedging	3,809	-	-	-	3,809
Debt instruments investments with no active market exists	3,405,684	-	-	-	3,405,684
Held-to-maturity investments	3,115,336	-	-	-	3,115,336
Total	\$24,502,040	\$-	\$-	\$-	\$24,502,040

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Financial assets	Credit quality of financial assets				
	2014.12.31				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$8,012,927	\$-	\$-	\$-	\$8,012,927
Financial assets at fair value through profit or loss	1,514,144	-	-	-	1,514,144
Available-for-sale financial assets	8,256,604	-	-	-	8,256,604
Derivative financial assets for hedging	3,747	-	-	-	3,747
Debt instruments investments with no active market exists	3,359,314	-	-	-	3,359,314
Held-to-maturity investments	2,647,264	-	-	-	2,647,264
Total	\$23,794,000	\$-	\$-	\$-	\$23,794,000

Financial assets	Credit quality of financial assets				
	2014.3.31				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$8,949,527	\$-	\$-	\$-	\$8,949,527
Financial assets at fair value through profit or loss	607,671	-	-	-	607,671
Available-for-sale financial assets	8,101,196	-	-	-	8,101,196
Derivative financial assets for hedging	9,136	-	-	-	9,136
Debt instruments investments with no active market exists	2,541,800	-	-	-	2,541,800
Held-to-maturity investments	1,803,056	-	-	-	1,803,056
Total	\$22,012,386	\$-	\$-	\$-	\$22,012,386

Note: Investment level means the credit rating above BBB- and non-investment level means the credit rating less than BBB-.

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(B) Secured loans

Secured loans	2015.3.31							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$153,721	\$-	\$-	\$-	\$123,118	\$276,839	\$1,384	\$275,455
Corporate Finance	60,000	-	-	-	87,773	147,773	59,849	87,924
Total	\$213,721	\$-	\$-	\$-	\$210,891	\$424,612	\$61,233	\$363,379

Secured loans	2014.12.31							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$154,569	\$-	\$-	\$-	\$120,917	\$275,486	\$1,677	\$273,809
Corporate Finance	60,000	-	-	-	129,003	189,003	65,499	123,504
Total	\$214,569	\$-	\$-	\$-	\$249,920	\$464,489	\$67,176	\$397,313

Secured loans	2014.3.31							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$131,166	\$-	\$-	\$-	\$125,477	\$256,643	\$1,583	\$255,060
Corporate Finance	60,000	-	-	-	186,453	246,453	81,061	165,392
Total	\$191,166	\$-	\$-	\$-	\$311,930	\$503,096	\$82,644	\$420,452

C. Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal controls, employee fraud or misconduct and management negligence. To mitigate the operational risk, the Company and Subsidiary adapt and implement the internal control regulations and sheets. Cathay Century and its subsidiaries establish the information systems to accommodate the aforementioned policies.

D. Liquidity risk

a. 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.

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b. Liquidity risk management

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

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

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

In the event of cash flow gap, the will conduct an internal discussion and report the result to supervisors and the funding management department. The risk management department will take necessary measures to prevent further stressful events.

c. The table below summarizes the maturity profile of Cathay Century and its subsidiaries' financial liabilities based on contractual undiscounted payments.

Liabilities	2015.3.31						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,487,407	\$1,251,781	\$1,223,221	\$21,462	\$3,060	\$4,038	\$-
Financial liabilities at fair value through profit or loss	78,098	78,098	57,600	15,842	4,656	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	1,000,000	-

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Liabilities	2014.12.31						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,892,354	\$1,392,632	\$1,359,251	\$27,249	\$4,745	\$1,387	\$-
Financial liabilities at fair value through profit or loss	176,626	176,626	112,818	58,687	5,121	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	1,000,000	-

Liabilities	2014.3.31						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,251,378	\$1,250,928	\$1,219,527	\$22,583	\$7,558	\$1,260	\$-
Financial liabilities at fair value through profit or loss	62,424	62,424	48,995	13,429	-	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	1,000,000	-

E. Market risk analysis

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

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

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.

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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

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2015.3.31	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$ (416,468)
Interest rate risk (Yield curve)	20bp	(104,624)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(110,219)

2015.3.31		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	\$307	\$120
	CNY appreciate 1 %	18,747	335
	HKD appreciate 1 %	96	-
	NTD appreciate 1 %	(32,637)	(2,228)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(3,305)	(130)
	Yield curve (CNY) flat rises 1bp	(42)	(73)
	Yield curve (NTD) flat rises 1bp	(344)	(1,337)
Equity securities price sensitivity	Increase 1% in equity price	-	41,647

2014.12.31	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$ (439,327)
Interest rate risk (Yield curve)	20bp	(92,715)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(95,398)
Commodity risk (Price)	-10%	-

2014.12.31		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	\$1	\$378
	CNY appreciate 1 %	10,941	488
	HKD appreciate 1 %	85	196
	NTD appreciate 1 %	(26,920)	(3,344)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(2,231)	(133)
	Yield curve (CNY) flat rises 1bp	(558)	(78)
	Yield curve (NTD) flat rises 1bp	(350)	(1,286)
Equity securities price sensitivity	Increase 1% in equity price	-	43,933

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2014.3.31 Risk factors	Stress testing	
	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$238,881
Interest rate risk (Yield curve)	20bp	(65,838)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(121,082)
Commodity risk (Price)	-10%	-

2014.3.31		Profit and loss	Equity
Foreign currency risk sensitivity	CNY appreciate 1 %	\$18,691	\$2,328
	HKD appreciate 1 %	-	160
	NTD appreciate 1 %	(13,962)	(1,866)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(1,562)	(137)
	Yield curve (CNY) flat rises 1bp	(63)	(78)
	Yield curve (NTD) flat rises 1bp	(150)	(1,301)
Equity securities price sensitivity	Increase 1% in equity price	-	(23,888)

c. Cathay Securities and its subsidiaries

(A) Risk management policies

i. Risk management objectives

Adhere to the risk management policies of the Company, Cathay Financial Holding, Cathay Securities and its subsidiaries manage the risks efficiently and elastically on operating activities to maximize the profit in conformity with domestic and foreign regulations.

ii. Risk management policies

Cathay Securities and its subsidiaries use “risk management policies” as a guiding principle to establish risk management objectives, coverage, organization duties and operating, management principles and reports etc.

The management policies of Cathay Securities and its subsidiaries cover different types of risk including market risk, credit risk, operation risk, liquidity risk, capital adequacy management, regulation risk and other risks related to operating activities. Cathay Securities and its subsidiaries identify relevant risks and have integrated planning of risk management in accordance with the management policies before operating business.

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iii. Risk management organizational structure

① 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.

② 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, 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.

③ 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.

④ 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.

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⑤ 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.

⑥ 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.

⑦ 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.

⑧ Legal Affairs Office

Legal Affairs Office executes regulation risk management to ensure that business operations and risk management procedures are all in accordance with regulations.

iv. Risk Management Workflows

Risk management workflows for Cathay Securities and its subsidiaries include risk identification, risk measurement, risk management mechanism, and risk reporting. Risk assessment and response strategies to each risk are addressed as follows:

① Market Risk

(a) Definition

Market risk is the risk of losses in positions that include stocks, bonds, and derivatives etc. arising from the movement in market prices.

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(b)Controls:

Cathay Securities and its subsidiaries set up training directions including the limits of authorization, risk limitation, stop-loss rules, and responses to the exceeded limits by each product or service line and actual operations and implement those control procedures efficiently through the risk control staff in front desk and on-line monitor system. Furthermore, Cathay Securities and its subsidiaries provide market risk management report periodically that includes market price assessments, the dollar amounts of surplus/shortfall and arbitrage, Value at Risk, back-testing model and perform pressure test by each extreme scenario to control the risks that Cathay Securities and its subsidiaries face and manage all risks as a whole efficiently.

② 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).

③ Operational Risk

(a)Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes the legal risk, but excludes strategy risk and credit risk.

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(b)Controls

Cathay Securities and its subsidiaries establish authority levels and the segregation of duties for the processes of front, middle and back offices. Trading, confirmation, settlement, financial accounting, and trading document are archive for future reference. The strict processes are also established to prevent fraud and negligence. Cathay Securities and its subsidiaries request each department to establish and implement internal audit and control policies authentically. The reporting mechanism for loss events from operational risk and database are established to understand causes of the loss.

Besides, auditing office is established and belongs to the Board of Directors. The functions of the office are to implement daily process check to establish completed internal audit control and provide internal review report periodically to lower the loss arising from the operation failures.

④ Liquidity Risk

(a)Definition

Liquidity is defined as the capability of Cathay Securities to acquire the sufficient capital and to support assets growth and payout the liabilities.

(b)Controls

Measurement index for liquidity risk is established and Cathay Securities compile the liquidity risk management report periodically to review capital conditions and cash flow gap as of balance dates. Capital allocation planning is based on the compiled structure analysis as of balance sheet dates. Meanwhile, acquiring the credit line of short-term financing from other financial institutions and managing receipts and payments properly to sustain appropriate liquidity and ensure the ability to make the payment.

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⑤ 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.

⑥ 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.

⑦ Reputation risk and strategy risk

(a) Definition

Reputation Risk is a risk of loss resulting from damages to Cathay Securities and its subsidiaries' reputation in lost customers or revenues and Cathay Securities and its subsidiaries might need to undertake a prodigious amount of legal fares or other losses from damages. Strategy risk is another risk of current or potential loss to revenue or capital resulting from a strategy that turns out to be defective or inappropriate, or lack of proper responses to the competitors.

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(b) Controls

Cathay Securities and its subsidiaries establish internal responses and reactions to the reputation risk and strategy risk for mitigation of damages.

Risk management policies and principles are established based on above mentioned risks and management mechanisms from each risk source are set out specifically. Cathay Securities and its subsidiaries also establish the constraint for each risk and review the appropriateness of each constraint periodically. Besides, the risk management implementation reports are reported to the risk management committee, board of directors, and risk management office of Cathay financial holdings to elaborate on Cathay Securities and its subsidiaries' risk tolerance and the appropriateness of current risk management scheme.

v. Hedge and Mitigation of Risk Strategy

The hedge and mitigation of risk strategy for Cathay Securities and its subsidiaries are implemented the dynamic hedge through investment products to duplicate the same cash flows when derivatives are matured. The hedge for outstanding stock warrants and structured products are used Delta Neutral as a principle. If the prices of those investment positions fluctuate wildly in the financial market, the violation of hedge operating due to the impact from the significant events, or the violation of the hedge operating rules from the operators, the business department is required to explain by written and report to the risk management department.

Cathay Securities and its subsidiaries establish the approval limit and stop-loss mechanism by each attributes of the product. When the position meets the prevention point, the risk management department will inform the supervisor or position administrator in time and monitor the change of the position. Besides, the business department should operate in accordance with approval limits. If the stop-loss point is met, the investment position should be sold or the business department is required to provide the exception report. The reason and specific responses are also need to be informed.

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(B) Credit risk analysis

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

- i Issuer credit risk is a risk that Cathay Securities and its subsidiaries may encounter financial losses because the issuers (guarantors) or banks are not able to pay where it is obligated to do on financial liabilities instruments or bank savings which Cathay Securities and its subsidiaries invest.
- ii Counterparty credit risk is a risk that the counterparty will not live up to its obligations to perform or pay on the designated dates and Cathay Securities and its subsidiaries are exposed to the risk of financial losses
- iii Underlying asset credit risk is a risk that Cathay Securities and its subsidiaries may encounter the losses from the fact that the credit quality turns weak and credit charges increase, credit rating reduces, or the terms of contract are violated from underlying asset which is related to the certain financial instruments.

Financial assets which face the credit risk include bank accounts, debt securities, the trading from Over-the Counter derivatives, repurchase and resell debts, trading from the securities lending, refundable deposits, futures deposit in bank, other refundable deposits and account receivables etc.

(C) Capital Liquidity Risk Analysis:

i Cash flow analysis

Capital liquidity risk is the risk that Cathay Securities and its subsidiaries are unable to acquire the sufficient capital at the reasonable cost within the reasonable time and results in cash flow gap, or the risk that Cathay Securities and its subsidiaries sell assets at a loss to meet the cash flow requirement.

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Cash Flows Analysis of Financial Liabilities

Financial Liabilities	Payment Terms				Total
	Less than 1 month	1 to 3 months	3 to 6 months	More than 6 months	
Short-term loans	\$500,000	\$-	\$-	\$-	\$500,000
Bonds payables	5,848,229	-	-	-	5,848,229
Financial liabilities at fair value through profit or loss -current	1,243,229	-	-	-	1,243,229
Liabilities for bonds with repurchase agreements	2,000,000	-	-	-	2,000,000
Deposits for securities borrowed	12,733	25,466	38,199	152,799	229,197
Futures trader's equity	1,777,179	-	-	-	1,777,179
Account payables	1,681,752	-	-	2,760,886	4,442,638
Others	-	-	-	22,992	22,992
Total	\$13,063,122	\$25,466	\$38,199	\$2,936,677	\$16,063,464
% to the total	81.32%	0.16%	0.24%	18.28%	100%

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

2015.3.31

Cash Flow Gap

Financial Assets	Received Terms				Total
	Less than 1 month	1 to 3 months	3 to 6 months	More than 6 months	
Cash and cash equivalents	\$1,065,600	\$-	\$-	\$-	\$1,065,600
Financial assets at fair value through profit or loss -current					
Lending Securities	496	-	-	-	496
Operations Security	7,883,212	-	-	-	7,883,212
Open-end Funds	113,404	-	-	-	113,404
Call option-futures	-	-	-	9,548	9,548
Futures trading margin	-	-	-	387,748	387,748
Available for sale financial assets	311,877	-	-	253,377	565,254
Client margin accounts	1,777,691	-	-	-	1,777,691
Other current assets-time deposit	-	-	-	900,000	900,000
Account Receivables	4,804,894	1,996	2,994	11,976	4,821,860
Securities financing receivables	3,495,081	-	-	-	3,495,081
Others	-	-	-	820,836	820,836
Subtotal	19,452,255	1,996	2,994	2,383,485	21,840,730
Residual cash	\$6,389,133	\$(23,470)	\$(35,205)	\$(553,192)	\$5,777,266

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ii Capital liquidity risk stress testing

Cathay Securities and its subsidiaries perform stress testing periodically to measure and evaluate the changes of capital liquidity the occurrence of extreme and abnormal events for ensuring that Cathay Securities and its subsidiaries sustain the proper capital liquidity. Stress scenario including the significant fluctuation in the financial market, the occurrence of all kinds of credit event, and the assumption of unexpected tighten capital liquidity in financial market are used to measure the capability of acquiring sufficient capital to meet the demand on cash and the changes of cash flow gap.

If the cash flow gap arises under the specific stress scenario, the following procedures are used to prevent the occurrence of the stress events:

- ① Raising money and balance sheet adjustment are made in accordance with the Group “Crisis Management Principles” and “Regulations of Emergency Management”
- ② Money Raising: (i) short-term loan credit line (ii) collateralized time deposits (iii) issuance of commercial paper
- ③ Balance sheet adjustment: (i) sales of securities (ii) retrieve short-term capital invested in currency market.

(D) Market risk analysis

Cathay Securities and its subsidiaries assesses, monitors, and manages market risks completely and effectively by applying Value at Risk (“VaR”) and stress testing continuously

i Sensitivity Analysis

Sensitivity analysis is to measure the degree of impacts on each products and portfolio from the movement of specific market simple. The monitoring and relevant controls to the businesses Cathay Securities and its subsidiaries operate are established. The degree of risk exposure are monitored and measured by the following sensitivity:

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- ① Price value of basis point (PVBP): denoting the change in the value of a position given a basis point change in the yield curve.
- ② Delta: measuring the change in the value of a position given 1% price change of a certain underlying asset.
- ③ Gamma: measuring the dollar amount of change in Delta of a position given 1% price change of a certain underlying asset.
- ④ 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 simply by measuring portfolio over a specific time frame and at a certain confidence level. Cathay Securities measures VaR for the next day within an investment portfolio over a week and at 99% confidence level. Also, Back Test at VaR is performed each year to ensure the accuracy of this model.

VaR at one single trading day within 99% confidence level

2015.1.1~2015.3.31	NT\$ (in thousands)
Period Ended	17,054
Average	16,529
Lowest	11,444
Highest	23,405

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 simply which have more significant influence on the asset portfolio. Follow-up and review report will be documented. Customized or extreme scenario which take rapid changes in foreign and domestic financial environment into consideration are also performed irregularly and measured the maximized losses arising from these scenarios for ensuring that Cathay Securities and its subsidiaries manage each potential scenario effectively.

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① 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.

② 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.

2015.3.31
Table of Stress Test

<u>Risk Simples</u>	<u>Price Risk</u>	<u>Changes (+/-)</u>	<u>Changes in profit and loss</u>
Equity Risk	Stock index	-10%	-188,690
Interest Risk	Yield Curve	+100bps	-81,522
Exchange Risk	Exchange Rate	+3%	31,926
Produce Risk	Price	-10%	-

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

	2015.3.31			2014.12.31		
	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NT\$</u>	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NT\$</u>
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	\$53,116,241	31.4010	\$1,667,903,084	\$51,149,609	31.7180	\$1,622,363,298
CNY	61,021,100	5.0606	308,803,379	67,501,391	5.1035	344,493,349
<u>Non-Monetary Items</u>						
USD	8,044,037	31.4010	252,590,806	7,870,375	31.7180	249,632,554
<u>Financial Liabilities</u>						
<u>Monetary Items</u>						
USD	7,856,982	31.4010	246,717,092	7,937,171	31.7180	251,751,190

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	2014.3.31		
	Foreign Currency	Exchange Rate	NT\$
	<u>Financial Assets</u>		
<u>Monetary Items</u>			
USD	\$48,181,355	30.5100	\$1,470,013,141
CNY	66,992,136	4.9061	328,670,118
<u>Non-Monetary Items</u>			
USD	4,436,348	30.5100	135,352,977
<u>Financial Liabilities</u>			
<u>Monetary Items</u>			
USD	7,017,235	30.5100	214,095,840

As the Group has a large variety of functional 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 or losses for the three-month periods ended 31 March 2015 and 2014 were \$(14,078,929) thousand and \$15,441,047 thousand, respectively.

(9) Discretionary account management for Cathay Life

Item	2015.3.31		2014.12.31		2014.3.31	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Listed stocks	\$125,401,229	\$125,401,229	\$125,190,176	\$125,190,176	\$131,839,323	\$131,839,323
Overseas stocks	39,514,287	39,514,287	44,606,537	44,606,537	54,333,883	54,333,883
Repurchase bonds	13,278,000	13,278,000	14,093,000	14,093,000	4,193,000	4,193,000
Cash in banks	28,503,298	28,503,298	23,123,022	23,123,022	28,342,180	28,342,180
Beneficiary certificates	7,131,241	7,131,241	5,615,021	5,615,021	8,540,074	8,540,074
Futures and options	693,398	693,398	746,019	746,019	907,578	907,578
Corporate bonds	-	-	-	-	690,175	690,175
Total	\$214,521,453	\$214,521,453	\$213,373,775	\$213,373,775	\$228,846,213	\$228,846,213

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As of 31 March 2015, Cathay Life entered into discretionary account management contracts in the amounts of \$128,500,000 thousand, US\$1,150,000 thousand, and HK\$1,780,000 thousand. As of 31 December 2014, Cathay Life entered into discretionary account management contracts in the amounts of \$130,000,000 thousand, US\$1,175,000 thousand, and HK\$1,550,000 thousand. As of 31 March 2014, the amounts are \$140,000,000 thousand, US\$1,850,000 thousand and HK\$2,000,000 thousand.

(10) 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.

(11) 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 the branches and professional sales representatives across Taiwan, the Company is able to develop its cross-selling marketing strategy and provide a one-stop shopping service for its customers.

C. Cross utilization of information:

In compliance with "Financial Holding Companies Act", "Personal Data Protection Act", "Financial Holding Subsidiaries Cross-selling Activities Acts", "Self-disciplinary Rules Governing the Activities of the FHC" and other related regulations from Financial Supervisory Commission, Executive Yuan, the Company has stipulated "Cathay Financial Holding Subsidiaries Cross-selling Activities Acts" and "Non-disclosure Confidential Agreement of Cathay Financial Holding Subsidiaries Cross-utilization of Customer's Personal Data" to cross-utilize customer's personal data under a safe and secure environment and provide comprehensive and integrated financial service to the customers.

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D. Locations and business utilities:

In order to provide more comprehensive financial service and comply with the “Financial Holding Subsidiaries Cross-selling Activities Acts”, the Company has applied and obtained approval from the competent authority. Since 13 September 2010, all the business units of Cathay United Bank (165 branches) may engage in cross-selling activities for insurance business and securities business (except for 3 mini-branches). On 2 September 2011, Cathay Life has been approved by the competent authorities to engage in cross-selling activities for banking, property and casualty insurance businesses in all its business and service units (186 locations). Since 5 December 2014, Cathay life is allowed to engage in cross-selling activities of Cathay Securities and Cathay Futures among the 32 branches. In the future, the Group will continue to apply for approval to expand its cross-selling businesses.

E. Allocation of revenues, costs, expenses, profits and losses:

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

(12) Material contracts: None.

(13) Information regarding investment in Mainland China:

A. On 25 December 2002 and 24 July 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Life to remit US\$22,850 thousand and US\$27,150 thousand, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from US\$50,000 to US\$48,330 thousand approved by MOEAIC on 20 December 2010. Also, MOEAIC authorized Cathay Life to remit US\$59,000 thousand as the registered capital again on 16 May 2008. MOEAIC authorized Cathay Life to remit US\$3,400 thousand as the registered capital again on 2 April 2012. MOEAIC also authorized the revision of the amount of US\$32,520 thousand of unexecuted project to CNY¥200,000 thousand to avoid currency risk on 14 September 2013. The total registered capital was US\$110,730 thousand. On 25 September 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life’s subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on 29 December 2004 and changed its name to Cathay Lujiazui Life Insurance Company Ltd. following approval by the China Insurance Regulatory Commission on 12 August 2014. Cathay Life has remitted US\$48,330 thousand to the subsidiary as of 31 December 2009. Cathay Life injected additional US\$29,880 thousand on 29 September 2010 and CNY¥200,000 thousand on 8 May 2014. As of 31 March 2015, Cathay Life’s remittances to the subsidiary totaled approximately CNY¥200,000 thousand and US\$78,210 thousand.

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- 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 March 2015, 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 March 2015, 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 has received approved from the China Insurance Regulatory Commission on 8 October 2007 to form a joint venture general insurance company. Cathay Century and Cathay Life's subsidiary, Cathay Insurance Company Ltd. (China) has acquired a business license of an enterprise legal person on 26 August 2008. MOEAIC authorized Cathay Century to remit CNY¥200,000 thousand as the equity capital on 28 May 2013. As of 31 March 2015, Cathay Century's remittances to this company totaled approximately US\$60,560 thousand.

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- 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 March 2015, 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.

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(14) Segment information

The Group separated operating segments based on the natures of business and they classified into five reportable segments for the purpose of management:

- A. Banking operating segments: Banking operating segments operate the permitted businesses of commercial banks provided by the Banking Act of the Republic of China, foreign exchange business, guarantee business, advisory service of foreign currency investments, trust business, offshore banking units and other financial business of investments from returning expatriates.
- B. Life insurance operating segments: Life insurance operating segments operate the sales of traditional insurance policies, investment-linked insurance policies and floating-rate annuity insurance products.
- C. Properties insurance operating segments: Properties insurance operating segments engage in fire insurance, marine insurance, land and air insurance, liability insurance, bonding insurance, reinsurance and other insurance.
- D. Securities operating segments: Securities operating segments are responsible for securities brokerage, discretionary and underwriting and dedicates to the innovation and development of financial products and services by providing a variety of new financial products.
- E. Other operating segments: Such segments include assets, liabilities, revenue and expenditure which are not able to be allocated to certain operating segments.

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.

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A. Income information of reporting segment

2015.1.1~2015.3.31

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$6,656,727	\$26,356,868	\$137,649	\$37,598	\$(309,481)	\$32,879,361
Net income other than interest	4,100,830	64,173,507	1,874,657	530,896	598,552	71,278,442
Total income	10,757,557	90,530,375	2,012,306	568,494	289,071	104,157,803
Bad debt expenses and Provision for premiums reserve	(185,879)	78,950	(5,364)	-	-	(112,293)
The net change of insurance liabilities	-	(70,027,290)	(338,456)	-	-	(70,365,746)
Operating expenses	(5,426,530)	(6,684,157)	(999,450)	(329,353)	(334,727)	(13,774,217)
Income (loss) from continuing operations before income taxes	5,145,148	13,897,878	669,036	239,141	(45,656)	19,905,547
Income taxes (expense) benefit	(868,721)	(498,385)	(58,243)	(25,541)	(345,985)	(1,796,875)
Consolidated net income	4,276,427	13,399,493	610,793	213,600	(391,641)	18,108,672

2014.1.1~2014.3.31

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$6,215,215	\$24,454,286	\$135,316	\$23,261	\$(283,782)	\$30,544,296
Net income other than interest	3,444,754	49,176,690	1,749,831	413,981	372,955	55,158,211
Total income	9,659,969	73,630,976	1,885,147	437,242	89,173	85,702,507
Bad debt expenses and Provision for premiums reserve	135,402	(125,151)	(2,576)	-	-	7,675
The net change of insurance liabilities	-	(59,932,157)	(343,914)	-	-	(60,276,071)
Operating expenses	(5,024,869)	(6,146,732)	(913,739)	(284,079)	(436,817)	(12,806,236)
Income (loss) from continuing operations before income taxes	4,770,502	7,426,936	624,918	153,163	(347,644)	12,627,875
Income taxes (expense) benefit	(775,283)	418,958	(29,999)	(16,428)	101,803	(300,949)
Consolidated net income	3,995,219	7,845,894	594,919	136,735	(245,841)	12,326,926

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.

44.Cathay Financial Holding Co., Ltd.'s financial statements

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Cathay Financial Holding Co., Ltd.

Balance sheet

As of 31 March 2015, 31 December 2014, 31 March 2014 and as of 1 January 2014

(31 March 2015 and 2014 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in thousands of New Taiwan Dollars)

	2015.3.31	2014.12.31 (adjusted)	2014.3.31 (adjusted)	2014.1.1 (adjusted)
Assets				
Cash and cash equivalents	\$3,315,989	\$3,420,967	\$4,603,580	\$3,464,767
Available-for-sale financial assets -net	750,440	706,037	643,876	556,865
Securities purchased under agreements to resell	603,855	500,871	777,935	465,060
Receivables -net	5,014,692	4,626,627	4,025,631	3,731,473
Current income tax assets	7,374,352	7,373,549	6,055,495	5,584,675
Held-to-maturity financial assets -net	31,000,000	31,000,000	31,000,000	31,000,000
Investments accounted for using the equity method -net	477,056,495	456,529,860	401,216,121	386,086,620
Property and equipment -net	6,190	6,728	6,690	6,245
Intangible assets -net	21,277	22,607	-	-
Deferred tax assets -net	1,129,340	1,250,386	1,316,088	1,265,427
Other assets -net	146,360	146,133	176,390	170,126
Total assets	\$526,418,990	\$505,583,765	\$449,821,806	\$432,331,258
Liabilities & Equity				
Liabilities				
Commercial paper payable -net	\$20,580,000	\$20,350,000	\$6,160,000	\$5,960,000
Payables	11,108,274	10,849,206	9,093,429	8,340,650
Current income tax liabilities	470,300	176,336	37,003	37,003
Bonds payable	40,000,000	40,000,000	40,000,000	40,000,000
Provisions	719,818	718,055	725,409	673,304
Deferred tax liabilities	7	22	-	1
Other liabilities	7,392	9,541	1,413,590	14,237
Total liabilities	72,885,791	72,103,160	57,429,431	55,025,195
Equity				
Capital stock				
Common stock	125,632,102	125,632,102	119,649,621	119,649,621
Capital surplus	88,782,304	88,782,304	89,063,184	89,063,184
Retained earnings				
Legal reserve	19,784,401	19,784,401	16,922,773	16,922,773
Special reserve	82,262,652	82,305,614	82,294,618	82,314,780
Undistributed earnings	78,919,430	60,939,777	49,552,529	37,273,569
Other equity	58,152,310	56,036,407	34,909,650	32,082,136
Total equity	453,533,199	433,480,605	392,392,375	377,306,063
Total liabilities and equity	\$526,418,990	\$505,583,765	\$449,821,806	\$432,331,258

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Cathay Financial Holding Co., Ltd.

Statements of Comprehensive Income

For the three-month periods ended 31 March 2015 and 2014

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

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

	2015.1.1~2015.3.31	2014.1.1~2014.3.31 (adjusted)
Income		
Gains on investment-equity method	\$18,432,755	\$12,376,580
Other operating income	237,515	234,870
	<u>18,670,270</u>	<u>12,611,450</u>
Expenses and loss		
Operating expenses	(153,778)	(134,836)
Other expenses and losses	(332,942)	(297,569)
	<u>(486,720)</u>	<u>(432,405)</u>
Profit before income tax from continuing operations	18,183,550	12,179,045
Income tax (expense) benefit	(261,032)	79,753
Profit after income tax from continuing operations	<u>17,922,518</u>	<u>12,258,798</u>
Net Income	<u>\$17,922,518</u>	<u>\$12,258,798</u>
Other comprehensive income		
Not to be reclassified to profit or loss in subsequent periods:		
Share of other comprehensive income of associates and joint ventures accounted for using the equity method - not to be reclassified to profit or loss in subsequent periods	(238,343)	827,609
To be reclassified to profit or loss in subsequent periods:		
Unrealized gains from available-for-sale financial assets	44,404	87,011
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	2,332,222	1,925,313
Income tax relating to the components to be reclassified to profit or loss in subsequent periods	(8,207)	(12,419)
Other comprehensive income, net of tax	<u>2,130,076</u>	<u>2,827,514</u>
Total comprehensive income	<u>\$20,052,594</u>	<u>\$15,086,312</u>
Earnings per share (expressed in dollars)		
Basic earnings per share:		
Net income	<u>\$1.43</u>	<u>\$0.98</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Statements of Changes in Equity

For the three-month periods ended 31 March 2015 and 2014

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

(Expressed in thousands of New Taiwan Dollars)

Items	Equity attributable to owners of parent												
	Capital stock		Retained earnings			Other equity							Total
	Common stock	Capital Surplus	Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of a foreign	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	Remeasurements of defined benefit plans	Revaluation Surplus	Others	
Balance on 1 January 2014	\$119,649,621	\$89,063,184	\$16,922,773	\$82,314,780	\$37,287,956	\$(528,034)	\$20,230,491	\$382,306	\$-	\$-	\$10,007,738	\$(953)	\$375,329,862
Amounts of retrospective adjustments	-	-	-	-	(14,387)	-	-	-	-	1,990,588	-	-	1,976,201
Balance on 1 January 2014(adjusted)	119,649,621	89,063,184	16,922,773	82,314,780	37,273,569	(528,034)	20,230,491	382,306	-	1,990,588	10,007,738	(953)	377,306,063
Reversal of special reserve				(20,162)	20,162								-
Net income for the three-month periods ended 31 March 2014 (adjusted)					12,258,798								12,258,798
Other comprehensive income for the three-month periods ended 31 March 2014 (adjusted)						188,424	1,874,587	(63,106)			827,609		2,827,514
Comprehensive income for the three-month periods ended 31 March 2014 (adjusted)	-	-	-	-	12,258,798	188,424	1,874,587	(63,106)	-	-	827,609	-	15,086,312
Balance on 31 March 2014(adjusted)	<u>\$119,649,621</u>	<u>\$89,063,184</u>	<u>\$16,922,773</u>	<u>\$82,294,618</u>	<u>\$49,552,529</u>	<u>\$(339,610)</u>	<u>\$22,105,078</u>	<u>\$319,200</u>	<u>\$-</u>	<u>\$1,990,588</u>	<u>\$10,835,347</u>	<u>\$(953)</u>	<u>\$392,392,375</u>
Balance on 1 January 2015(adjusted)	\$125,632,102	\$88,782,304	\$19,784,401	\$82,305,614	\$60,939,777	\$601,786	\$44,257,646	\$180,453	\$48,151	\$918,988	\$10,030,820	\$(1,437)	\$433,480,605
Reversal of special reserve				(42,962)	42,962								-
Net income for the three-month periods ended 31 March 2015					17,922,518								17,922,518
Other comprehensive income for the three-month periods ended 31 March 2015						(1,430,715)	3,801,785	(2,651)	(238,343)				2,130,076
Comprehensive income for the three-month periods ended 31 March 2015	-	-	-	-	17,922,518	(1,430,715)	3,801,785	(2,651)	(238,343)	-	-	-	20,052,594
Other					14,173						(14,173)		-
Balance on 31 March 2015	<u>\$125,632,102</u>	<u>\$88,782,304</u>	<u>\$19,784,401</u>	<u>\$82,262,652</u>	<u>\$78,919,430</u>	<u>\$(828,929)</u>	<u>\$48,059,431</u>	<u>\$177,802</u>	<u>\$(190,192)</u>	<u>\$918,988</u>	<u>\$10,016,647</u>	<u>\$(1,437)</u>	<u>\$453,533,199</u>

English Translation of Financial Statements Originally Issued in Chinese
Cathay Financial Holding Co., Ltd.
Statements of cash flows
For the three-month periods ended 31 March 2015 and 2014
(Reviewed only, not audited in accordance with the generally accepted auditing standards)
(Expressed in thousands of New Taiwan Dollars)

Items	2015.1.1~2015.3.31	2014.1.1~2014.3.31 (adjusted)
Cash flows from operating activities		
Profit before income tax from continuing operations	\$18,183,550	\$12,179,045
Adjustments :		
Income and other adjustments with no cash flow effects		
Depreciation	390	346
Amortization	1,330	-
Interest expense	322,845	294,322
Interest income	(235,295)	(234,830)
Share of loss of associates and joint ventures accounted for using the equity method	(18,432,755)	(12,376,580)
Loss on disposal of property and equipment	212	-
Unrealized foreign exchange (gains) losses	34	(7)
Changes in operating assets and liabilities		
Increase in accounts receivable	(160,435)	(65,267)
Increase in other assets	(226)	(6,723)
(Decrease) Increase in payables	(24,494)	469,217
Increase in provisions	1,762	52,106
(Decrease) Increase in other liabilities	(2,149)	1,399,352
Cash generated from operations		
Interest received	7,664	5,939
Interest paid	(39,283)	(10,760)
Income taxes received (paid)	144,953	(454,147)
Net cash flows (used in) from operating activities	(231,897)	1,252,013
Cash flows from investing activities		
Acquisition of property and equipment	(63)	(791)
Decrease in other assets	-	459
Net cash used in investing activities	(63)	(332)
Cash flows from financing activities		
Increase in commercial paper payable	230,000	200,000
Net cash flows from financing activities	230,000	200,000
Effects of exchange rate changes on cash and cash equivalents	(34)	7
(Decrease) Increase in cash and cash equivalents	(1,994)	1,451,688
Cash and cash equivalents at the beginning of periods	3,921,838	3,929,827
Cash and cash equivalents at the end of periods	\$3,919,844	\$5,381,515
 The components of cash and cash equivalents		
Cash and cash equivalents presented in balance sheet	\$3,315,989	\$4,603,580
Bills sold under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7	603,855	777,935
Cash and cash equivalents at the end of periods	\$3,919,844	\$5,381,515

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

Cathay Life Insurance Co., Ltd.

Condensed Balance Sheet

As of 31 March 2015, 31 December 2014, 31 March 2014 and as of 1 January 2014

(Expressed in thousands of New Taiwan Dollars)

Items	2015.3.31	2014.12.31 (adjusted)	2014.3.31 (adjusted)	2014.1.1 (adjusted)
Assets				
Cash and cash equivalents	\$284,435,635	\$330,476,291	\$322,093,348	\$280,220,355
Receivables	59,271,141	53,670,316	47,971,341	47,362,820
Financial asset at fair value through profit or loss	60,612,582	61,350,401	81,473,911	73,022,597
Available-for-sale financial assets	1,293,087,777	1,297,762,857	1,262,659,949	1,272,046,334
Derivative financial assets for hedging	206,925	212,898	375,333	453,713
Investments accounted for using the equity method	33,348,782	32,730,868	13,057,321	9,039,013
Investment in debt securities with no active market	1,351,228,577	1,252,861,836	1,049,724,669	1,020,141,716
Held-to-maturity financial assets	32,393,461	24,092,675	4,355,496	-
Other financial assets	32,900,000	39,200,000	37,400,000	40,900,000
Investment property	375,589,270	375,589,270	358,813,369	342,625,895
Investment property under construction	14,137,563	12,437,283	16,775,221	15,570,122
Prepayments for buildings and land - Investments	1,799,967	1,795,276	1,894,784	4,995,655
Loans	686,297,781	693,036,495	644,460,496	635,816,106
Reinsurance contract assets	231,376	234,239	278,339	327,397
Property and equipment	25,912,541	25,991,832	26,288,001	35,862,947
Intangible assets	92,190	92,132	100,084	102,258
Deferred tax assets	10,722,386	13,002,962	11,014,905	11,691,034
Other assets	14,398,322	14,372,124	19,716,839	17,185,550
Separate account product assets	464,859,900	461,938,772	413,603,464	375,890,055
Total assets	\$4,741,526,176	\$4,690,848,527	\$4,312,056,870	\$4,183,253,567
Liabilities				
Payables	\$30,630,234	\$23,251,477	\$26,479,340	\$18,300,775
Financial liability at fair value through profit or loss	17,276,785	49,783,588	9,754,948	16,148,024
Derivative financial liabilities for hedging	-	-	-	5,148
Preferred stock liability	30,000,000	30,000,000	30,000,000	30,000,000
Insurance liability	3,754,260,850	3,693,113,630	3,443,024,928	3,375,731,754
Reserve for insurance contract with feature of financial instruments	49,823,762	50,140,033	51,987,024	52,911,209
Foreign exchange volatility reserve	12,434,988	16,846,406	11,281,256	10,482,181
Liability reserve	2,121,714	2,088,438	695,957	800,503
Deferred tax liability	27,422,786	28,753,996	20,094,930	21,254,376
Other liability	11,840,460	8,516,824	23,339,331	8,576,689
Separate account product liabilities	464,859,900	461,938,772	413,603,464	375,890,055
Total liabilities	4,400,671,479	4,364,433,164	4,030,261,178	3,910,100,714
Stockholders' equity				
Capital stock	53,065,274	53,065,274	53,065,274	53,065,274
Capital surplus	13,029,142	13,029,142	13,038,791	13,038,791
Retained earnings	230,954,145	218,591,275	192,624,493	169,829,269
Others	43,806,136	41,729,672	23,067,134	37,219,519
Total stockholders' equity	340,854,697	326,415,363	281,795,692	273,152,853
Total liabilities and stockholders' equity	\$4,741,526,176	\$4,690,848,527	\$4,312,056,870	\$4,183,253,567

Cathay Life Insurance Co., Ltd.

Condensed Statement of Comprehensive Income

For the three-month periods ended 31 March 2015 and 2014

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

Items	2015.1.1~2015.3.31	2014.1.1~2014.3.31 (adjusted)
Operating income	\$163,241,119	\$186,639,627
Operating costs	(146,972,055)	(177,942,369)
Operating expenses	(3,702,076)	(3,185,172)
Operating profit	12,566,988	5,512,086
Non-operating income and expenses	321,502	568,990
Profit from continuing operations before income tax	12,888,490	6,081,076
Income tax (expense) profit	(525,620)	438,394
Profit from continuing operations after income tax	12,362,870	6,519,470
Net income	12,362,870	6,519,470
Other comprehensive income (loss)	2,076,464	2,123,369
Total comprehensive income (loss)	\$14,439,334	\$8,642,839
Primary earnings per share	\$2.33	\$1.23

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Condensed Balance Sheet

As of 31 March 2015, 31 December 2014, 31 March 2014 and as of 1 January 2014

(Expressed in thousands of New Taiwan Dollars)

Items	2015.3.31	2014.12.31 (adjusted)	2014.3.31 (adjusted)	2014.1.1 (adjusted)
Assets				
Cash and cash equivalents	\$7,215,380	\$6,897,830	\$7,097,862	\$6,998,187
Receivables	2,125,018	3,375,267	2,869,073	3,540,497
Financial asset at fair value through profit or loss	1,385,944	1,303,979	521,931	1,172,111
Available-for-sale financial assets	7,567,658	7,583,753	7,326,325	6,391,927
Derivative financial assets for hedging	3,809	3,747	9,136	10,022
Investments accounted for using the equity method	1,034,925	1,111,548	1,336,518	825,721
Investment in debt securities with no active market	2,743,671	2,761,546	2,011,726	1,897,332
Held-to-maturity financial assets	2,820,906	2,348,632	1,510,678	1,668,787
Loans	363,379	397,313	420,452	422,521
Reinsurance contract assets	4,480,292	4,721,960	4,956,167	4,388,987
Property and equipment	155,441	169,014	190,635	202,393
Intangible assets	8,414	9,610	8,092	10,110
Deferred tax assets	85,142	93,146	82,562	92,369
Other assets	814,616	640,448	673,345	655,369
Total assets	\$30,804,595	\$31,417,793	\$29,014,502	\$28,276,333
Liabilities				
Payables	\$2,149,172	\$2,470,745	\$2,069,227	\$2,333,838
Financial liability at fair value through profit or loss	78,098	176,626	62,424	28,352
Preferred stock liability	1,000,000	1,000,000	1,000,000	1,000,000
Insurance liability	20,523,396	20,720,649	19,946,233	19,159,600
Liability reserve	282,888	283,132	324,554	325,367
Deferred tax liability	20,962	58,441	5,852	24,404
Other liability	239,882	584,442	313,276	317,734
Total liabilities	24,294,398	25,294,035	23,721,566	23,189,295
Stockholders' equity				
Capital stock	2,721,879	2,721,879	2,721,879	2,721,879
Capital surplus	-	-	1,929	1,929
Retained earnings	3,675,809	3,365,321	2,729,463	2,532,510
Others	112,509	36,558	(160,335)	(169,280)
Total stockholders' equity	6,510,197	6,123,758	5,292,936	5,087,038
Total liabilities and stockholders' equity	\$30,804,595	\$31,417,793	\$29,014,502	\$28,276,333

Cathay Century Insurance Co., Ltd.

Condensed Statement of Comprehensive Income

For the three-month periods ended 31 March 2015 and 2014

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

Items	2015.1.1~2015.3.31	2014.1.1~2014.3.31 (adjusted)
Operating income	\$3,529,122	\$3,393,081
Operating costs	(2,079,664)	(2,109,883)
Operating expenses	(1,076,440)	(1,051,523)
Operating profit	373,018	231,675
Non-operating income and expenses	(4,288)	(4,723)
Profit from continuing operations before income tax	368,730	226,952
Income tax expense	(58,242)	(29,999)
Profit from continuing operations after income tax	310,488	196,953
Net income	310,488	196,953
Other comprehensive income (loss)	75,951	8,945
Total comprehensive income (loss)	\$386,439	\$205,898
Primary earnings per share	\$1.14	\$0.72

English Translation of Financial Statements Originally Issued in Chinese

Cathay Lujiazui Life Insurance Co., Ltd.

Condensed Balance Sheet

As of 31 March 2015, 31 December 2014, 31 March 2014 and as of 1 January 2014

(Expressed in thousands of New Taiwan Dollars)

Items	2015.3.31	2014.12.31	2014.3.31	2014.1.1
Assets				
Cash and cash equivalents	\$1,197,071	\$1,184,590	\$677,157	\$1,352,570
Receivables	430,648	314,712	293,210	264,320
Financial asset at fair value through profit or loss	162,206	868,464	759,190	870,101
Available-for-sale financial assets	4,969,322	4,776,082	3,312,125	2,442,558
Investment in debt securities with no active market	4,708,087	3,705,711	2,967,736	3,208,260
Held-to-maturity financial assets	1,830,639	1,847,955	1,773,701	1,619,138
Loans	47,481	45,080	29,114	36,277
Reinsurance contract assets	12,425	53,402	261,971	356,060
Property and equipment	111,402	108,625	122,834	131,182
Intangible assets	59,875	65,424	76,658	81,713
Other assets	1,984,288	1,943,532	1,220,727	1,226,970
Separate account product assets	362,511	328,004	338,803	362,681
Total assets	\$15,875,955	\$15,241,581	\$11,833,226	\$11,951,830
Liabilities				
Short-term debt	\$190,441	\$232,615	\$14,720	\$-
Payables	528,191	542,063	767,559	916,486
Reserve for insurance contract				
with feature of financial instruments	5,059,707	4,954,666	4,688,292	4,685,240
Insurance liability	5,503,570	5,167,627	4,484,853	4,467,636
Other liability	31,964	83,540	29,346	37,277
Separate account product liabilities	362,511	328,004	338,803	362,681
Total liabilities	11,676,384	11,308,515	10,323,573	10,469,320
Stockholders' equity				
Capital stock	7,067,795	7,067,795	5,134,155	5,134,155
Retained earnings	(3,572,493)	(3,848,524)	(3,983,806)	(3,999,591)
Others	704,269	713,795	359,304	347,946
Total stockholders' equity	4,199,571	3,933,066	1,509,653	1,482,510
Total liabilities and stockholders' equity	\$15,875,955	\$15,241,581	\$11,833,226	\$11,951,830

Cathay Lujiazui Life Insurance Co., Ltd.

Condensed Statement of Comprehensive Income

For the three-month periods ended 31 March 2015 and 2014

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

Items	2015.1.1~2015.3.31	2014.1.1~2014.3.31
Operating income	\$1,283,073	\$761,396
Operating costs	(795,148)	(559,100)
Operating expenses	(212,154)	(185,556)
Operating profit	275,771	16,740
Non-operating income and expenses	260	(955)
Profit from continuing operations before income tax	276,031	15,785
Income tax expense	-	-
Profit from continuing operations after income tax	276,031	15,785
Net income	276,031	15,785
Other comprehensive (loss) income	(9,526)	11,358
Total comprehensive income (loss)	\$266,505	\$27,143
Primary earnings per share	Note	Note

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Company (Vietnam)

Condensed Balance Sheet

As of 31 March 2015, 31 December 2014, 31 March 2014 and as of 1 January 2014

(Expressed in thousands of New Taiwan Dollars)

Items	2015.3.31	2014.12.31	2014.3.31	2014.1.1
Assets				
Cash and cash equivalents	\$87,276	\$297,319	\$316,839	\$289,253
Receivables	170,307	224,703	162,664	202,001
Available-for-sale financial assets	3,770,517	3,569,578	3,043,038	2,863,231
Investment in debt securities with no active market	198,891	-	-	-
Loans	14,458	13,589	11,863	11,456
Property and equipment	19,543	21,233	24,526	6,096
Intangible assets	50	63	103	119
Deferred tax assets	14,052	-	-	-
Other assets	40,794	39,711	44,340	47,203
Total assets	\$4,315,888	\$4,166,196	\$3,603,373	\$3,419,359
Liabilities				
Payables	\$31,673	\$43,258	\$35,356	\$11,837
Insurance liability	582,217	456,400	398,289	380,516
Total liabilities	613,890	499,658	433,645	392,353
Stockholders' equity				
Capital stock	3,424,930	3,424,930	3,424,930	3,424,930
Retained earnings	153,118	199,541	62,422	38,869
Others	123,950	42,067	(317,624)	(436,793)
Total stockholders' equity	3,701,998	3,666,538	3,169,728	3,027,006
Total liabilities and stockholders' equity	\$4,315,888	\$4,166,196	\$3,603,373	\$3,419,359

Cathay Life Insurance Company (Vietnam)

Condensed Statement of Comprehensive Income

For the three-month periods ended 31 March 2015 and 2014

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

Items	2015.1.1~2015.3.31	2014.1.1~2014.3.31
Operating income	\$138,441	\$110,615
Operating costs	(157,842)	(25,913)
Operating expenses	(45,399)	(39,246)
Operating (loss) profit	(64,800)	45,456
Non-operating income and expenses	4,155	(2,468)
(Loss) profit from continuing operations before income tax	(60,645)	42,988
Income tax expense	14,222	(19,435)
(Loss) profit from continuing operations after income tax	(46,423)	23,553
Net (loss) income	(46,423)	23,553
Other comprehensive income (loss)	81,883	119,169
Total comprehensive income (loss)	\$35,460	\$142,722
Primary earnings per share	Note	Note

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

English Translation of Financial Statements Originally Issued in Chinese

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

Condensed Balance Sheet

As of 31 March 2015, 31 December 2014, 31 March 2014 and as of 1 January 2014

(Expressed in thousands of New Taiwan Dollars)

Items	2015.3.31	2014.12.31	2014.3.31	2014.1.1
Assets				
Current assets	\$318,313	\$288,212	\$235,085	\$204,339
Investment property	6,818,503	6,882,448	6,374,388	3,011,107
Property and equipment	660,865	671,993	659,137	669,348
Total assets	\$7,797,681	\$7,842,653	\$7,268,610	\$3,884,794
Liabilities				
Current liability	\$612	\$22,726	\$3,209	\$5,559
Deferred tax liability	108,245	97,312	31,824	27,256
Other liability	94,978	102,121	27,092	13,588
Total liabilities	203,835	222,159	62,125	46,403
Stockholders' equity				
Capital stock	7,223,435	7,223,435	7,223,435	3,773,774
Retained earnings	(76,879)	(121,537)	(229,595)	(194,090)
Others	447,290	518,596	212,645	258,707
Total stockholders' equity	7,593,846	7,620,494	7,206,485	3,838,391
Total liabilities and stockholders' equity	\$7,797,681	\$7,842,653	\$7,268,610	\$3,884,794

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

Condensed Statement of Comprehensive Income

For the three-month periods ended 31 March 2015 and 2014

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

Items	2015.1.1~2015.3.31	2014.1.1~2014.3.31
Operating income	\$70,674	\$19,400
Operating costs	-	-
Operating expenses	(14,578)	(17,205)
Operating profit	56,096	2,195
Non-operating income and expenses	535	(32,864)
Profit (loss) from continuing operations before income tax	56,631	(30,669)
Income tax expense	(11,973)	(4,836)
Profit (loss) from continuing operations after income tax	44,658	(35,505)
Net income (loss)	44,658	(35,505)
Other comprehensive (loss) income	(71,306)	(46,062)
Total comprehensive (loss) income	\$(26,648)	\$(81,567)
Primary earnings per share	Note	Note

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 March 2015 and as of 31 December 2014
(Expressed in thousands of New Taiwan Dollars)

Items	2015.3.31	2014.12.31
Assets		
Current assets	\$1,259,448	\$1,205,715
Investment property	14,268,093	15,187,475
Total assets	\$15,527,541	\$16,393,190
Liabilities		
Current liability	\$96,729	\$137,087
Total liabilities	96,729	137,087
Stockholders' equity		
Capital stock	16,654,013	16,654,013
Retained earnings	295,466	131,587
Others	(1,518,667)	(529,497)
Total stockholders' equity	15,430,812	16,256,103
Total liabilities and stockholders' equity	\$15,527,541	\$16,393,190

Cathay Woolgate Exchange Holding 1 Limited
Condensed Statement of Comprehensive Income
For the three-month periods ended 31 March 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2015.1.1~2015.3.31
Operating income	\$204,966
Operating costs	-
Operating expenses	(94)
Operating income	204,872
Non-operating income and expenses	-
Profit from continuing operations before income tax	204,872
Income tax expense	(40,993)
Profit from continuing operations after income tax	163,879
Net income	163,879
Other comprehensive (loss) income	(989,170)
Total comprehensive (loss) income	\$(825,291)
Primary earnings per share	Note

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 March 2015 and as of 31 December 2014
(Expressed in thousands of New Taiwan Dollars)

Items	2015.3.31	2014.12.31
Assets		
Current assets	\$12,120	\$12,139
Investment property	144,122	153,409
Total assets	\$156,242	\$165,548
Liabilities		
Current liability	\$978	\$1,792
Total liabilities	978	1,792
Stockholders' equity		
Capital stock	168,222	168,222
Retained earnings	2,343	876
Others	(15,301)	(5,342)
Total stockholders' equity	155,264	163,756
Total liabilities and stockholders' equity	\$156,242	\$165,548

Cathay Woolgate Exchange Holding 2 Limited
Condensed Statement of Comprehensive Income
For the three-month periods ended 31 March 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2015.1.1~2015.3.31
Operating income	\$2,070
Operating costs	-
Operating expenses	(189)
Operating income	1,881
Non-operating income and expenses	-
Profit from continuing operations before income tax	1,881
Income tax expense	(414)
Profit from continuing operations after income tax	1,467
Net income	1,467
Other comprehensive (loss) income	(9,959)
Total comprehensive (loss) income	\$(8,492)
Primary earnings per share	Note

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 Insurance Co., Ltd (China)

Condensed Balance Sheet

As of 31 March 2015, 31 December 2014, 31 March 2014 and as of 1 January 2014

(Expressed in thousands of New Taiwan Dollars)

Items	2015.3.31	2014.12.31	2014.3.31	2014.1.1
Assets				
Cash and cash equivalents	\$825,048	\$1,100,841	\$1,833,458	\$1,101,188
Receivables	226,146	199,929	177,707	141,935
Financial asset at fair value through profit or loss	390,806	210,164	85,740	139,915
Available-for-sale financial assets	570,761	672,852	774,871	842,974
Investment in debt securities with no active market	612,838	512,268	390,573	74,208
Reinsurance contract assets	811,751	874,262	455,672	493,754
Property and equipment	75,525	75,741	70,481	74,974
Intangible assets	10,412	15,854	13,044	18,176
Other assets	866,711	870,306	661,381	661,007
Total assets	\$4,389,998	\$4,532,217	\$4,462,927	\$3,548,131
Liabilities				
Payables	\$306,134	\$388,420	\$168,238	\$268,756
Insurance liability	2,728,749	2,639,751	2,480,676	2,465,042
Other liability	87,060	94,155	107,351	114,110
Total liabilities	3,121,943	3,122,326	2,756,265	2,847,908
Stockholders' equity				
Capital stock	3,707,999	3,707,999	3,707,999	2,717,129
Retained earnings	(2,648,152)	(2,510,663)	(2,134,901)	(2,158,102)
Others	208,208	212,555	133,564	141,196
Total stockholders' equity	1,268,055	1,409,891	1,706,662	700,223
Total liabilities and stockholders' equity	\$4,389,998	\$4,532,217	\$4,462,927	\$3,548,131

Cathay Insurance Co., Ltd (China)

Condensed Statement of Comprehensive Income

For the three-month periods ended 31 March 2015 and 2014

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

Items	2015.1.1~2015.3.31	2014.1.1~2014.3.31
Operating income	\$632,248	\$637,430
Operating costs	(475,362)	(404,372)
Operating expenses	(293,685)	(236,032)
Operating loss	(136,799)	(2,974)
Non-operating income and expenses	(690)	26,175
(Loss) profit from continuing operations before income tax	(137,489)	23,201
Income tax expense	-	-
(Loss) profit from continuing operations after income tax	(137,489)	23,201
Net (loss) profit	(137,489)	23,201
Other comprehensive (loss) income	(4,347)	(7,632)
Total comprehensive (loss) income	\$(141,836)	\$15,569
Primary earnings per share	Note	Note

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Insurance Co., Ltd (Vietnam)

Condensed Balance Sheet

As of 31 March 2015, 31 December 2014, 31 March 2014 and as of 1 January 2014

(Expressed in thousands of New Taiwan Dollars)

Items	2015.3.31	2014.12.31	2014.3.31	2014.1.1
Assets				
Cash and cash equivalents	\$37,320	\$24,441	\$33,708	\$95,397
Receivables	91,598	74,541	40,884	43,082
Investment in debt securities with no active market	49,175	85,500	139,500	82,200
Held-to-maturity financial assets	294,429	298,631	292,379	287,150
Reinsurance contract assets	457,503	493,149	169,182	174,485
Property and equipment	10,535	13,978	23,249	25,998
Intangible assets	179	690	491	745
Other assets	35,144	38,926	24,779	24,860
Total assets	\$975,883	\$1,029,856	\$724,172	\$733,917
Liabilities				
Payables	\$36,892	\$38,602	\$22,331	\$28,970
Liability reserve	536,804	583,471	218,238	228,948
Deferred tax liability	39	40	1	1
Other liability	1,252	1,141	1,239	1,218
Total liabilities	574,987	623,254	241,809	259,137
Stockholders' equity				
Capital stock	645,585	645,585	645,585	645,585
Retained earnings	(152,362)	(152,363)	(68,826)	(67,778)
Others	(92,327)	(86,620)	(94,396)	(103,027)
Total stockholders' equity	400,896	406,602	482,363	474,780
Total liabilities and stockholders' equity	\$975,883	\$1,029,856	\$724,172	\$733,917

Cathay Insurance Co., Ltd (Vietnam)

Condensed Statement of Comprehensive Income

For the three-month periods ended 31 March 2015 and 2014

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

Items	2015.1.1~2015.3.31	2014.1.1~2014.3.31
Operating income	\$25,914	\$28,455
Operating costs	(6,111)	(10,461)
Operating expenses	(19,813)	(19,069)
Operating loss	(10)	(1,075)
Non-operating income and expenses	11	27
Profit (loss) from continuing operations before income tax	1	(1,048)
Income tax expense	-	-
Profit (loss) from continuing operations after income tax	1	(1,048)
Net profit (loss)	1	(1,048)
Other comprehensive (loss) income	(5,707)	8,631
Total comprehensive (loss) loss	\$(5,706)	\$7,583
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

Cathay United Bank Co., Ltd.

Condensed Balance Sheet

As of 31 March 2015, 31 December 2014, 31 March 2014 and as of 1 January 2014

(Expressed in thousands of New Taiwan Dollars)

Items	2015.3.31	2014.12.31 (adjusted)	2014.3.31 (adjusted)	2014.1.1 (adjusted)
Assets				
Cash and cash equivalents	\$115,778,096	\$140,351,360	\$104,554,268	\$66,775,540
Due from the Central Bank and call loans to banks	160,725,764	143,753,829	124,360,917	140,479,847
Financial assets at fair value through profit or loss	161,291,120	151,712,443	152,849,434	162,997,211
Derivative financial assets for hedging	444,427	448,745	856,663	837,179
Securities purchased under agreements to resell	23,901,117	33,059,521	11,205,542	7,645,763
Receivables-net	99,644,069	78,809,457	107,425,672	120,044,971
Assets held for sale -net	-	-	-	81,950
Discounts and loans-net	1,121,221,434	1,096,487,685	1,066,709,324	1,013,723,116
Available-for-sale financial assets	90,416,886	84,008,468	63,571,198	67,046,565
Held-to-maturity financial assets	49,859,133	51,147,071	50,764,024	50,711,678
Investments accounted for using the equity method	7,473,059	7,427,895	5,979,101	5,836,126
Other financial assets-net	1,050	9,678	4,348	22,154
Investment in debt securities with no active market-net	370,216,195	369,327,713	278,907,255	280,272,013
Property and equipment-net	24,812,796	22,190,496	22,252,116	22,240,641
Investment property-net	1,415,902	4,308,182	4,431,663	4,479,508
Intangible assets-net	7,133,726	7,050,372	7,050,629	7,045,413
Deferred tax assets	1,669,105	1,689,912	1,555,221	1,566,586
Other assets-net	19,887,278	19,393,789	8,608,227	7,143,445
Total assets	\$2,255,891,157	\$2,211,176,616	\$2,011,085,602	\$1,958,949,706
Liabilities				
Due to the Central Bank and call loans from banks	\$65,752,404	\$57,797,121	\$62,887,512	\$50,630,112
Funds borrowed from the Central Bank and other banks	628,020	1,585,900	1,525,500	1,497,500
Financial liabilities at fair value through profit or loss	68,575,627	57,705,513	14,278,365	11,271,187
Securities sold under agreements to repurchase	59,425,737	59,689,306	62,671,918	58,681,600
Payables	16,737,884	21,438,383	20,839,382	14,795,810
Deposits and remittances	1,738,696,186	1,711,904,075	1,607,949,589	1,596,302,557
Financial debentures payable	67,399,878	67,613,949	52,513,375	52,417,213
Other financial liabilities	78,299,099	79,842,351	44,674,808	36,145,158
Liability reserve	2,766,588	2,769,349	2,768,476	2,682,961
Deferred tax liability	1,315,931	1,457,439	799,368	618,631
Other liability	6,811,945	5,429,000	5,041,085	4,719,433
Total liabilities	2,106,409,299	2,067,232,386	1,875,949,378	1,829,762,162
Stockholders' equity				
Capital stock	67,112,762	67,112,762	64,668,494	64,668,494
Capital surplus	23,969,412	23,969,412	23,971,498	23,971,498
Retained earnings	54,913,964	49,415,492	45,346,221	39,950,604
Others	3,485,720	3,446,564	1,150,011	596,948
Total stockholders' equity	149,481,858	143,944,230	135,136,224	129,187,544
Total liabilities and stockholders' equity	\$2,255,891,157	\$2,211,176,616	\$2,011,085,602	\$1,958,949,706

Cathay United Bank Co., Ltd.

Condensed Statement of Comprehensive Income

For the three-month periods ended 31 March 2015 and 2014

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

Items	2015.1.1~2015.3.31	2014.1.1~2014.3.31 (adjusted)
Interest income	\$10,027,889	\$9,250,829
Interest expenses	(3,693,425)	(3,292,026)
Operating profit	6,334,464	5,958,803
Non-interest income	5,577,375	5,033,068
Total income	11,911,839	10,991,871
Bad debt expense and reserve for loss on guarantees	(157,094)	193,664
Operating expenses	(5,429,146)	(5,054,792)
Profit from continuing operations before income tax	6,325,599	6,130,743
Income tax expense	(841,300)	(735,126)
Profit from continuing operations after income tax	5,484,299	5,395,617
Net income	5,484,299	5,395,617
Other comprehensive income (loss)	53,329	553,063
Total comprehensive income (loss)	\$5,537,628	\$5,948,680
Primary earnings per share	\$0.82	\$0.80

English Translation of Financial Statements Originally Issued in Chinese

**Indovina Bank Limited
Condensed Balance Sheet**

**As of 31 March 2015, 31 December 2014, 31 March 2014 and as of 1 January 2014
(Expressed in thousands of New Taiwan Dollars)**

Items	2015.3.31	2014.12.31	2014.3.31	2014.1.1
Assets				
Cash and cash equivalents	\$699,870	\$857,659	\$764,944	\$571,307
Due from the Central Bank and call loans to banks	9,419,027	10,390,361	13,411,609	12,450,373
Financial assets at fair value through profit or loss	75,699	65,171	160,411	62,346
Available-for-sale financial assets	2,963,686	2,463,366	877,640	861,559
Receivables-net	803,797	266,886	804,027	793,781
Discounts and loans-net	19,489,402	20,208,091	16,913,939	16,301,693
Held-to-maturity financial assets	1,809,791	1,923,546	725,185	683,400
Property and equipment-net	457,129	445,688	424,509	403,407
Intangible assets-net	7,149	378,451	9,568	5,216
Deferred tax assets-net	649	-	174	171
Other assets-net	468,085	101,848	429,131	416,020
Total assets	\$36,194,284	\$37,101,067	\$34,521,137	\$32,549,273
Liabilities				
Due to the Central Bank and call loans from banks	\$4,999,122	\$4,743,090	\$7,423,918	\$7,570,029
Financial liabilities at fair value through profit or loss	-	9,313	-	-
Payables	887,466	926,822	490,727	427,360
Current income tax liabilities	225,569	194,013	84,100	43,062
Deposits and remittances	22,478,581	23,827,032	19,210,407	17,453,353
Liability reserve	-	9,950	-	-
Deferred tax liability	39,714	44,421	60,064	58,961
Other liability	195,810	-	124,638	118,528
Total liabilities	28,826,262	29,754,641	27,393,854	25,671,293
Stockholders' equity				
Capital stock	6,094,911	6,094,911	6,094,911	6,094,911
Retained earnings	1,281,007	1,183,884	1,261,477	1,141,007
Others	(7,896)	67,631	(229,105)	(357,938)
Total stockholders' equity	7,368,022	7,346,426	7,127,283	6,877,980
Total liabilities and stockholders' equity	\$36,194,284	\$37,101,067	\$34,521,137	\$32,549,273

Indovina Bank Limited

Condensed Statement of Comprehensive Income

For the three-month periods ended 31 March 2015 and 2014

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

Items	2015.1.1~2015.3.31	2014.1.1~2014.3.31
Interest income	\$459,865	\$501,836
Interest expenses	(202,735)	(272,356)
Net interest income	257,130	229,480
Non-interest income	16,946	91,072
Total income	274,076	320,552
Bad debt expense and reserve for loss on guarantees	(19,476)	(47,842)
Operating expenses	(129,387)	(112,084)
Profit from continuing operations before income tax	125,213	160,626
Income tax expense	(28,937)	(40,156)
Profit from continuing operations after income tax	96,276	120,470
Net income	96,276	120,470
Other comprehensive (loss) income	(75,527)	128,833
Total comprehensive income (loss)	\$20,749	\$249,303
Primary earnings per share	Note	Note

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay United Bank (Cambodia) Corporation Limited
Condensed Balance Sheet**

**As of 31 March 2015, 31 December 2014, 31 March 2014 and as of 1 January 2014
(Expressed in thousands of New Taiwan Dollars)**

Items	2015.3.31	2014.12.31	2014.3.31	2014.1.1
Assets				
Cash and cash equivalents	\$1,257,663	\$1,445,313	\$719,368	\$909,957
Due from the Central Bank and call loans to banks	769,918	728,988	425,338	392,546
Available-for-sale financial assets	804	812	781	766
Receivables-net	85,749	47,649	58,960	59,212
Current tax assets	-	-	484	-
Discounts and loans-net	3,013,564	2,585,327	1,346,139	1,080,512
Property and equipment-net	138,468	144,150	136,371	136,791
Intangible assets-net	10,101	11,007	12,171	7,647
Other assets-net	115,478	130,852	126,312	121,802
Total assets	\$5,391,745	\$5,094,098	\$2,825,924	\$2,709,233
Liabilities				
Due to the Central Bank and call loans from banks	\$153	\$31,873	\$183,208	\$179,847
Payables	75,271	85,901	49,637	53,839
Deposits and remittances	3,625,445	3,292,159	2,226,980	2,104,552
Other liability	495	340	1,117	607
Total liabilities	3,701,364	3,410,273	2,460,942	2,338,845
Stockholders' equity				
Capital stock	1,786,169	1,783,202	494,836	494,836
Retained earnings	(179,978)	(203,413)	(146,164)	(133,869)
Others	84,190	104,036	16,310	9,421
Total stockholders' equity	1,690,381	1,683,825	364,982	370,388
Total liabilities and stockholders' equity	\$5,391,745	\$5,094,098	\$2,825,924	\$2,709,233

**Cathay United Bank (Cambodia) Corporation Limited
Condensed Statement of Comprehensive Income**

**For the three-month periods ended 31 March 2015 and 2014
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2015.1.1~2015.3.31	2014.1.1~2014.3.31
Interest income	\$65,045	\$26,260
Interest expenses	(11,421)	(9,956)
Net interest income	53,624	16,304
Non-interest income	22,219	13,369
Total income	75,843	29,673
Bad debt expense and reserve for loss on guarantees	(9,308)	(10,421)
Operating expenses	(42,249)	(31,547)
Profit (loss) from continuing operations before income tax	24,286	(12,295)
Income tax expense	(851)	-
Profit (loss) from continuing operations after income tax	23,435	(12,295)
Net profit (loss)	23,435	(12,295)
Other comprehensive (loss) income	(19,846)	6,889
Total comprehensive income (loss)	\$3,589	\$(5,406)
Primary earnings per share	\$1.26	\$(0.31)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Condensed Balance Sheet

As of 31 March 2015, 31 December 2014, 31 March 2014 and as of 1 January 2014

(Expressed in thousands of New Taiwan Dollars)

Items	2015.3.31	2014.12.31 (adjusted)	2014.3.31 (adjusted)	2014.1.1 (adjusted)
Assets				
Current assets	\$19,383,081	\$20,099,651	\$16,607,544	\$15,409,801
Available-for-sale financial assets	18	18	18	18
Investments accounted for using the equity method	1,084,786	1,076,292	1,022,280	1,011,297
Property and equipment	166,785	176,373	159,678	163,055
Intangible assets	55,710	60,022	41,939	27,861
Deferred tax assets	6,946	6,400	5,777	6,390
Other non-current assets	505,243	492,380	491,137	473,524
Total assets	\$21,202,569	\$21,911,136	\$18,328,373	\$17,091,946
Liabilities				
Current liability	\$14,783,197	\$15,705,347	\$13,080,702	\$12,000,481
Deferred tax liability	39,509	33,897	7,865	253
Other non-current liability	17,276	16,630	12,545	11,981
Total liabilities	14,839,982	15,755,874	13,101,112	12,012,715
Stockholders' equity				
Capital stock	4,700,000	4,700,000	3,982,027	3,982,027
Capital surplus	491,766	491,766	291,766	291,766
Retained earnings	947,603	750,485	743,187	610,172
Others	223,218	213,011	210,281	195,266
Total stockholders' equity	6,362,587	6,155,262	5,227,261	5,079,231
Total liabilities and stockholders' equity	\$21,202,569	\$21,911,136	\$18,328,373	\$17,091,946

Cathay Securities Corporation

Condensed Statement of Comprehensive Income

For the three-month periods ended 31 March 2015 and 2014

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

Items	2015.1.1~2015.3.31	2014.1.1~2014.3.31 (adjusted)
Revenues	\$604,603	\$469,623
Service fee expenses	(17,534)	(16,492)
Employee benefit expenses	(196,568)	(160,719)
Share of the profit of associates and joint ventures accounted for using the equity method	787	3,422
Operating expenses	(171,501)	(152,412)
Non-operating income and expenses	2,872	5,998
Profit from continuing operations before income tax	222,659	149,420
Income tax expense	(25,541)	(16,405)
Profit from continuing operations after income tax	197,118	133,015
Net income	197,118	133,015
Other comprehensive income (loss)	10,207	15,015
Total comprehensive income (loss)	\$207,325	\$148,030
Primary earnings per share	\$0.42	\$0.32

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Venture Inc.
Condensed Balance Sheet**

**As of 31 March 2015, 31 December 2014, 31 March 2014 and as of 1 January 2014
(Expressed in thousands of New Taiwan Dollars)**

Items	2015.3.31	2014.12.31 (adjusted)	2014.3.31 (adjusted)	2014.1.1 (adjusted)
Assets				
Current assets	\$381,617	\$482,414	\$557,628	\$398,984
Available-for-sale financial assets	2,313,088	2,401,843	2,351,484	2,370,304
Investments accounted for using the equity method	259,733	150,822	74,144	64,028
Property and equipment	264	282	402	479
Deferred tax assets	5,898	9,455	12,927	13,231
Other non-current assets	836	836	836	836
Total assets	\$2,961,436	\$3,045,652	\$2,997,421	\$2,847,862
Liabilities				
Current liability	\$6,899	\$5,648	\$1,394	\$5,331
Deferred tax liability	5,413	3,147	5,166	4,704
Other non-current liability	2,092	1,883	876	651
Total liabilities	14,404	10,678	7,436	10,686
Stockholders' equity				
Capital stock	2,174,236	2,174,236	2,000,000	2,000,000
Retained earnings	357,297	322,573	336,077	242,128
Others	415,499	538,165	653,908	595,048
Total stockholders' equity	2,947,032	3,034,974	2,989,985	2,837,176
Total liabilities and stockholders' equity	\$2,961,436	\$3,045,652	\$2,997,421	\$2,847,862

Cathay Venture Inc.

Condensed Statement of Comprehensive Income

For the three-month periods ended 31 March 2015 and 2014

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

Items	2015.1.1~2015.3.31	2014.1.1~2014.3.31 (adjusted)
Operating income	\$52,808	\$101,294
Operating costs	(7,202)	(5,332)
Operating expenses	(2,678)	(3,827)
Non-operating income and expenses	-	2,118
Profit from continuing operations before income tax	42,928	94,253
Income tax expense	(8,204)	(304)
Profit from continuing operations after income tax	34,724	93,949
Net income	34,724	93,949
Other comprehensive (loss) income	(122,666)	58,860
Total comprehensive (loss) income	\$(87,942)	\$152,809
Primary earnings per share	\$0.16	\$0.43

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Investment Trust Co., Ltd.

Condensed Balance Sheet

As of 31 March 2015, 31 December 2014, 31 March 2014 and as of 1 January 2014

(Expressed in thousands of New Taiwan Dollars)

Items	2015.3.31	2014.12.31 (adjusted)	2014.3.31 (adjusted)	2014.1.1 (adjusted)
Assets				
Current assets	\$1,942,184	\$1,880,731	\$1,756,003	\$1,681,323
Available-for-sale financial assets	119,497	126,726	134,419	143,232
Investment in debt securities with no active market	-	-	2,500	2,500
Investments accounted for using the equity method	278,785	279,825	288,136	298,036
Property and equipment	14,629	15,699	16,415	18,466
Intangible assets	10,529	12,666	14,373	15,191
Deferred tax assets	9,099	9,011	9,445	9,026
Other non-current assets	321,140	306,818	261,543	277,676
Total assets	\$2,695,863	\$2,631,476	\$2,482,834	\$2,445,450
Liabilities				
Current liability	\$243,887	\$290,016	\$208,680	\$261,437
Other non-current liability	161,691	167,557	145,649	149,522
Total liabilities	405,578	457,573	354,329	410,959
Stockholders' equity				
Capital stock	1,500,000	1,500,000	1,500,000	1,500,000
Capital surplus	13,908	13,908	13,908	13,908
Retained earnings	751,900	636,111	600,664	500,320
Others	24,477	23,884	13,933	20,263
Total stockholders' equity	2,290,285	2,173,903	2,128,505	2,034,491
Total liabilities and stockholders' equity	\$2,695,863	\$2,631,476	\$2,482,834	\$2,445,450

Cathay Securities Investment Trust Co., Ltd.

Condensed Statement of Comprehensive Income

For the three-month periods ended 31 March 2015 and 2014

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

Items	2015.1.1~2015.3.31	2014.1.1~2014.3.31 (adjusted)
Operating income	\$353,539	\$324,362
Operating expenses	(222,732)	(199,794)
Operating gross profit	130,807	124,568
Non-operating income and expenses	7,623	(2,843)
Profit from continuing operations before income tax	138,430	121,725
Income tax expense	(22,641)	(21,381)
Profit from continuing operations after income tax	115,789	100,344
Net income	115,789	100,344
Other comprehensive income (loss)	593	(6,330)
Total comprehensive income (loss)	\$116,382	\$94,014
Primary earnings per share	\$0.77	\$0.67

English Translation of Financial Statements Originally Issued in Chinese

Cathay Futures Co., Ltd.

Condensed Balance Sheet

As of 31 March 2015, 31 December 2014, 31 March 2014 and as of 1 January 2014

(Expressed in thousands of New Taiwan Dollars)

Items	2015.3.31	2014.12.31 (adjusted)	2014.3.31 (adjusted)	2014.1.1 (adjusted)
Assets				
Current assets	\$2,881,028	\$2,940,798	\$3,051,498	\$2,876,356
Available-for-sale financial assets	253,359	245,580	228,111	222,737
Property and equipment	56,973	57,507	58,811	59,267
Investment property	285,085	285,085	283,750	283,750
Intangible assets	8,735	9,242	2,042	2,212
Other non-current assets	169,275	169,031	170,339	169,775
Total assets	\$3,654,455	\$3,707,243	\$3,794,551	\$3,614,097
Liabilities				
Current liability	\$2,593,563	\$2,657,908	\$2,764,858	\$2,595,410
Deferred tax liability	6,379	6,379	5,872	5,850
Other non-current liability	1,446	1,446	1,446	1,446
Total liabilities	2,601,388	2,665,733	2,772,176	2,602,706
Stockholders' equity				
Capital stock	650,000	650,000	650,000	650,000
Retained earnings	180,012	176,456	174,050	170,628
Others	223,055	215,054	198,325	190,763
Total stockholders' equity	1,053,067	1,041,510	1,022,375	1,011,391
Total liabilities and stockholders' equity	\$3,654,455	\$3,707,243	\$3,794,551	\$3,614,097

Cathay Futures Co., Ltd.

Condensed Statement of Comprehensive Income

For the three-month periods ended 31 March 2015 and 2014

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

Items	2015.1.1~2015.3.31	2014.1.1~2014.3.31 (adjusted)
Income	\$31,088	\$27,710
Expenses	(35,095)	(32,844)
Operating loss	(4,007)	(5,134)
Non-operating income and expenses	8,291	9,195
Profit from continuing operations before income tax	4,284	4,061
Income tax expense	(728)	(639)
Profit from continuing operations after income tax	3,556	3,422
Net income	3,556	3,422
Other comprehensive income (loss)	8,001	7,562
Total comprehensive income (loss)	\$11,557	\$10,984
Primary earnings per share	\$0.05	\$0.05